

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 TO

FORM F-10

REGISTRATION STATEMENT

UNDER THE

SECURITIES ACT OF 1933

Alliance Atlantis Communications Inc.

(Exact name of Registrant as specified in its charter)

Canada

(Province or other Jurisdiction
of Incorporation or Organization)

7822

(Primary Standard Industrial
Classification Code Number)

Not Applicable

(I.R.S. Employer
Identification No.)

121 Bloor Street East, Suite 1500,
Toronto, Ontario M4W 3M5
(416) 967-1174

(Address and telephone number of Registrant's principal executive offices)

CT Corporation System 111 8th Avenue, New York, New York, 10011 (212) 894-8940

(Name, address (including zip code) and telephone number
(including area code) of agent for service)

Copies to:

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LLP

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Toronto, Ontario M5L 1E8
(416) 360-8484

Approximate date of commencement of proposed sale of the securities to the public:

As soon as practicable after this Registration Statement becomes effective.

Province of Ontario, Canada

(Principal Jurisdiction regulating this offering)

It is proposed that this filing shall become effective (check appropriate box):

- A. ☐ Upon filing with the Commission, pursuant to Rule 467(a) (if in connection with an offering being made contemporaneously in the United States and Canada).
- B. ☒ At some future date (check the appropriate box below):
- ☐ pursuant to Rule 467(b) on () at () (designate a time not sooner than 7 calendar days after filing).
 - ☐ pursuant to Rule 467(b) on () at () (designate a time 7 calendar days or sooner after filing) because the securities regulatory authority in the review jurisdiction has issued a receipt or notification of clearance on ().
 - ☒ pursuant to Rule 467(b) as soon as practicable after notification of the Commission by the Registrant or the Canadian securities regulatory authority of the review jurisdiction that a receipt or notification of clearance has been issued with respect hereto.
 - ☐ after the filing of the next amendment to this Form (if preliminary material is being filed).

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to the home jurisdiction's shelf prospectus offering procedures, check the following box. ☐

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registration statement shall become effective as provided in Rule 467 under the Securities Act of 1933 or on such date as the Commission acting pursuant to Section 8(a) of the Act, may determine.

Broadcasting Group





M o t i o n P i c t u r e G r o u p

Distribution



LIFE IS
BEAUTIFUL



THE BLAIR
WITCH PROJECT



Production

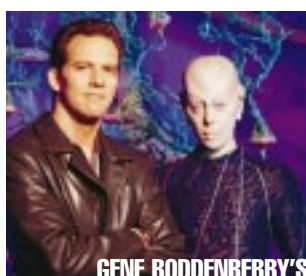


Television Group

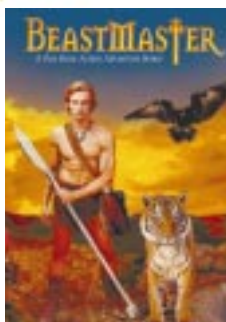
Miniseries/Movies



Series



GENE RODDENBERRY'S
EARTH
FINAL CONFLICT



PSI FACTOR

CHRONICLES OF THE PARANORMAL

AAC Kids





Toronto

Los Angeles

Montreal

Vancouver

London

Sydney

Shannon

PART I
INFORMATION REQUIRED TO BE
DELIVERED TO OFFEREEES OR PURCHASERS

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated November 8, 1999.



US\$200,000,000

Alliance Atlantis Communications Inc.

% Senior Subordinated Notes due , 2009

The Company will pay interest on the Notes on and of each year. The first such payment will be made on , 2000. The Notes will be issued only in denominations of US\$1,000 and integral multiples of US\$1,000.

On or after 2004, the Company may redeem all or a portion of the Notes at the redemption prices set forth in the prospectus plus accrued interest to the date of redemption. In addition, if the Company makes certain sales of common shares prior to , 2002, the Company may redeem up to 35% of the original principal amount of the Notes from the proceeds at % of the principal amount plus accrued interest to the date of redemption. The Company also has the right to redeem all of the Notes at 100% of their principal amount plus accrued interest to the date of redemption in the event of certain changes affecting Canadian withholding taxes. If the Company experiences certain kinds of changes of control, it must make an offer to repurchase the Notes at 101% of their principal amount plus accrued interest to the date of purchase.

The Notes will rank junior to all current and future senior indebtedness of the Company and will rank senior to all future indebtedness of the Company that is expressly subordinated to the Notes. The Notes will effectively rank junior to all existing and future debt and liabilities of the Company's subsidiaries, including trade payables.

See "Risk Factors" beginning on page 14 to read about factors you should consider before buying the Notes.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The Company is permitted to prepare this prospectus in accordance with Canadian disclosure requirements, which are different than those of the United States. The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles, and they may be subject to Canadian auditing and auditor independence standards. As a result, they may not be comparable to financial statements of United States companies.

Owning the Notes may subject you to tax consequences both in the United States and in Canada. This prospectus may not describe these tax consequences fully. You should read the tax discussion beginning on page 95.

Your ability to enforce civil liabilities under the federal securities laws of the United States may be affected adversely because the Company is incorporated in Canada, some or all of our officers and directors may be residents of Canada, some or all of the experts named in the registration statement may be residents of Canada, and a substantial portion of the assets of the Company and said persons may be located outside of the United States.

	Per Note	Total
Initial public offering price	%	US\$
Underwriting discount	%	US\$
Proceeds, before expenses, to Alliance Atlantis	%	US\$

The initial public offering price set forth above does not include accrued interest, if any. Interest on the Notes will accrue from , 1999 and must be paid by the purchaser if the Notes are delivered after , 1999.

The underwriters expect to deliver the Notes in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on , 1999.

Goldman, Sachs & Co.
Merrill Lynch & Co.
RBC Dominion Securities
Corporation
TD Securities
CIBC World Markets
Chase Securities Inc.
SG Cowen

THE NOTES HAVE NOT BEEN AND WILL NOT BE QUALIFIED FOR SALE UNDER THE SECURITIES LAWS OF CANADA OR ANY PROVINCE OR TERRITORY OF CANADA. THE NOTES ARE NOT BEING OFFERED FOR SALE AND MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN CANADA, OR TO ANY RESIDENT THEREOF, IN VIOLATION OF THE SECURITIES LAWS OF CANADA OR ANY PROVINCE OR TERRITORY OF CANADA. NO SECURITIES COMMISSION OR SIMILAR AUTHORITY IN CANADA HAS IN ANY WAY PASSED UPON THE MERITS OF THE SECURITIES OFFERED HEREBY AND ANY REPRESENTATION TO THE CONTRARY IS AN OFFENSE.

EXCHANGE RATE INFORMATION

We publish our consolidated financial statements in Canadian dollars. In this prospectus, except where otherwise indicated, all dollar amounts are expressed in Canadian dollars, references to "Cdn.\$" or "\$" are to Canadian dollars and references to "US\$" are to United States dollars.

The following table sets forth, for each period indicated, the high and low exchange rates for Canadian dollars expressed in United States dollars, the average of such exchange rates on the last day of each month during such period, and the exchange rate at the end of such period, based on the inverse of the noon buying rate in the City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"):

	Year ended March 31,					Three months ended June 30,	
	1995	1996	1997	1998	1999	1998	1999
High	0.7457	0.7527	0.7513	0.7317	0.7055	0.7055	0.6891
Low	0.7023	0.7144	0.7228	0.6832	0.6341	0.6784	0.6651
Average	0.7239	0.7346	0.7335	0.7112	0.6629	0.6913	0.6860
Period End	0.7146	0.7334	0.7228	0.7052	0.6626	0.6795	0.6786

On November 5, 1999, the inverse of the Noon Buying Rate was US\$0.6835= \$1.00.

FINANCIAL STATEMENT PRESENTATION

Our audited consolidated balance sheets as at March 31, 1999 and March 31, 1998 and the consolidated statements of operations and retained earnings and cash flows for each of the years in the three year period ended March 31, 1999, and the accompanying notes, together with the auditors' report thereon, are included and referred to herein as the "Consolidated Financial Statements." Our unaudited interim consolidated balance sheet as at June 30, 1999 and the consolidated statements of operations and retained earnings and cash flows for each of the three-month periods ended June 30, 1999 and June 30, 1998, are included and referred to herein as the "Unaudited Interim Consolidated Financial Statements." We prepare our Consolidated Financial Statements in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which differ in certain respects from accounting principles generally accepted in the United States ("U.S. GAAP"). For a discussion of the principal differences between Canadian GAAP and U.S. GAAP as they pertain to us, see note 22 to the Consolidated Financial Statements included elsewhere in this prospectus. Our unaudited pro forma balance sheet as at June 30, 1999 and our unaudited pro forma statements of operations for the fiscal year ended March 31, 1999 and the twelve-month period ended June 30, 1999 included elsewhere in this prospectus are referred to as the "Pro Forma Financial Statements."

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein contain “forward-looking statements” as defined under Section 27A of the Securities Act of 1933, as amended (the “Securities Act”). Forward-looking statements are statements other than historical information or statements of current condition. These forward-looking statements may include those statements in the Prospectus Summary, under the captions “Risk Factors,” “Our Business”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this prospectus, and in certain documents incorporated by reference in this prospectus. Some forward-looking statements may be identified by such terms as “believes,” “anticipates,” “intends,” or “expects.” Such forward-looking statements involve unknown and uncertain risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general risks related to the entertainment industry; competition; fluctuating results of operations; changes in government regulations that could affect our specialty television networks; the potential for budget overruns and other production risks; the risks of realizing expected cost savings from the merger of Alliance and Atlantis; our reliance on key personnel and the control of Alliance Atlantis; changes in government incentive programs or tax laws; our labor relations; foreign economic and exchange rate risks; the year 2000 issue; and other factors referenced in this prospectus. See “Risk Factors.” Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to release publicly the results of any future revisions we may make to any of our forward-looking statements to reflect events or circumstances after the date hereof, to reflect the occurrence of anticipated events or to reflect any change in our business strategy.

PROSPECTUS SUMMARY

The following section summarizes more detailed information presented later or incorporated by reference in this prospectus. You should read the entire prospectus, including, in particular, the "Risk Factors" and the financial statements (and all notes) presented later on or incorporated by reference in this prospectus. Unless the context otherwise suggests, "we," "us," "our" and similar terms, as well as references to "Alliance Atlantis" or the "Company," refer to Alliance Atlantis Communications Inc. and its subsidiaries. References to "LTM" are to the twelve months ended June 30, 1999. References to "fiscal" refer to the Company's results of operations for the twelve-month period ended March 31 of that year. Unless otherwise specified, references to "pro forma" give effect to the September 21, 1998 merger (the "Merger") of Atlantis Communications Inc. ("Atlantis") and Alliance Communications Corporation ("Alliance"). The Merger was accounted for as an acquisition of Atlantis by Alliance. All dollar references reflected in this prospectus are in Canadian dollars unless otherwise specifically indicated.

The Company

We are the largest Canadian and a significant international diversified media and entertainment company. We create, produce and distribute filmed entertainment and are a leading Canadian specialty broadcaster, with significant interests in seven specialty television networks. We were formed on September 21, 1998 through the merger of Alliance and Atlantis (the Merger) and had LTM pro forma revenues and Adjusted EBITDA (as defined) of \$746.4 million and \$88.0 million, respectively. Our integrated, complementary operating groups are:

- The Television Group, which develops, finances, produces, acquires and distributes television series, movies and mini-series for Canadian, U.S. and international markets (59% of LTM pro forma revenues and 37% of LTM pro forma gross profit);
- The Motion Picture Group, which develops, finances, produces, acquires and distributes theatrical motion pictures for Canadian, U.S. and international markets and exhibits motion pictures in Canada (27% of LTM pro forma revenues and 23% of LTM pro forma gross profit); and
- The Broadcasting Group, which has significant interests in seven Canadian specialty television networks (11% of LTM pro forma revenues and 32% of LTM pro forma gross profit).

Our Television Group is the largest producer and distributor of prime-time dramatic television in Canada and among the leading English-language dramatic television producers in the world. This business is geographically diversified, with approximately 35%, 31% and 34% of LTM pro forma revenues originating from Canada, the United States and the rest of the world, respectively. In fiscal 2000, we have committed orders to produce 270 hours of programming, comprised of 17 drama, adventure and children's series (including nine series renewals) and 26 hours of television movies and mini-series. We have produced programming for a broad customer base including ABC, CBS, FOX, NBC, HBO, UPN, Fox Family, Showtime, The Disney Channel, The Sci-Fi Channel, TNT and USA Network in the United States and CBC, CTV, Global, WIC and YTV in Canada. Prior to commencing productions, we obtain financial commitments from third parties by licensing broadcast and distribution rights and by utilizing government tax credits, incentives and investments (collectively, "pre-sales"). "Pre-sales" typically cover over 80% of our television projects' production budgets and allow us to significantly reduce our production exposure. Since the beginning of fiscal 1998 to the end of fiscal 2000, we have covered approximately 84% of our television production budgets, on average, with "pre-sales."

Our television distribution business is centered around our new productions and our growing, valuable library of approximately 12,500 hours of programming, including approximately 10,000 hours of Canadian programming rights and approximately 2,500 hours of worldwide

programming rights. Our library is comprised of both our own and third-party programming, including television series, movies and mini-series and over 7,000 motion pictures. We distribute our new productions and content from our library to over 400 broadcasters and buyers in approximately 200 countries, including an increasing amount through long-term output agreements, especially in key European markets. We are also the exclusive distributor in Canada of CBS's programming library and certain current CBS productions.

Our Motion Picture Group is the largest distributor of films in Canada, with over 100 motion pictures scheduled for release in 1999, and in 1999 through September we led the Canadian market with approximately a 19% box office share. We also distribute motion pictures directly in the U.K. and supply motion pictures to third-party distributors in continental Europe and the rest of the world through our established, global distribution network. In fiscal 1999, distribution accounted for approximately 85% of the Motion Picture Group's gross profit. We primarily distribute films from leading independent production companies to theaters, television and video and DVD. We have long-term exclusive Canadian motion picture distribution agreements with New Line Cinema, Miramax Films, USA Films (formerly October Films), Artisan Entertainment and Destination Films. Recent films that we distributed from these producers include *Life is Beautiful*, *Shakespeare in Love*, *Austin Powers: The Spy Who Shagged Me*, *The Muse* and *The Blair Witch Project*. These relationships are based on our ability to generate higher per capita revenues per film due to our extensive knowledge, presence and experience in the Canadian market. We also operate a chain of upscale, art-house cinemas in Canada in partnership with Famous Players, a subsidiary of Viacom, Inc. In August 1998, we entered into a long-term video and DVD distribution and marketing joint venture with Universal Studios, which significantly expanded our operations in this growing market.

Our Motion Picture Group also produces a small number of low-to-moderate budget films that are generally director-driven, art-house productions. Recent productions include Atom Egoyan's *The Sweet Hereafter*, which was nominated for two Academy Awards, and Istvan Szabo's *Sunshine*, starring Ralph Fiennes and William Hurt and which is scheduled for a December 1999 release. We typically cover, prior to commencing productions, approximately 70% of our production budgets through "pre-sales", which allows us to significantly reduce our production exposure. From the beginning of fiscal 1998 to the end of fiscal 2000, we expect to have produced 23 films. These films have an average production budget of approximately \$6.7 million and we have covered approximately 70% of their production budgets, on average, with "pre-sales".

Our Broadcasting Group is a leading owner and operator of specialty television networks in Canada. We currently operate four national, English-language networks which are "must carry" services on every major English-language cable system in Canada, are preparing to launch two French-language networks in January 2000. On October 26, 1999 we purchased an interest in an existing network (Headline Sports) and have one other network pending regulatory approval. To augment our existing networks, we plan to respond to the Canadian Radio-television Telecommunications Commission's (the "CRTC") anticipated request for new specialty television network applications in early 2000. Our networks include:

- Showcase, a network featuring critically acclaimed movies and dramatic programs from around the world (wholly owned);
- Life Network, a network focused on "lifestyle" programming (wholly owned);
- History Television, a network specializing in documentaries, movies and original historical programming (88% interest);
- HGTV Canada, a home and garden "do it yourself" network (67% interest);
- Canal Fiction, a French-language version of Showcase (50% interest);
- Canal Histoire, a French-language version of History Television (50% interest);

- Headline Sports, a network featuring 24-hour sports news and highlights (47.85% interest); and
- Food Network Canada, a network focused on food related programming (51% interest, pending CRTC license award).

Canadian specialty television networks are licensed by the CRTC, which typically only licenses one network per genre and typically requires cable, DTH and wireless broadband system operators ("cable operators") to carry these networks and to pay network owners a subscription fee. Canadian specialty television networks are relatively new and have been experiencing significant growth in revenues from both subscription fees and advertising. In fiscal 1999, our subscription fees, which accounted for approximately two-thirds of the Broadcasting Group's revenues, grew by 52% and our advertising revenues grew by 24%. Our four existing networks' ratings increased by 45% over the prior year according to the summer 1999 Nielsen ratings.

Recent Developments

On October 21, 1999, the CRTC approved our application to acquire a 47.85% interest in Sportscope Television Network Ltd. ("Sportscope"), which operates the Headline Sports specialty television network. On October 26, 1999 we paid \$16.2 million for the interest in Sportscope acquired by us (pending certain corporate approvals) and an additional \$1.3 million to assume a shareholder loan which has become payable by Sportscope to us (the "Sportscope Acquisition").

On July 30, 1999, we announced a strategic partnership (the "Kinowelt Transaction") with Kinowelt Medien AG ("Kinowelt"). Based on Kinowelt's public information, Kinowelt is the largest independent film distributor in Germany and a leading distributor in Europe, with related motion picture production operations. We have had a twelve-year relationship with Kinowelt and believe that the Kinowelt Transaction will allow us to expand our international motion picture distribution presence while sharing the necessary investments with an established partner. The strategic partnership includes:

- A \$132 million investment (the "Kinowelt Private Placement") in our Class B Non-Voting Shares by the principal shareholders of Kinowelt, the proceeds of which we used to repay indebtedness. The investment represented approximately 20% of our outstanding common equity, post-investment;
- Kinowelt's acquisition of 50% of our U.K. motion picture distribution business, with each of us agreeing to finance up to US\$12.5 million per year for three years to develop, produce and acquire motion pictures for U.K. release; and
- The establishment of a fund to develop, produce and acquire motion pictures for international distribution, with each of us agreeing to contribute up to US\$75 million over the next three years.

We anticipate that our financial commitments to these funds will be significantly reduced through "pre-sales". We believe that this strategic partnership will allow us to invest less capital for these funding activities than we planned to invest prior to the Kinowelt Transaction.

Competitive Strengths

Integrated Entertainment Company

We enjoy significant benefits and economies of scale as an integrated media and entertainment company with an established global distribution network. We believe that our vertical and horizontal integration provides us with several competitive advantages and the ability to maximize profitability and further penetrate growing international markets. These benefits include:

- Enhanced relationships with producers and customers;

- Greater ability to assess worldwide demand through our international distribution network when developing specific productions;
- Greater control of our programming from conception and production to final distribution, including broadcasting and exhibition outlets;
- Increasing the size and value of our program library from our Television and Motion Picture Groups; and
- The Broadcasting Group's access to our program library and new productions.

Operational Diversity and Leading Market Positions

We believe that our operational diversity and leading market positions provide us with greater stability and enhanced growth prospects. Our financial results are balanced by operating group, with no one operating group representing over 37% of our LTM pro forma gross profit. Our Television Group is the leading producer and distributor of prime-time dramatic television programming in Canada, as well as one of the largest English-language dramatic television producers in the world. Our Motion Picture Group is the largest film distributor in Canada, with approximately a 19% box office market share through September 1999. Our global television and motion picture distribution operations provide programming to distributors and broadcasters around the world through offices in London, Sydney, Los Angeles and Shannon, Ireland.

Strong Relationships with Leading Media Companies

Our strong, long-term relationships with leading media companies, coupled with our leading market positions, provide a strong base from which to grow our Television and Motion Picture Groups and expand our international presence. We began distributing CBS programming in Canada in 1996 and recently renewed our exclusive distribution contract through 2002. In 1998, we signed a television production output agreement with Endemol Entertainment ("Endemol"), a major European entertainment company, pursuant to which Endemol will purchase approximately \$100 million of our productions over the three year term of the agreement. In addition, we have long-term television production output agreements with Telecinco (Spain), Eagle Pictures (Italy) and TV3 (New Zealand). In 1999, we signed a four-year agreement with Canal Plus, a leading French entertainment company, to serve as the exclusive Canadian distributor for 1,250 titles from its library. Our Motion Picture Group has had exclusive Canadian distribution agreements with New Line Cinema since 1989 and Miramax Films since 1994, each of which was recently extended again through 2001 and 2005, respectively. In addition, we have exclusive Canadian distribution agreements with Artisan Entertainment through 2001, USA Films through March 2002 and Destination Films through 2002. We also have a long term video and DVD distribution and marketing joint venture with Universal Studios. Furthermore, we expect that the Kinowelt Transaction will enhance our motion picture distribution business in the U.K. and continental Europe.

Extensive and Growing Library

We believe that our growing, diverse television program and motion picture library represents a significant source of stable revenues, high margin income and underlying asset value. Our library allows us to leverage our established worldwide distribution network and in fiscal 1999 accounted for approximately \$122 million (17%) of pro forma revenues, which we expect to increase in the future. We have an extensive library of movies and television and children's programming. It consists of approximately 2,500 hours of worldwide programming rights and approximately 10,000 hours of Canadian rights, including over 7,000 motion pictures. Our distribution relationships with CBS, New Line Cinema, Miramax Films, USA Films, Artisan Entertainment, Destination Films and Canal Plus, as well as our own productions, enhance the growth, quality and value of our library.

Favorable Canadian Business Environment

Our Canadian operations and ownership provide us with a number of significant advantages. As part of their long-term mandate to foster Canadian business and culture, the Canadian federal and provincial governments support local producers, distributors and broadcasters by:

- Requiring Canadian broadcasters to air significant amounts of programming with Canadian content;
- Typically requiring cable operators to carry all licensed Canadian networks and to pay networks a subscription fee;
- Restricting specialty television network proliferation by typically licensing only one network per genre;
- Providing tax credits, incentives and investments for Canadian television and motion picture productions; and
- Establishing co-production treaties with over 50 countries, pursuant to which productions can qualify as local content and thus be eligible for government assistance and financing in more than one country.

Furthermore, we believe that producing programming in Canada offers other significant benefits, including (i) Canadian-produced programming is generally English-language and American “style”, which appeals to a broad, international audience; and (ii) lower production costs and an established infrastructure, including production facilities and experienced crews.

Proven and Committed Senior Management Team

Our proven and committed senior management team has an average of 20 years of creative, operating and financial experience. Key members of our senior management team founded Atlantis in 1978 and a predecessor to Alliance in 1973 and developed each business, primarily through internal growth, into diversified media and entertainment companies. We have won over 230 prestigious awards, including an Academy Award, seven Emmy Awards, five awards from the Cannes Film Festival and 26 Cable Ace Awards. Senior management currently owns or has committed to purchase approximately 9% of our equity on a fully-diluted basis, including \$21 million of equity acquired at the time of and since the Merger.

Business Strategy

We have developed our business strategy to manage our growth, increase our profitability and improve upon our leading market positions. We intend to continue to maximize the benefits of our horizontal and vertical integration within our three operating groups. The primary elements of our business strategy are as follows:

Expand Non-Production Businesses

We are continuing to expand our non-production businesses, which include broadcasting, program licensing from our library, distribution of third-party television programming and motion pictures and theatrical distribution. These businesses typically provide more predictable results and currently represent over 50% of our gross profit, a significant increase from historical levels. Our objective is to grow these businesses to represent greater than two-thirds of our gross profits by fiscal 2002. To achieve this objective, we are (i) growing the Broadcasting Group, which was established in 1994 and which represented approximately 32% of our LTM pro forma gross profit; (ii) increasing our library sales, which represented approximately 16% of our LTM pro forma gross profit; (iii) expanding our third-party television and motion picture distribution businesses (including

completing more long-term distribution agreements), which represented approximately 14% of our LTM pro forma gross profit; and (iv) prudently growing Alliance Atlantis Cinemas.

Leverage Existing Broadcasting Platform

We are capitalizing on our Broadcasting Group's multi-network platform in order to continue to increase revenues and profitability. We plan to respond to the CRTC's anticipated request for new specialty television network applications in early 2000 to augment our current network offering; we will apply for licenses for thematic networks that target specific audiences and thus are more attractive to certain advertisers. We believe that adding new networks will increase our appeal to, and cross-selling opportunities with, advertisers and enable us to negotiate improved subscriber fees and tier placement with cable operators. In addition, by adding networks to our existing infrastructure, we believe that we will achieve greater economies of scale, including overhead synergies and program purchasing efficiencies. In January 2000, we plan to launch our recently-licensed French language networks, Canal Fiction and Canal Histoire, which will benefit from programming synergies with our existing English-language network equivalents, Showcase and History Television, respectively. In October 1999, we acquired, pending certain corporate approvals, a 47.85% interest in Headline Sports. Upon receiving CRTC approval, we will launch the Food Network Canada, replacing the U.S. Food Network which currently airs in Canada.

Continue to Improve Profitability and Balance of Television Productions

We are leveraging our leadership position in television production and distribution and the critical mass achieved from the Merger to focus on higher margin productions and increase the profitability of the Television Group. We are producing a balanced portfolio of dramatic, adventure and children's programming, which we believe will enhance our appeal to broadcasters who have a limited need for any particular type of programming. In addition, we are focusing on productions that will appeal to the U.S. market, the largest television market in the world, and have global appeal. Each of our current slate of 17 series is being distributed outside of Canada, including seven which have been licensed in the United States. Examples include:

- *Peter Benchley's Amazon*, which recently premiered as the top-rated new show in U.S. syndication and which has already been licensed by Eyemark Entertainment (CBS) in the United States for two years and by Beta-Film in Germany and WIC in Canada for three years each; and
- *Gene Roddenberry's Earth: Final Conflict®*, currently in its third season, which has recently been renewed for a fourth season in syndication by Tribune Entertainment in the United States, Tele München Gruppe in Germany and the CHUM Group in Canada.

To better balance our production mix and to take advantage of strong and growing worldwide demand, we are producing more children's programming, which tends to have relatively low production costs and high library value as it can often be re-broadcast for each new generation of children. For example we are producing a second season of *The Famous Jett Jackson* for the Disney Channel in the United States, *I was a Sixth Grade Alien* for Fox Family in the United States and several animated series.

Expand Distribution Activities

We are expanding our television and motion picture distribution capabilities, with a focus on international opportunities and controlling international distribution rights. We are taking advantage of the significant capacity of our worldwide network by distributing a greater amount of programming from third-party producers, who typically lack their own distribution network and expertise in foreign markets. For example, on October 6, 1999 we announced a new long-term exclusive Canadian distribution agreement with Destination Films which extends through 2002. In

partnership with Kinowelt, we expect to leverage our respective distribution successes in Canada and Germany to expand our motion picture distribution business in the U.K., which we believe is a significantly underserved, fragmented market with substantial growth opportunities. We are also seeking additional television production output agreements with international broadcasters and distributors. These agreements typically require the third-party to license a minimum amount of unspecified programming according to a set pricing schedule, which increases the predictability of our future revenues and reduces our production exposure. For example, Endemol has agreed to license from us approximately \$100 million of unspecified programming over the three-year term of our agreement. In addition, we intend to capitalize on vertical integration opportunities by prudently expanding our Alliance Atlantis Cinemas in partnership with a subsidiary of Viacom, Inc. We will continue to focus on major urban centers and plan to expand from our existing 16 screens to approximately 65 screens in seven cities over the next three years. In order to minimize the cost of this expansion, we intend to continue to lease existing cinemas rather than purchase them.

Capitalize on Extensive, Growing Programming Library

We will continue to expand and maximize the long-term value of our library of television and motion picture programming by:

- Producing new, high quality television programs and motion pictures that will increase the depth and breadth of the library;
- Continuing to market our library titles in North America and further penetrating growing international markets; and
- Pursuing distribution agreements for and acquisitions of third-party television and motion picture programming, such as our recent agreement with France's Canal Plus.

Continue to Minimize Production Exposure

In general, before commencing production we cover through "pre-sales" approximately 80% of the production budget for each television series, movie or mini-series and approximately 70% of the production budget for each feature film. "Pre-sales" include the licensing of broadcast and distribution rights for specific regions, including the United States, as well as government tax credits, incentives and investments. We also reduce our exposure by focusing on low-to-moderate budget productions, maintaining low overhead (including hiring creative and production staff on a project-by-project basis) and, in appropriate circumstances, purchasing completion bonds which would cover certain budget overruns or costs of unforeseen events. Since fiscal 1998, our aggregate budget overruns were less than 0.5% of our total television and motion picture production costs.

The Offering

As used in this summary of the offering, references to the “Company” refer to Alliance Atlantis Communications Inc. only, without reference to its subsidiaries.

Issuer Alliance Atlantis Communications Inc.

Notes Offered	US\$200 million principal amount of Notes.	% Senior Subordinated
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Maturity , 2009.

Issue Price %, plus accrued interest, if any, from . . . ,1999.

Interest Annual rate: %.
Payment frequency: every six months on _____ and
_____, commencing _____, 2000.

Additional Amounts All payments made by us with respect to the Notes will be made without withholding or deduction for Canadian taxes unless required by law, in which case we will pay such Additional Amounts as may be necessary so that the net amount received by the holders after such withholding or deduction will not be less than the amount that would have been received in the absence of such withholding or deduction. For more details, see the section “Description of the Notes” under the heading “Additional Amounts.”

Ranking The Notes will be senior subordinated debt.

The Notes will rank junior to all of the Company's current and future senior indebtedness and will rank senior to all of the Company's future indebtedness that is expressly subordinated to the Notes. The Notes will effectively rank junior to all debt and liabilities of the Company's subsidiaries, including trade payables.

Assuming we had completed the sale of the Notes and the Kinowelt Private Placement on June 30, 1999 and applied the net proceeds as intended and completed the Sportscope Acquisition, the Notes:

- would have been subordinated to \$74.8 million of senior debt of the Company; and
- would have been effectively subordinated to \$382.1 million of debt and other liabilities of the Company's subsidiaries, including their trade payables and excluding intercompany liabilities.

Optional Redemption At any time on or after _____, 2004 we may redeem all or a portion of the Notes at the redemption prices listed in the section “Description of the Notes” under the heading “Optional Redemption” plus accrued interest to the date of redemption.

Before _____, 2002 we may redeem up to 35% of the Notes with the net cash proceeds of certain sales of our common shares at _____ % of the principal amount plus accrued interest to the date of redemption.

Mandatory Offer to Purchase	Upon the occurrence of a Change of Control Triggering Event (as defined) or certain types of asset sales, we must offer to purchase the Notes at the prices, plus accrued interest to the date of purchase, listed in the section “Description of the Notes” under the headings “Certain Covenants—Change of Control” and “Certain Covenants—Limitation on Asset Dispositions”.
Tax Redemption (Canadian Withholding Tax)	If we become obligated to pay Additional Amounts under the Notes as a result of changes affecting Canadian withholding taxes, we may redeem all, but not less than all, of the Notes at 100% of their principal amount plus accrued interest to the date of redemption.
Basic Covenants of the Indenture	The indenture under which we will issue Notes (the “Indenture”) will, among other things, restrict our ability and the ability of certain of our subsidiaries to: • incur more debt; • pay dividends, redeem stock, make other distributions or make certain investments; • issue capital stock; • use assets as security in other transactions; • enter into transactions with affiliates; • merge or consolidate; and • transfer or sell assets. These covenants are subject to important qualifications and limitations. For more details, see the section “Description of the Notes” under the heading “Certain Covenants.”
Use of Proceeds	We will use the estimated net proceeds from the sale of the Notes to repay approximately \$281.8 million (US\$192.6 million based on the inverse of the Noon Buying Rate on November 5, 1999) of our senior bank debt. See “Use of Proceeds.”

Risk Factors

You should carefully consider all of the information in this prospectus. In particular, you should read the specific risk factors under “Risk Factors” for a discussion of certain risks involved with an investment in the Notes.

Summary Historical Consolidated Financial Data

The following table sets forth a summary of certain of our historical consolidated financial data for the dates and periods indicated and should be read in conjunction with the audited Consolidated Financial Statements, the Unaudited Interim Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. The summary historical consolidated financial data for the three months ended June 30, 1998 and 1999 are derived from the Unaudited Interim Consolidated Financial Statements, and in the opinion of our management, fairly present our results for such periods. We prepare our Consolidated Financial Statements in accordance with Canadian GAAP, which differs in certain respects from U.S. GAAP. For a discussion of the principal differences between Canadian GAAP and U.S. GAAP as they pertain to us, see note 22 to the audited Consolidated Financial Statements included elsewhere in this prospectus.

	Year ended March 31,					Three months ended June 30,	
	1995	1996	1997	1998	1999(1)	1998	1999
	(In thousands of Canadian dollars)						
Statement of Operations Data:							
<i>Canadian GAAP</i>							
Revenues	\$233,811	\$268,945	\$282,599	\$385,171	\$ 633,399	\$ 80,652	\$ 163,309
Direct operating expenses . . .	183,685	209,789	214,916	304,669	515,701	58,205	129,261
Gross profit	50,126	59,156	67,683	80,502	117,698	22,447	34,048
Other expenses	36,475	45,699	48,269	57,837	92,718	16,361	25,939
Operating earnings(2)	13,651	13,457	19,414	22,665	24,980	6,086	8,109
Net earnings (loss)	11,654	10,695	17,481	19,894	(27,315)(3)	4,133	7,092
<i>U.S. GAAP</i>							
Net earnings (loss)	10,676	9,092	14,972	17,318	(38,654)(3)	76	5,835
Other Financial Data:							
<i>Canadian GAAP</i>							
Depreciation and amortization	\$ 5,051	\$ 4,443	\$ 4,530	\$ 5,118	\$ 12,258	\$ 1,744	\$ 4,546
Interest expense(4)	282	893	1,296	3,593	22,049	1,783	5,276
EBITDA(5)	18,984	18,793	25,240	31,376	59,287	9,613	17,931
Capital expenditures	6,280	2,973	5,237	6,313	16,797	1,417	4,318
Actual interest(6)	282	893	1,296	5,364	28,508	4,171	9,680
<i>U.S. GAAP</i>							
EBITDA(5)	15,773	16,887	21,954	29,913	50,268	8,337	18,588
Balance Sheet Data							
(at period end):							
<i>Canadian GAAP</i>							
Cash and cash equivalents . .	\$ 18,860	\$ 5,090	\$ 10,777	\$ 2,430	\$ 56,883	\$ 4,303	\$ 71,381
Total assets	223,292	236,667	350,615	564,992	1,385,354	724,309	1,599,401
Total debt	17,871	24,200	19,861	162,912	494,263	246,397	523,819
Total shareholders' equity . . .	82,287	94,144	148,482	219,437	454,857	226,489	456,124
<i>U.S. GAAP</i>							
Total shareholders' equity . . .	79,716	89,880	142,271	210,532	384,287	213,527	383,508

(Footnotes on following page)

- (1) Includes the results of Atlantis and its subsidiaries from the date of the Merger, September 21, 1998.
- (2) Operating earnings is after deduction of interest expense and is defined as net earnings before income taxes, minority interest, gain on sale of investments and merger and restructuring expenses.
- (3) Includes the effect of \$49.0 million (\$81.4 million pre-tax) of merger and restructuring expenses related to the Merger.
- (4) Interest expense includes interest capitalized to investment in film and television programs in the current and prior periods which has been charged in the current period to direct operating expenses through the amortization of investment in film and television programs and is net of interest income.
- (5) EBITDA is defined as operating earnings plus interest expense, depreciation and amortization. EBITDA is not a measure of performance under Canadian GAAP or U.S. GAAP. EBITDA is presented here because it is a widely accepted financial indicator of a company's ability to service and/or incur debt. However, EBITDA should not be construed as an alternative to net earnings as an indicator of our operating performance, or to cash flows from operating, investing and financing activities as a measure of our liquidity. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations" for a discussion of other measures of liquidity and operations.
- (6) Actual interest in the current period represents interest expense (see footnote 4 above) plus interest capitalized to investment in film and television programs during the current period less the amount of interest charged in the current period to direct operating expenses through the amortization of investment in film and television programs.

Summary Pro Forma Consolidated Financial Data

The following table sets forth a summary of pro forma consolidated financial data giving effect to, assuming each had occurred at the beginning of the relevant period, (i) the Merger; (ii) our November 1998 public offering of 2.9 million Class B Non-Voting Shares (which raised \$79 million of net proceeds) (the "Public Share Offering"); (iii) the Kinowelt Private Placement; (iv) the redemption of our redeemable preferred shares (which occurred on September 23, 1999) (the "Preferred Share Redemption"); (v) the sale of the Notes; and (vi) the Sportscope Acquisition. The pro forma balance sheet data at June 30, 1999 gives effect to the Kinowelt Private Placement, the Preferred Share Redemption, the sale of the Notes, and the Sportscope Acquisition as if each had occurred on June 30, 1999. This information should be read in conjunction with the audited Consolidated Financial Statements, the Unaudited Interim Consolidated Financial Statements and the Pro Forma Financial Statements included elsewhere in this prospectus. The pro forma financial data does not purport to be indicative of our financial position or results of operations that would actually have been obtained had the events above been completed on such dates or to project our financial position or results of operations at any future date or for any future period.

	Pro Forma Fiscal year ended March 31, 1999	Pro Forma Twelve-months ended June 30, 1999
	(In thousands of Canadian dollars, except ratios)	
Statement of Operations Data:		
<i>Canadian GAAP</i>		
Revenues	\$707,666	\$746,385
Direct operating expenses	574,319	609,135
Gross profit	133,347	137,250
Other expenses	107,495	111,836
Operating earnings(1)	25,852	25,414
Net earnings (loss)	(27,000)(2)	(25,516)(2)
<i>U.S. GAAP</i>		
Net earnings (loss)	(39,687)(2)	(31,628)(2)
Other Financial Data:		
<i>Canadian GAAP</i>		
Depreciation and amortization	\$ 18,877	\$ 19,033
Interest expense(3)	22,415	27,590
EBITDA(4)	67,144	72,037
Adjusted EBITDA(5)	84,144	88,037
Capital expenditures	18,582	17,913
Actual interest(6)	28,874	36,664
Ratio of Adjusted EBITDA to actual interest(5)	—	2.4
Ratio of net debt to Adjusted EBITDA(5)(7)	—	4.5
<i>U.S. GAAP</i>		
EBITDA(4)	57,039	68,999
Adjusted EBITDA(5)	74,039	84,999

	June 30, 1999	
	<u>Actual</u>	<u>Pro Forma</u>
Balance Sheet Data (at period end):		
<i>Canadian GAAP</i>		
Cash and cash equivalents	\$ 71,381	\$ 19,478
Total assets	1,599,401	1,574,829
Total debt	523,819	419,150
Total shareholders' equity	456,124	536,221
<i>U.S. GAAP</i>		
Total shareholders' equity	383,508	514,719

- (1) Operating earnings is after deduction of interest expense and is defined as net earnings before income taxes, minority interest, gain on sale of investments and merger and restructuring expenses.
- (2) Includes the effect of \$49.0 million (\$81.4 million pre-tax) of merger and restructuring expenses related to the Merger.
- (3) Interest expense includes interest capitalized to investment in film and television programs in the current and prior periods which has been charged in the current period to direct operating expenses through the amortization of investment in film and television programs and is net of interest income.
- (4) EBITDA is defined as operating earnings plus interest expense and depreciation and amortization. EBITDA is not a measure of performance under Canadian GAAP or U.S. GAAP. EBITDA is presented here because it is a widely accepted financial indicator of a company's ability to service and/or incur debt. However, EBITDA should not be construed as an alternative to net earnings as an indicator of our operating performance, or to cash flows from operating, investing and financing activities as a measure of our liquidity. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations" for a discussion of other measures of liquidity and operations.
- (5) Adjusted EBITDA is equal to EBITDA plus the expected additional cost savings associated with the Merger assuming the Merger had taken place at the beginning of the respective period. The expected additional cost savings are \$17.0 million and \$16.0 million for the year ended March 31, 1999 and the twelve-month period ended June 30, 1999, respectively.
- (6) Actual interest in the current period represents interest expense (see footnote 3 above) plus interest capitalized to investment in film and television programs during the current period less the amount of interest charged in the current period to direct operating expenses through the amortization of investment in film and television programs.
- (7) Net debt is comprised of total debt less cash and cash equivalents of \$19.5 million.

RISK FACTORS

You should carefully consider the risk factors set forth below as well as the other information contained in this prospectus before purchasing the Notes offered hereby. Certain statements under this caption constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements".

Risks Related to the Notes

Substantial Leverage—Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under the Notes.

We have now and, after this offering, will continue to have a significant amount of indebtedness. The following table shows certain important credit statistics and is presented assuming that the sale of the Notes, the Kinowelt Private Placement, the Preferred Share Redemption and the Sportscope Acquisition had been completed as of the date or at the beginning of the period specified below and that the proceeds had been applied as intended:

	<u>At June 30, 1999</u>
Total debt	\$419.2 million
Stockholders' equity	\$536.2 million
Debt to total capitalization ratio	44%
	<u>For the twelve months ended June 30, 1999</u>
Ratio of earnings to fixed charges(1)	0.1

(1) Earnings consist of earnings (loss) before income taxes for the twelve-month period ended June 30, 1999 on a pro-forma basis (including the effect of \$49.0 million (\$81.4 million pre-tax) of merger and restructuring expenses) plus fixed charges, excluding capitalized interest. Fixed charges consist of (i) interest, whether expended or capitalized, (ii) amortization of debt issuance expense, and (iii) a portion of rental expense representing the interest factor, which is estimated to be one-third of rental expense under operating leases.

Our substantial indebtedness could have important consequences to you. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the Notes and our other indebtedness;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital, capital expenditures, development and production costs and other general corporate requirements;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, development and production costs and for other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds, even when necessary to maintain adequate liquidity.

Failure to comply with those covenants could result in an event of default which, if not cured or waived, could have an adverse impact on us. See “Description of the Notes—Certain Covenants—Change of Control” and “Description of Certain Indebtedness.”

Additional Borrowings Available—Despite current indebtedness levels, we and our subsidiaries may still be able to incur substantially more indebtedness. This could further exacerbate the risks described above.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The terms of the Indenture governing the Notes do not fully prohibit us or our subsidiaries from doing so. Our existing credit facility dated September 1998 with a syndicate of lenders (the “Existing Credit Facility”) permits total borrowings of up to \$475 million (\$440 million after applying the net proceeds from the sale of the Notes) and all of those borrowings would be senior to the Notes. If new debt is added to our and our subsidiaries’ current debt levels, the related risks that we and they now face could intensify, which could have an adverse impact on our businesses, results of operations, prospects and financial condition. See “Description of the Notes—Limitation on Debt” and “Description of Certain Indebtedness.”

Ability to Service Debt—To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the Notes, and to fund future capital expenditures and productions will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, industry, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you, however, that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our Existing Credit Facility or otherwise in an amount sufficient to enable us to pay our indebtedness, including the Notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the Notes, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including our Existing Credit Facility and the Notes, on commercially reasonable terms, or at all. The source of funds for any purchase or refinancing of the Notes would be our available cash or cash generated from other sources, including borrowings, sales of assets or sales of equity. We cannot assure you that any of these sources will be available. Our ability to refinance our debt or obtain additional financing will depend on, among other things:

- our financial condition at the time;
- restrictions in agreements governing our debt, including the Indenture and the Existing Credit Facility; and
- other factors, including market conditions.

Subordination—Your right to receive payments on the Notes is junior to the rights of the holders of certain of our existing indebtedness and possibly all of our future borrowings.

The Notes rank behind substantially all of our existing indebtedness and all of our future borrowings, except any future indebtedness that expressly provides that it ranks equal with, or is subordinated in right of payment to, the Notes. As a result, upon any distribution to our creditors in a bankruptcy, liquidation or reorganization or similar proceeding relating to us or our property, the holders of our senior indebtedness will be entitled to be paid in full in cash before any payment may be made with respect to the Notes.

In addition, all payments on the Notes will be blocked in the event of a payment default on senior indebtedness and may be blocked for up to 179 of 360 consecutive days in the event of certain non-payment defaults on designated senior indebtedness. Any acceleration of the

indebtedness under our Existing Credit Facility will, and any acceleration of our other indebtedness may, constitute an event of default under the Indenture.

In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to our Company, holders of the Notes will participate with trade creditors and all other holders of our subordinated indebtedness of the Company in the assets remaining after we have paid all of the senior indebtedness, as well as trade payables of subsidiaries. The Indenture requires that amounts otherwise payable to holders of the Notes in a bankruptcy or similar proceeding be paid to holders of any remaining senior indebtedness instead. In any of these cases, we may not have sufficient funds to pay all of our creditors and holders of Notes may receive less, ratably, than the holders of senior indebtedness.

Assuming we had completed the sale of the Notes and the Kinowelt Private Placement on June 30, 1999 and applied the net proceeds as intended and completed the Sportscope Acquisition, the Notes would have been subordinated to \$74.8 million of senior debt of Alliance Atlantis Communications Inc. and approximately \$365.2 million would have been available for borrowing as additional senior indebtedness under our Existing Credit Facility. We will be permitted to borrow substantial additional indebtedness, including senior indebtedness, in the future under the terms of the Indenture.

Holding Company Structure and Effective Subordination to Subsidiary Debt—Your right to receive payments on the Notes is effectively subordinated to any indebtedness of our subsidiaries and could be adversely affected if any of our subsidiaries declare bankruptcy, liquidate, or reorganize.

We are organized as a holding company. We conduct all of our operations through our subsidiaries and depend on the earnings and cash flows of our subsidiaries to meet our debt and dividend obligations, including our obligations with respect to the Notes. Our subsidiaries have other liabilities, including contingent liabilities, which could be substantial. Our subsidiaries' assets constitute all of our operating assets. Because our subsidiaries do not guarantee the payment of principal and interest on the Notes, you will not have any direct claim on our subsidiaries' assets. Therefore, all existing and future obligations of our subsidiaries, including debt, taxes, trade payables and other liabilities, must be paid in full before any amounts would become available for distribution to you.

In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us as a shareholder. As of June 30, 1999, on a pro forma basis after giving effect to the sale of the Notes and the Kinowelt Private Placement, and the Sportscope Acquisition, the Notes would have been effectively subordinated to \$382.1 million of indebtedness and other liabilities of the Company's subsidiaries (including their trade payables and excluding intercompany liabilities) and \$20.7 million would have been available to our subsidiary, Equicap Financial Corporation, under its revolving credit facilities. See "Our Business—Other Operations—Equicap Financial Corporation."

Restrictions Imposed by Debt Instruments—Our obligations under our Existing Credit Facility and the Indenture impose significant restrictions on us. Our failure to comply with these restrictions could require us to repay our indebtedness more quickly than we would otherwise be obliged to repay.

The agreements governing our outstanding indebtedness, including the Existing Credit Facility and the Indenture, impose certain operating and financial restrictions on us. The Existing Credit Facility requires us to maintain specified financial ratios and tests, among other obligations. In addition, the Existing Credit Facility restricts, among other things, our ability to (i) declare dividends, redeem or repurchase capital stock or make other distributions to our shareholders; (ii) prepay or

redeem debt; (iii) grant liens; (iv) make loans, acquisitions and investments; (v) incur more debt; (vi) amend or otherwise alter debt and other material agreements; (vii) make capital expenditures; (viii) engage in mergers, reorganizations and asset sales out of the ordinary course of business; (ix) alter our lines of business; (x) engage in transactions with related parties; (xi) enter into certain sale leaseback transactions; (xii) incur production expenses not supported by “pre-sales”; (xiii) issue shares redeemable at the option of the holder and issue stock of subsidiaries to third parties; or (xiv) enter into productions without complying with certain completion bonding requirements. The Indenture also restricts many of these same activities. A failure to comply with the restrictions contained in the Existing Credit Facility or the Indenture could lead to an event of default, which could result in an acceleration of such indebtedness. If indebtedness under the Existing Credit Facility or the Indenture were accelerated, we cannot assure you that we would be able to repay in full that indebtedness or our other indebtedness. Agreements governing other indebtedness also impose operating and other financial restrictions. See “Description of Certain Indebtedness” and “Description of the Notes.”

Inability of U.S. Investors to Enforce Civil Liabilities

We are organized under the laws of Canada. A majority of our directors, controlling persons and officers, as well as the experts named in this prospectus are residents of Canada and all or a substantial portion of their assets and substantially all of our assets are located outside of the United States. As a result, it may be difficult for holders of Notes to effect service of process on such persons within the United States or to realize in the United States upon judgments rendered against them. In addition, we have been advised by our Canadian counsel that there is doubt as to the enforceability in Canada of liabilities predicated solely upon U.S. federal securities laws.

Risk of Inability to Finance Offer to Purchase upon the Occurrence of a Change of Control Triggering Event

Upon the occurrence of a Change of Control Triggering Event, we will be required to offer to purchase all outstanding Notes at that time. However, we may not have sufficient funds at the time of the change of control to make the required repurchase of Notes or restrictions in our Existing Credit Facility may not allow such purchases. In addition, certain important corporate events, such as leveraged recapitalizations, that would increase the level of our indebtedness, would not constitute a “Change of Control Triggering Event” under the Indenture. See “Description of the Notes—Certain Covenants—Change of Control Triggering Event.”

No Prior Market for the Notes—You cannot be sure that an active trading market will develop for the Notes.

The Notes are a new issue of securities with no established trading market and we do not intend to apply for the listing of the Notes on any securities exchange. We have been informed by the Underwriters that they intend to make a market in the Notes after this offering is completed. However, the Underwriters are not obligated to make a market and may cease their market-making at any time. In addition, the liquidity of the trading market in the Notes, and the market price quoted for the Notes, may be adversely affected by changes in the overall market for non-investment grade debt securities and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a result, you cannot be sure that an active trading market will develop for the Notes and if an active trading market for the Notes does not develop, it could have an adverse effect on the market price and liquidity of the Notes. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of such securities. There is no assurance that any market for the Notes will not be subject to similar disruptions. Any such disruptions may have an adverse effect on the value of the Notes and on your ability to resell your Notes.

Risks Related to Alliance Atlantis and the Entertainment Industry

Risks Related to the Entertainment Industry—Some or all of our television programs, motion pictures or specialty television networks may not be successful.

The television and motion picture industries and specialty television network broadcasting have always involved a substantial degree of risk. There can be no assurance of the economic success of any motion picture, television program or specialty television network as revenues derived depend on audience acceptance, which cannot be accurately predicted. Audience acceptance is a factor not only of the response to the television program's or motion picture's artistic components or the specialty television network's content, but also to the reviews of critics, promotions, the quality and acceptance of other competing programs released into, or networks existing in, the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors, all of which could change rapidly and many of which are beyond our control. The lack of audience acceptance for our television programs, motion pictures or specialty television networks could have an adverse impact on our businesses, results of operations, prospects and financial condition. In addition, television and motion picture production and distribution costs, as well as our Broadcasting Group's programming costs, continue to rise. Our businesses may also be impacted by prevailing advertising rates, which are subject to fluctuation.

Generally, television programs are produced under contracts that provide for license fee revenues which may not cover all anticipated production costs. The "gap" or production deficit between these fees and production costs can be substantial. The ability to recover the production deficit and realization of profits, if any, are generally dependent upon the ability to distribute the programs in multiple geographic regions, including international markets, or through multiple distribution channels. There is a risk that some or all of our television and motion picture projects or specialty television networks will not be successful, which could result in a failure to recoup costs or realize profits. We cannot assure you that revenue from existing or future projects would replace a possible loss of revenue associated with the cancellation of any particular project or poor results of any particular specialty television network.

Competition—Our businesses are very competitive and increased competition could adversely affect us.

The business of producing and distributing television programs and motion pictures is highly competitive. We face intense competition from other Canadian and international producers and distributors, many of whom are substantially larger and have greater financial resources than we do. We compete with other television and motion picture production companies for ideas and storylines created by third parties as well as for actors, directors and other personnel required for a production. In addition, the CRTC and foreign regulatory authorities continue to license additional television networks, thereby further fragmenting the television audience, increasing competition and creating downward pressure on program license fees. Further, vertical integration of the television broadcast industry and the creation and expansion of new networks which create a substantial portion of their own programming have decreased the number of available time slots for, and thereby increased the competition among, programs marketed by independent production companies like us. We cannot assure you that we will be able to successfully compete in these areas in the future or that we will continue to produce or acquire rights to additional successful programming or enter into agreements for the financing, production, distribution or licensing of programming on terms favorable to us. Our failure to do so could have an adverse impact on our businesses, results of operations, prospects and financial condition.

The number of Canadian and U.S. network prime time slots remain limited, even though the total number of outlets for television programming has increased over the last decade. There

continues to be intense competition for the time slots offered by those networks. We cannot assure you that we will be able to increase or maintain our penetration of prime time network broadcasts, and any failure to do so could have an adverse impact on our businesses, results of operations, prospects and financial condition.

Potential for Budget Overruns and Other Production Risks—Our failure to recoup production costs could have an adverse effect on our financial condition.

The production, completion and distribution of television programs and motion pictures require a significant amount of capital. There are substantial financial risks relating to the production, completion and release of future television programs and motion pictures. Actual television program and motion picture costs may exceed their budgets. Factors such as labor disputes, death or disability of a star performer, technology changes relating to special effects or other aspects of production, shortages of necessary equipment, damage to film negatives, master tapes and recordings or adverse weather conditions may cause cost overruns and delay or hamper completion of a production. Although we generally complete our productions within budget, we cannot assure you that we will continue to do so. On certain productions we maintain insurance policies (“completion bonds”) covering certain of these risks and we intend to continue such practices. We cannot assure you that any cost overruns will be adequately covered or that such completion bonds will be available or continue to be available on terms acceptable to us or that we will obtain completion bonds in every case. In the event of substantial budget overruns we may have to seek additional financing from outside sources in order to complete production of a project. We cannot assure you of the availability of such financing or that such financing will be available on terms acceptable to us. In addition, in the event of substantial budget overruns, we cannot assure you that we will be able to recoup such costs. Failure to recoup any of these costs could have an adverse impact on our businesses, results of operations, prospects and financial condition.

Specialty Television Networks—Changes in government regulation could adversely affect our results of operations, prospects or financial condition. The success of specialty television networks cannot be guaranteed.

Our specialty television networks are regulated by the CRTC, which grants and renews licenses. Our CRTC broadcasting licenses must be renewed from time to time, typically every seven years, and cannot be transferred without regulatory approval. The licenses for Showcase and Life Network will expire August 2000 and we are currently preparing the CRTC applications relating to their renewal. Our inability to renew any of our licenses on favorable terms, or at all, would have an adverse impact on our results of operations, prospects or financial condition. Changes in the regulations governing our specialty television networks, including decisions by regulators affecting our broadcasting operations (such as the granting or renewal of licenses or the granting of additional broadcasting or programming licenses to our competitors) or the introduction of new regulations by regulators, could adversely impact our operating results, prospects or financial condition.

A substantial portion of our Broadcasting Group's revenues are from advertising sales. We compete for advertising sales with other television networks, radio and print media. Our inability to generate advertising revenue could adversely impact our operating results, prospects or financial condition. Specialty television network operators rely on fees from subscribers, which are shared with cable operators, to provide a substantial portion of their revenue while they build an audience and advertising support. The success of a specialty television network depends, to a significant extent, on its initial acceptance by the viewing public. The CRTC tends to license a number of new specialty television networks from time to time, and it cannot be determined in advance whether penetration rates will be sufficient to ensure the success of these specialty television networks. In the event that penetration rates do not reach acceptable levels, it may be necessary for industry

participants to undertake additional costly marketing programs and reduce subscription rates for these specialty television networks. Any of these events could have an adverse impact on our strategy for expanding our Broadcasting Group and our results of operations, prospects or financial condition.

While we expect the CRTC to request applications for new specialty television network licenses in 2000, there can be no assurance that the CRTC will make such request or that we will be successful in obtaining additional licenses for new specialty television networks.

Reliance on Key Personnel and Control of the Company—The loss of one or more of our key senior executives could seriously impair our ability to implement our business strategy, cause a default under the Existing Credit Facility or negatively impact certain of our material agreements. Further, certain of our key executives directly and indirectly control 59.7% of the votes attached to our common shares.

We rely, to a significant degree on the experience, leadership and skills of Michael MacMillan, Edward Riley, Seaton McLean, Peter Sussman (collectively, the "Alliance Atlantis Principals"), Lewis Rose and Victor Loewy. If any of these individuals were to be unavailable, we may be unable to locate replacements with similar skills and knowledge of the industry. Further, in certain circumstances, if any three of these individuals were to be removed or voluntarily depart, we could be in default under the Existing Credit Facility. In addition, certain other material agreements may be terminated if certain of these individuals leave the Company or if their duties are altered in a material way. There are also other senior executives and production personnel who provide unique and useful services to us and who would be difficult to replace on short notice. The loss of services of any key personnel, senior executives, production personnel or consultants could have an adverse impact on our businesses, results of operations, prospects and financial condition.

Further, the Alliance Atlantis Principals directly and indirectly control 59.7% of the votes attached to our voting shares. As a result, the Alliance Atlantis Principals are in a position to significantly influence our operations and strategy and, subject to applicable law, influence the election of a majority of our directors, influence the appointment of individuals as our directors and officers and influence the outcome of matters submitted to a shareholder vote. Also, an event of default under our Existing Credit Facility could be triggered in the event that any person other than the Alliance Atlantis Principals (or corporations which they control) acquires control of Alliance Atlantis.

Risks of Realizing Expected Cost Savings from the Merger—Our costs savings anticipated from the Merger may not be as substantial as we expect.

If the cost savings anticipated from the Merger are not as substantial as we expect and are not realized on the schedule predicted by management, our business, results of operations and financial condition may be adversely impacted. Adjusted EBITDA (as defined on page 13) incorporates the cost savings anticipated from the Merger. Although these adjustments are based upon available information and certain assumptions we believe to be reasonable as of the date of this prospectus, actual amounts could vary from those set forth therein.

Fluctuating Results of Operations, Seasonality and Film Industry Accounting—Our financial results fluctuate from period to period due to program delivery schedules, accounting methods applicable to our industry and other factors and may not be indicative of results for future periods.

Results of operations for any period are significantly dependent on the number, timing and commercial success of television programs and motion pictures delivered or made available to various media, none of which can be predicted with certainty. Consequently, our results of operations may fluctuate materially from period to period and the results of any one period are not

necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition. A large percentage of a television program's revenues is recognized when the programming is delivered pursuant to a non-cancellable agreement, provided the applicable broadcast season has commenced. Minimum guaranteed revenues from motion picture license agreements typically are recognized when the license period begins and the motion picture is delivered. Revenues from subsequent licensing of delivered programming, including rerun strip syndication (*i.e.* sales of previously-aired episodes licensed for broadcast in a five-day-a-week format) are recognized on the commencement of the license agreement.

Although industry practices are changing, due, in part, to increased competition from new networks, broadcasters make most of their annual programming commitments between February and June so that new television programs are ready for telecast at the start of the broadcast season in September or as mid-season replacements in January. Because of this annual production cycle, our television revenues are not earned on an even basis throughout the year. In particular, television revenues are generally lowest in the second calendar quarter, as fewer programs are completed and delivered during this period, and highest in the first, third, and, particularly the fourth calendar quarter. In addition, the delivery schedules of motion pictures are difficult to predict and not consistent from year to year. Consequently, our motion picture revenues fluctuate from period to period.

In accordance with Financial Accounting Standard No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films," we amortize television and motion picture costs of production and acquisition using the individual film forecast method under which such costs are amortized for each film or television program in the ratio of revenues earned in the current period for such title to management's estimate of the total revenues to be realized from all media and markets for that title. Management regularly reviews, and revises when necessary, its total revenue estimates on a title-by-title basis, which may result in a change in the rate of amortization and/or a write-down of the film or television asset to net realizable value. Results of operations in future years are dependent upon the amortization of our film and television costs and may be significantly affected by periodic adjustments in amortization rates. The likelihood of our reporting of losses is increased because the industry's accounting method requires the immediate recognition of the entire loss in instances where it is expected that a motion picture or television program will not recover our investment in such production or acquisition. On the other hand, the profit of a successful motion picture or television program must be deferred and recognized over the entire revenue stream generated by the individual picture or television program. As a result, our financial results fluctuate from period to period.

Government Incentive Programs—Changes in government incentive programs may have an adverse impact on us. Canadian-content policies could be scaled back, resulting in a reduction in the advantages such policies provide to us.

We currently finance a portion of our production budgets from Canadian government agencies and incentive programs, such as the Canadian Television Fund, Telefilm Canada and federal and provincial tax credits, as well as international sources in the case of our international co-productions. These sources provided approximately \$59 million to us in fiscal 1999. We cannot assure you that we will continue to be able to access these programs in the future. Any change in the policies of Canada or its provinces or other countries in connection with their incentive programs could have an adverse impact on our businesses, results of operations, prospects and financial condition.

Certain programs produced by us will be contractually required to be "certified Canadian programs" in accordance with the requirements established from time to time by the CRTC or the Canadian Audio-Visual Certification Office. In Canada, broadcasters and programming services are

required to broadcast significant minimum amounts of programming with certified Canadian content. We cannot assure you that such policies will not be eliminated or scaled back, thereby reducing the advantages which they currently provide to us as a supplier of such programs. We also cannot assure you that we will continue to be eligible to produce such programs in the future.

In addition, other requirements, unique to each type of incentive program, must be met in order to qualify for those incentive programs. In the event a program does not qualify under all applicable requirements, we would be in default on commitments made in connection with government incentive programs and Canadian pre-licenses to Canadian broadcasters. Such defaults could result in reduced or the elimination of license fees from the Canadian broadcasters, reduced or even no government incentives and/or future ineligibility for Canadian government incentive programs.

The structured financing products sold by our Alliance Atlantis Equicap subsidiary are dependent on existing Canadian tax laws. These laws could change at any time and any such prospective change may limit or eliminate the ability of Alliance Atlantis Equicap to sell such products.

Foreign Economies and Exchange Rates—Our dependence on revenue from outside of Canada and exchange rate fluctuations may have an adverse impact on our results of operations, prospects and financial condition.

A significant portion of our revenues and expenses are in currencies other than Canadian dollars, and, therefore, are subject to fluctuations in exchange rates. Approximately 44.3% of our revenues for the year ended March 31, 1999 were derived from our foreign operations, the majority of which were paid in U.S. dollars. Exchange rates may vary substantially and have an adverse impact on our results of operations, prospects and financial condition. For significant transactions, we have occasionally purchased future currency contracts in order to minimize the risk of currency fluctuation. At present, we are not aware of any existing currency or exchange control regulations in any country in which we currently contemplate exploiting our properties which would have an adverse effect on our ability to repatriate such funds.

As part of our business strategy, we intend to expand our non-Canadian distribution activities and therefore will continue to earn a substantial portion of our revenues from outside of Canada. Our ability to maintain or expand our international business (as well as our ability to contract upon favorable terms with international broadcasters, distributors and other licensees) and conduct foreign production activities depends, in part, on local economic conditions, currency fluctuations, local changes in regulatory requirements, compliance with a variety of foreign laws and regulations, inflation, interest rates, and cultural barriers and preferences. As a result, we cannot assure you that our international operations will continue to be successful.

Labor Relations—Many individuals associated with our projects are members of unions. Strikes could affect production scheduling and increase costs.

Many individuals associated with our projects are members of guilds or unions which bargain collectively with producers on an industry-wide basis from time to time. Though we have positive relationships with the guilds and unions, a strike or other form of labor protest affecting those guilds or unions would disrupt production scheduling, resulting in delays and additional expenses, all of which could have an adverse impact on our businesses, results of operations, prospects and financial condition.

Year 2000 Issue—We could be adversely affected if Year 2000 problems are significant.

The Year 2000 issue refers to certain technological and business implications of the arrival of the new millennium. This is a result of computer programs being written using two digits rather than

four to define an applicable year. If they are not Year 2000 compliant, computer applications that have date sensitive software may recognize a date using “00” as the year 1900 rather than the year 2000.

We have implemented programs designed to ensure that software used in connection with providing services to our customers and suppliers and our internal operations will manage and manipulate data involving the transition of dates from 1999 to 2000 and all other dates without functional or data abnormality. We do not anticipate incurring significant additional costs to address the Year 2000 issue, although the effectiveness of our present efforts to address the Year 2000 issue cannot be assured. In addition, it is currently unknown whether vendors and other third parties with which we conduct business will successfully address the Year 2000 issue with respect to their own computer software. The failure of any such systems could have an adverse impact on our businesses, results of operations, prospects and financial condition. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

USE OF PROCEEDS

We estimate the net proceeds of the offering, after deducting underwriting fees and expenses of the offering, will be \$281.8 million (US\$192.6 million based on the inverse of the Noon Buying Rate on November 5, 1999). We intend to use such proceeds to repay indebtedness under the Existing Credit Facility.

Two Canadian chartered banks, affiliates of RBC Dominion Securities Corporation and TD Securities (USA) Inc., respectively, and two other Canadian banks, affiliates of Chase Securities Inc. and SG Cowen Securities Corporation, respectively, are lenders under the Existing Credit Facility. A portion of the net proceeds of the offering will be used to repay outstanding indebtedness owed to such affiliates. See “Relationship between the Company and Certain of the Underwriters.”

CONSOLIDATED CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization as of June 30, 1999 (i) on an actual basis and (ii) as adjusted to give effect to (a) the sale of the Notes, assuming that the proceeds are applied to repay indebtedness under the Existing Credit Facility, (b) the Kinowelt Private Placement, (c) the Preferred Share Redemption and (d) the Sportscope Acquisition. The information in this table should be read in conjunction with the information contained in "Use of Proceeds," "Pro Forma Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and accompanying notes thereto appearing elsewhere in this prospectus.

	As of June 30, 1999	
	Actual	As Adjusted
	(In thousands of Canadian dollars)	
Cash and cash equivalents	\$ 71,381	\$ 19,478
Debt (including current portion):		
Existing Credit Facility(1)	\$472,056	\$ 74,787
Other term loans	42,969	42,969
Notes offered hereby(2)	—	292,600
Convertible Debentures	8,794	8,794
Total debt	523,819	419,150
Total shareholders' equity	456,124	536,221
Total capitalization	\$979,943	\$955,371

(1) On an as adjusted basis, as of June 30, 1999, we would have had \$365.2 million of additional borrowing availability under the Existing Credit Facility.

(2) Based on the inverse of the Noon Buying Rate on November 5, 1999.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table sets forth a summary of certain of our historical consolidated financial data for the dates and periods indicated and should be read in conjunction with the audited Consolidated Financial Statements, the Unaudited Interim Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. The summary historical consolidated financial data for the three months ended June 30, 1998 and 1999 are derived from the Unaudited Interim Consolidated Financial Statements, and in the opinion of our management, fairly present our results for such periods. We prepare our Consolidated Financial Statements in accordance with Canadian GAAP, which differs in certain respects from U.S. GAAP. For a discussion of the principal differences between Canadian GAAP and U.S. GAAP as they pertain to us, see note 22 to the audited Consolidated Financial Statements included elsewhere in this prospectus.

	Year ended March 31,					Three months ended June 30,	
	1995	1996	1997	1998	1999(1)	1998	1999
	(In thousands of Canadian dollars)						
Statement of Operations Data:							
<i>Canadian GAAP</i>							
Revenues	\$233,811	\$268,945	\$282,599	\$385,171	\$ 633,399	\$ 80,652	\$ 163,309
Direct operating expenses . . .	183,685	209,789	214,916	304,669	515,701	58,205	129,261
Gross profit	50,126	59,156	67,683	80,502	117,698	22,447	34,048
Other expenses	36,475	45,699	48,269	57,837	92,718	16,361	25,939
Operating earnings(2)	13,651	13,457	19,414	22,665	24,980	6,086	8,109
Net earnings (loss)	11,654	10,695	17,481	19,894	(27,315)(3)	4,133	7,092
<i>U.S. GAAP</i>							
Net earnings (loss)	10,676	9,092	14,972	17,318	(38,654)(3)	76	5,835
Other Financial Data:							
<i>Canadian GAAP</i>							
Depreciation and amortization	\$ 5,051	\$ 4,443	\$ 4,530	\$ 5,118	\$ 12,258	\$ 1,744	\$ 4,546
Interest expense(4)	282	893	1,296	3,593	22,049	1,783	5,276
EBITDA(5)	18,984	18,793	25,240	31,376	59,287	9,613	17,931
Capital expenditures	6,280	2,973	5,237	6,313	16,797	1,417	4,318
Actual interest(6)	282	893	1,296	5,364	28,508	4,171	9,680
<i>U.S. GAAP</i>							
EBITDA(5)	15,773	16,887	21,954	29,913	50,268	8,337	18,588
Balance Sheet Data							
(at period end):							
<i>Canadian GAAP</i>							
Cash and cash equivalents . .	\$ 18,860	\$ 5,090	\$ 10,777	\$ 2,430	\$ 56,883	\$ 4,303	\$ 71,381
Total assets	223,292	236,667	350,615	564,992	1,385,354	724,309	1,599,401
Total debt	17,871	24,200	19,861	162,912	494,263	246,397	523,819
Total shareholders' equity . . .	82,287	94,144	148,482	219,437	454,857	226,489	456,124
<i>U.S. GAAP</i>							
Total shareholders' equity . . .	79,716	89,880	142,271	210,532	384,287	213,527	383,508

(Footnotes on following page)

- (1) Includes the results of Atlantis and its subsidiaries from the date of the Merger, September 21, 1998.
- (2) Operating earnings is after deduction of interest expense and is defined as net earnings before income taxes, minority interest, gain on sale of investments and merger and restructuring expenses.
- (3) Includes the effect of \$49.0 million (\$81.4 million pre-tax) of merger and restructuring expenses related to the Merger.
- (4) Interest expense includes interest capitalized to investment in film and television programs in the current and prior periods which has been charged in the current period to direct operating expenses through the amortization of investment in film and television programs and is net of interest income.
- (5) EBITDA is defined as operating earnings plus interest expense, depreciation and amortization. EBITDA is not a measure of performance under Canadian GAAP or U.S. GAAP. EBITDA is presented here because it is a widely accepted financial indicator of a company's ability to service and/or incur debt. However, EBITDA should not be construed as an alternative to net earnings as an indicator of our operating performance, or to cash flows from operating, investing and financing activities as a measure of our liquidity. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations" for a discussion of other measures of liquidity and operations.
- (6) Actual interest in the current period represents interest expense (see footnote 4 above) plus interest capitalized to investment in film and television programs during the current period less the amount of interest charged in the current period to direct operating expenses through the amortization of investment in film and television programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements, Pro Forma Financial Statements and Unaudited Interim Consolidated Financial Statements, and the accompanying notes included elsewhere in this prospectus.

We were formed by the merger of Alliance and Atlantis on September 21, 1998 and have recorded the results of Atlantis from the date of the Merger (see note 2 to the Consolidated Financial Statements). The Merger has contributed significantly to the operating results such that a period-over-period analysis of actual operating results is not meaningful. In order to provide a meaningful period-over-period analysis, the actual results of operations for the three months ended June 30, 1999 have been compared to the pro forma results of operations for the three months ended June 30, 1998; and the pro forma results of operations for fiscal 1999 have been compared to the pro forma results of operations for fiscal 1998. The comparison of the pro forma information assumes that the Merger was completed on April 1, 1997. The comparison of results of operations for fiscal 1998 and fiscal 1997 are on an actual basis as they pre-date the Merger.

The following table presents, for the periods indicated, the results of operations and the percentage relationships which the various items presented bear to the consolidated revenues.

	Year ended March 31,								Three months ended June 30,			
	<u>1997</u>		<u>1998</u>		<u>1998</u>		<u>1999</u>		<u>1998</u>		<u>1999</u>	
					(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
					(Pro forma)	(Pro forma)	(Pro forma)	(Pro forma)	(Pro forma)	(Pro forma)	(Pro forma)	(Pro forma)
					(Canadian dollars in millions)							
Revenues												
Television	\$122.4	43.3%	\$196.5	51.0%	\$379.6	63.6%	\$438.7	61.9%	\$ 67.6	54.3%	\$ 68.2	41.8%
Motion Picture . . .	113.9	40.3	149.5	38.8	149.5	25.0	180.4	25.5	38.0	30.5	61.3	37.5
Broadcasting	19.9	7.1	23.0	6.0	50.5	8.5	76.8	10.9	17.8	14.3	22.1	13.5
Corporate and												
Other	26.4	9.3	16.2	4.2	17.2	2.9	11.8	1.7	1.1	0.9	11.7	7.2
	<u>\$282.6</u>	<u>100.0%</u>	<u>\$385.2</u>	<u>100.0%</u>	<u>\$596.8</u>	<u>100.0%</u>	<u>\$707.7</u>	<u>100.0%</u>	<u>\$124.5</u>	<u>100.0%</u>	<u>\$163.3</u>	<u>100.0%</u>
Direct Operating Expenses												
Television	\$100.6	35.6%	\$167.1	43.4%	\$328.4	55.0%	\$383.2	54.1%	\$ 55.6	44.7%	\$ 61.6	37.8%
Motion Picture . . .	90.7	32.1	116.5	30.2	116.5	19.5	150.1	21.2	29.3	23.5	51.1	31.3
Broadcasting	11.2	4.0	11.7	3.1	27.5	4.6	36.4	5.2	9.0	7.2	10.5	6.4
Corporate and												
Other	12.4	4.3	9.4	2.4	9.4	1.6	4.7	0.7	0.5	0.4	6.1	3.7
	<u>\$214.9</u>	<u>76.0%</u>	<u>\$304.7</u>	<u>79.1%</u>	<u>\$481.8</u>	<u>80.7%</u>	<u>\$574.3</u>	<u>81.2%</u>	<u>\$ 94.4</u>	<u>75.8%</u>	<u>\$129.3</u>	<u>79.2%</u>
Gross Profit												
Television	\$ 21.8	7.7%	\$ 29.4	7.6%	\$ 51.2	8.6%	\$ 55.5	7.8%	\$ 12.0	9.6%	\$ 6.6	4.0%
Motion Picture . . .	23.2	8.2	33.0	8.6	33.0	5.5	30.3	4.3	8.7	7.0	10.2	6.3
Broadcasting	8.7	3.1	11.3	2.9	23.0	3.9	40.4	5.7	8.8	7.1	11.6	7.1
Corporate and												
Other	14.0	5.0	6.8	1.8	7.8	1.3	7.2	1.0	0.6	0.5	5.6	3.4
	<u>\$ 67.7</u>	<u>24.0%</u>	<u>\$ 80.5</u>	<u>20.9%</u>	<u>\$115.0</u>	<u>19.3%</u>	<u>\$133.3</u>	<u>18.8%</u>	<u>\$ 30.1</u>	<u>24.2%</u>	<u>\$ 34.0</u>	<u>20.8%</u>

Three Months Ended June 30, 1999 (Actual) Compared to Three Months Ended June 30, 1998 (Pro Forma)

Revenues

Revenues were \$163.3 million for the three months ended June 30, 1999 (the "2000 First Quarter") compared to \$124.5 million for the three months ended June 30, 1998 (the "1999 First Quarter"), representing an increase of \$38.8 million or 31.2%.

The Motion Picture Group's revenues were \$61.3 million in the 2000 First Quarter compared to \$38.0 million in the 1999 First Quarter, representing an increase of \$23.3 million or 61.3%. This increase resulted primarily from a \$19.1 million increase in motion picture production revenues related to the delivery of *The Five Senses*, *Felicia's Journey* and *A Room for Romeo Brass* in the 2000 First Quarter as well as a \$2.4 million increase in motion picture distribution revenues related to the success of certain theatrical releases in the 2000 First Quarter. The Motion Picture Group also recorded revenues of \$1.8 million from Alliance Atlantis Cinemas which began to record the results of its operations in the fourth quarter of fiscal 1999.

The Broadcasting Group's revenues were \$22.1 million for the 2000 First Quarter compared to \$17.8 million for the 1999 First Quarter, representing an increase of \$4.3 million or 24.2%. This increase resulted primarily from an increase in the number of subscribers to our two newer networks, HGTV Canada and History Television.

The Television Group's revenues were \$68.2 million for the 2000 First Quarter compared to \$67.6 million for the 1999 First Quarter, representing an increase of \$0.6 million or 0.9%. The Television Group's revenues remained consistent period-over-period as increased television production revenues due to an increase in the number of hours delivered were offset by lower revenues reflecting the impact of a change in accounting policy with respect to revenue recognition (see note 14 to the Consolidated Financial Statements) and a significant sale from our library in the 1999 First Quarter.

Corporate and Other revenues, which include revenues from Alliance Atlantis Equicap Corporation ("Alliance Atlantis Equicap") and other corporate investments, was \$11.7 million in the 2000 First Quarter compared to \$1.1 million in the 1999 First Quarter, representing an increase of \$10.6 million. This increase resulted primarily from an increase in revenues from Alliance Atlantis Equicap which completed approximately \$200 million of structured financings related to motion picture and television productions during the 2000 First Quarter. This level of activity from Alliance Atlantis Equicap is not expected to continue through the balance of fiscal 2000.

Gross Profit

Gross profit was \$34.0 million in the 2000 First Quarter compared to \$30.1 million in the 1999 First Quarter, representing an increase of \$3.9 million or 13.0%. As a percentage of revenues, gross profit declined to 20.8% in the 2000 First Quarter compared to 24.2% in the 1999 First Quarter, primarily as a result of declines from the Television Group and the Motion Picture Group, and partially offset by increased gross margins in the Broadcasting Group and higher relative contribution from Corporate and Other.

The Television Group's gross margin declined to 9.7% in the 2000 First Quarter compared to 17.8% in the 1999 First Quarter. This decline resulted primarily from lower distribution revenues relative to the 1999 First Quarter, as well as an increase in the delivery of lower margin dramatic television productions in the 2000 First Quarter compared to the 1999 First Quarter.

The Motion Picture Group's gross margin declined to 16.6% in the 2000 First Quarter compared to 22.9% in the 1999 First Quarter. This decline resulted primarily from a relative increase in motion picture production (versus motion picture distribution) revenues, which had lower margins than the motion picture distribution revenues.

The Broadcasting Group's gross margin increased to 52.5% in the 2000 First Quarter compared to 49.4% in the 1999 First Quarter. This increase resulted from rising revenues and the primarily fixed cost nature of the group's direct operating expenses.

Corporate and Other gross margin was 47.9% in the 2000 First Quarter and contributed 16.5% of total gross profit in the 2000 First Quarter compared to only 2.0% in the 1999 First Quarter. This increase was directly related to the increase in Alliance Atlantis Equicap revenues.

Operating Expenses

Operating expenses were \$18.0 million in the 2000 First Quarter compared to \$18.2 million in the 1999 First Quarter, representing a decrease of \$0.2 million or 1.1%. Operating expenses are comprised of corporate overhead and operating expenses other than direct operating expenses. These expenses include such items as general and administrative expenses, salaries and benefits, office rental, communication costs and professional fees. Operating expenses remained consistent period-over-period as the increase in expenses related to the continuation of certain growth initiatives was offset by the realization of certain cost reduction initiatives as a result of the Merger. As a percentage of revenues, operating expenses declined to 11.0% in the 2000 First Quarter compared to 14.6% in the 1999 First Quarter.

Amortization

Amortization was \$4.5 million in the 2000 First Quarter compared to \$4.4 million in the 1999 First Quarter, representing an increase of \$0.1 million or 2.3%. Amortization includes amortization of property, plant and equipment, deferred financing fees, goodwill and broadcasting licenses. This increase in amortization resulted primarily from the amortization of deferred financing fees.

Interest

Interest was \$3.4 million in the 2000 First Quarter compared to \$1.2 million in the 1999 First Quarter, representing an increase of \$2.2 million or 183.3%. Additionally, we incurred interest of \$1.9 million and \$1.1 million in the 2000 First Quarter and the 1999 First Quarter, respectively, which was charged to direct operating expenses. Including amounts charged to direct operating expenses, total interest expense was \$5.3 million in the 2000 First Quarter compared to \$2.3 million in the 1999 First Quarter, representing an increase of \$3.0 million or 130.4%.

This increase resulted from our borrowings which were \$472.1 million at June 30, 1999 compared to \$228.8 million at June 30, 1998. Borrowings increased as a result of our investment in film and television programs which increased to \$668.3 million as at June 30, 1999 from \$290.1 million as at June 30, 1998.

Total interest expense is net of amounts capitalized to investment in film and television programs of \$5.8 million in the 2000 First Quarter compared to \$2.9 million in the 1999 First Quarter. Interest which has been capitalized and not expensed during the year will be charged to direct operating expenses in future periods as the related film and television programs are delivered.

Income Taxes

Our effective income tax rate in the 2000 First Quarter was approximately 31.8% compared to 33.1% in the 1999 First Quarter. This decline was due to the mix of taxable income from the various income tax jurisdictions.

Net Earnings

As a result of the foregoing, net earnings were \$7.1 million in the 2000 First Quarter compared to \$4.8 million in the 1999 First Quarter, representing an increase of \$2.3 million or 47.9%. Included

in net earnings for the 2000 First Quarter was an after-tax gain of \$1.6 million resulting from the sale of a portion of our long-term investments.

Fiscal 1999 (Pro Forma) Compared to Fiscal 1998 (Pro Forma)

Revenues

Revenues were \$707.7 million in fiscal 1999 compared to \$596.8 million in fiscal 1998, representing an increase of \$110.9 million or 18.6%. This increase resulted primarily from growth in all three principal operating groups, partially offset by a decrease in Corporate and Other revenues.

The Television Group's revenues were \$438.7 million in fiscal 1999 compared to \$379.6 million in fiscal 1998, representing an increase of \$59.1 million or 15.6%. This increase resulted primarily from an increase in the number of hours of television production delivered in fiscal 1999 to 332 from 259 in fiscal 1998. The increase in revenues is net of the impact of a change in accounting policy with respect to revenue recognition which resulted in a deferral of approximately \$18.3 million in Television Group revenues which would have otherwise been recorded (see note 14 to the Consolidated Financial Statements).

The Motion Picture Group's revenues were \$180.4 million in fiscal 1999 compared to \$149.5 million in fiscal 1998, representing an increase of \$30.9 million or 20.7%. This increase resulted primarily from an increase in motion picture distribution revenues of \$21.7 million, achieved through the strength of video distribution including such titles as: *Good Will Hunting*, *Lost in Space*, *The Wedding Singer*, *Rush Hour*, *Blade*, *Copland*, *Rounders* and *Scream 2* as well as the delivery of our motion picture production *eXistenZ* in the fourth quarter of fiscal 1999. The increase in revenues is net of the impact of a change in accounting policy with respect to revenue recognition which resulted in a deferral of approximately \$1.7 million in Motion Picture Group revenues which would have otherwise been recorded in fiscal 1999 (see note 14 to the Consolidated Financial Statements). The Motion Picture Group also recorded revenues of \$4.6 million related to Alliance Atlantis Cinemas which began to record the results of its operations in the fourth quarter of fiscal 1999.

The Broadcasting Group's revenues were \$76.8 million in fiscal 1999 compared to \$50.5 million in fiscal 1998, representing an increase of \$26.3 million or 52.1%. This increase resulted primarily from the operating results of HGTV Canada and History Television being included for the first time for the full year, as well as a \$3.5 million increase in cable subscriber and DTH service providers revenues from Showcase and Life Network.

Corporate and Other revenues were \$11.8 million for fiscal 1999 compared to \$17.2 million in fiscal 1998, representing a decrease of \$5.4 million or 31.4%. This decrease resulted primarily from an \$8.2 million decrease in revenues from Alliance Atlantis Equicap as a result of changes in federal income tax legislation affecting certain of its products.

Gross Profit

Gross profit was \$133.3 million in fiscal 1999 compared to \$115.0 million in fiscal 1998, representing an increase of \$18.3 million or 15.9%. As a percentage of revenues, gross profit declined to 18.8% in fiscal 1999 compared to 19.3% in fiscal 1998.

The Television Group's gross margin declined to 12.7% in fiscal 1999 compared to 13.5% in fiscal 1998. This decline resulted primarily from increased provisions for royalties and residuals related to revenues earned from our library. These provisions represent our best estimate of amounts which may become owing in future periods, based on library revenues to date. Provisions taken in fiscal 1999 were increased due to our assessment of expected future revenues from our library, based on information which was then available.

The Motion Picture Group's gross margin declined to 16.8% in fiscal 1999 compared to 22.1% in fiscal 1998. This decline resulted primarily from a greater percentage of the group's revenues being derived from video sales which have lower margins than theatrical distribution, as well as an increase in sell-through video business (direct sales to retailers and consumers) which generates lower margins than the primary video rental business.

The Broadcasting Group's gross margin increased to 52.6% in fiscal 1999 compared to 45.6% in fiscal 1998. This increase resulted from rising revenues and the primarily fixed cost nature of the group's direct operating expenses.

Operating Expenses

Operating expenses were \$79.2 million in fiscal 1999 compared to \$66.9 million in fiscal 1998, representing an increase of \$12.3 million or 18.4%. This increase resulted from certain growth initiatives adopted by each of the predecessor companies prior to the Merger, acquisitions of new businesses, inclusion of the full year results of HGTV Canada and History Television, investment in and expansion of our U.K. motion picture distribution business and the operations of Alliance Atlantis Cinemas which were launched during fiscal 1999. As a percentage of revenues, operating expenses were 11.2% in fiscal 1999 which was consistent with 11.2% in fiscal 1998.

Amortization

Amortization was \$17.8 million in fiscal 1999, compared to \$14.8 million in fiscal 1998, representing an increase of \$3.0 million or 20.3%. This increase resulted primarily from an increased investment in capital assets.

Interest

Interest was \$10.3 million in fiscal 1999 compared to \$2.4 million in fiscal 1998, representing an increase of \$7.9 million. Additionally, we incurred interest of \$13.0 million and \$2.1 million in fiscal 1999 and fiscal 1998, respectively, which was charged to direct operating expenses. Including amounts charged to direct operating expenses, total interest expense was \$23.3 million in fiscal 1999 compared to \$4.5 million in fiscal 1998, representing an increase of \$18.8 million.

This increase resulted from our borrowings which were \$437.0 million at March 31, 1999 compared to \$111.6 million at March 31, 1998. Borrowings increased as a result of our investment in film and television programs which increased to \$542.7 million in fiscal 1999 from \$215.5 million in fiscal 1998.

Total interest expense is net of amounts capitalized to investment in film and television programs of \$17.0 million in fiscal 1999 compared to \$2.7 million in fiscal 1998. Interest which has been capitalized and not expensed during the year will be charged to direct operating expenses in future periods as the related film and television programs are delivered.

Merger and Restructuring

As a result of the Merger, we incurred merger and restructuring expenses of \$81.4 million comprised of \$30.5 million in cash costs and \$50.9 million in non-cash costs. These cash expenses related to reducing head count, terminating leases, corporate communications, professional fees and other expenses. The non-cash expenses were related to the streamlining of development projects, investment in film and television programs and other investments.

As at March 31, 1999, approximately \$25.1 million had been paid in respect of the cash expenses. The remaining \$5.4 million was related to amounts that were paid subsequent to March 31, 1999 in respect of employee severance and moving and lease termination charges.

Income Taxes

Our effective income tax recovery rate was approximately 50.8% in fiscal 1999 compared to an effective income tax rate of 33.5% in fiscal 1998. The high effective recovery rate was generated from the incurrence of taxable income in low tax rate jurisdictions and the incurrence of losses in higher tax rate jurisdictions.

Net Earnings (Loss)

As a result of the foregoing, net loss was \$26.9 million in fiscal 1999. Excluding the effect of \$49.0 million (\$81.4 million pre-tax) of merger and restructuring expenses, net earnings were \$22.1 million in fiscal 1999 as compared to \$26.5 million in fiscal 1998, representing a decrease of \$4.4 million or 16.6%. Included in the net earnings for fiscal 1999 and fiscal 1998 were after-tax gains of \$0.5 and \$3.5 million, respectively, from the sale of a portion of our long-term investments.

Fiscal 1998 (Actual) Compared to Fiscal 1997 (Actual)

Revenues

Revenues were \$385.2 million in fiscal 1998 compared to \$282.6 million in fiscal 1997, representing an increase of \$102.6 million or 36.3%. This increase resulted primarily from growth in all three principal operating groups, partially offset by a decrease in Corporate and Other revenues.

The Television Group's revenues were \$196.5 million in fiscal 1998 compared to \$122.4 million in fiscal 1997, representing an increase of \$74.1 million or 60.5%. This increase resulted primarily from a \$41.1 million increase in television production revenues and a \$31.5 million increase in international distribution revenues. In fiscal 1998, 122 hours of television productions were delivered compared to 56 hours in fiscal 1997. These hours were comprised of 101.5 hours of series delivered in fiscal 1998 compared to 35 hours in fiscal 1997, 16 hours of television movies in fiscal 1998 compared to 18 hours in fiscal 1997 and 4.5 hours of television pilots in fiscal 1998 compared to 3 hours in fiscal 1997. Revenues in fiscal 1998 did not increase in proportion to the increase in the delivered hours as the majority of the year-over-year increase in delivered hours was in television series which typically generate lower per hour revenues than television movies or pilots.

The Motion Picture Group's revenues were \$149.5 million in fiscal 1998 compared to \$113.9 million in fiscal 1997, representing an increase of \$35.6 million or 31.3%. This increase resulted, in part, from a \$25.2 million increase in domestic distribution revenues including a \$9.4 million increase in theatrical distribution revenues, an \$8.6 million increase in video distribution revenues, and a \$7.0 million increase in television distribution revenues. Theatrical releases in fiscal 1998 included *Good Will Hunting*, *Scream 2*, *Austin Powers: International Man of Mystery*, *The Wedding Singer*, and *Spawn*. Video releases in 1998 included *The English Patient*, *Shine*, *Crash*, *Scream* and Jackie Chan's *First Strike*. International distribution revenues in fiscal 1998 also increased \$17.6 million resulting primarily from international releases including *Airborne*, *Black Mask*, *Dearly Devoted*, *The Fall*, *Strike* and *The Sweet Hereafter*. Motion picture production revenues decreased by \$10.8 million in fiscal 1998, partially offsetting the above increases, resulting primarily from the delivery of *The Sweet Hereafter* and other motion picture productions which had lower "pre-sale" revenues than motion picture productions delivered in fiscal 1997.

The Broadcasting Group's revenues were \$23.0 million in fiscal 1998 compared to \$19.9 million in fiscal 1997, representing an increase of \$3.1 million or 15.6%. This increase resulted primarily from increased advertising revenues and cable subscriber fees as a result of the 800,000 additional Showcase Television subscribers at March 31, 1998 compared to March 31, 1997.

Corporate and Other revenues were \$16.2 million in fiscal 1998 compared to \$26.4 million in fiscal 1997, representing a decrease of \$10.2 million or 38.6%. This decrease resulted from a \$10.2 million decrease in revenues from Alliance Atlantis Equicap as a result of changes in federal income tax legislation affecting certain of its products.

Gross Profit

Gross profit was \$80.5 million in fiscal 1998 compared to \$67.7 million in fiscal 1997, representing an increase of \$12.8 million or 18.9%. As a percentage of revenues, gross profit declined to 20.9% in fiscal 1998 compared to 24.0% in fiscal 1997 primarily as a result of declines in gross margin from the Television Group and lower relative contribution from Corporate and Other, partially offset by increased gross margins in the Motion Picture Group and the Broadcasting Group.

The Television Group's gross margin declined to 15.0% in fiscal 1998 compared to 17.8% in fiscal 1997. This decline resulted primarily from the delivery of certain lower margin television productions in fiscal 1998.

The Motion Picture Group's gross margin increased to 22.1% in fiscal 1998 compared to 20.4% in fiscal 1997. This increase resulted primarily from increased gross margins from certain motion picture productions and a higher mix of international motion picture distribution.

The Broadcasting Group's gross margin increased to 49.1% in fiscal 1998 compared to 43.7% in fiscal 1997. This increase resulted from rising revenues and the primarily fixed cost nature of the group's direct operating expenses.

Corporate and Other gross margin was 42.0% in fiscal 1998. However, Corporate and Other gross profit contributed only 8.5% of total gross profit in fiscal 1998 compared to 20.7% in fiscal 1997.

Operating Expenses

Operating expenses were \$51.3 million in fiscal 1998 compared to \$42.4 million in fiscal 1997, representing an increase of \$8.9 million or 21.0%. This increase resulted primarily from head count increases in new and expanding businesses and increased overhead associated with certain acquisitions. As a percentage of revenues, operating expenses decreased to 13.3% in fiscal 1998 compared to 15.0% in fiscal 1997.

Amortization

Amortization was \$5.1 million in fiscal 1998 compared to \$4.5 million in fiscal 1997, representing an increase of \$0.6 million or 13.3%. This increase resulted primarily from the commencement in fiscal 1998 of the amortization of leasehold improvements relating to the fiscal 1997 head office relocation.

Interest

Interest was \$1.5 million in fiscal 1998 compared to \$1.3 million in fiscal 1997, representing an increase of \$0.2 million or 15.4%. Additionally, we incurred interest of \$2.1 million in fiscal 1998 (1997—\$nil) which was charged to direct operating expenses. Including amounts charged to direct operating expenses, total interest expense was \$3.6 million in fiscal 1998 compared to \$1.3 million in fiscal 1997, representing an increase of \$2.3 million or 176.9%.

This increase resulted primarily from our borrowings which were \$111.6 million at March 31, 1998 compared to \$3.3 million at March 31, 1997. Borrowings increased as a result of our investment in film and television programs which increased to \$215.5 million in fiscal 1998 compared to \$136.3 million in fiscal 1997.

Total interest expense is net of amounts capitalized to investment in film and television programs of \$2.7 million in fiscal 1998 (1997—\$nil). Interest which has been capitalized and not expensed during the year will be charged to direct operating expenses in future periods as the related film and television programs are delivered.

Income Taxes

Our effective tax rate was 28.8% in fiscal 1998 compared to 35.5% in fiscal 1997 resulting primarily from the mix of taxable income from the various income tax jurisdictions and the recognition of previously unrecognized tax losses.

Net Earnings

As a result of the foregoing, net earnings were \$19.9 million in fiscal 1998 compared to \$17.5 million in fiscal 1997, representing an increase of \$2.4 million or 13.7%. Included in net earnings for fiscal 1998 and fiscal 1997 were after-tax gains of \$3.5 million and \$5.0 million, respectively, from the sale of a portion of our long-term investments.

Liquidity and Capital Resources

The nature of our business is such that significant expenditures are required to produce and acquire television programs and motion pictures in advance of revenues from these programs and motion pictures, which are earned over an extended period of time after their completion or acquisition. This results in significant working capital requirements. Working capital, comprised of cash and cash equivalents, accounts receivable, investment in film and television programs and net of revolving term loans, accounts payable and accrued liabilities and deferred revenues, was \$226.9 million at June 30, 1999 compared to \$237.4 million at March 31, 1999, representing a decrease of \$10.5 million or 4.4%. As at June 30, 1999 we had approximately \$71.4 million of cash and cash equivalents, \$51.9 million of which has been paid subsequent to June 30, 1999 for the Preferred Share Redemption (see note 9 to the Consolidated Financial Statements).

On September 21, 1998, we entered into the \$475 million Existing Credit Facility consisting of three tranches: a \$400 million revolving term loan, a \$35 million revolving term loan and a total of \$40 million of revolving and term loans. The Existing Credit Facility matures September 2003. Giving effect to (i) the Kinowelt Private Placement; (ii) the Preferred Share Redemption; (iii) the Sportscope Acquisition; and (iv) this offering and the application of the net proceeds, we would have had approximately \$384.7 million in cash and available under the Existing Credit Facility as at June 30, 1999.

Pursuant to the Kinowelt Transaction we have agreed to finance up to US\$12.5 million per year for three years to acquire motion pictures for U.K. release and to contribute up to US\$75 million over the next three years to develop, produce and acquire motion pictures for international distribution. We anticipate that our financial commitments to these funds will be significantly reduced through "pre-sales".

On October 21, 1999, the CRTC approved our application to acquire a 47.85% interest in Sportscope Television Network Ltd. ("Sportscope"), which operates the Headline Sports specialty television network. On October 26, 1999 we paid \$16.2 million for the interest in Sportscope acquired by us (pending certain corporate approvals) and an additional \$1.3 million to assume a shareholder loan which has become payable by Sportscope to us.

We believe that our current cash position, credit facilities, earnings from operations and the proceeds from the sale of the Notes will be sufficient to fund our operations and commitments for the foreseeable future, although there can be no assurance in this regard.

Other Term Loans

Included within other term loans are loans owing by our subsidiary, Equicap Financial Corporation, under two revolving term facilities which are non-recourse to Alliance Atlantis Communications Inc. Together the term loans total \$50.0 million of which approximately \$20.7 million was available, at June 30, 1999, to fund our secured debt financing business.

Repayment of Revolving Term Loans

The \$400 million tranche of our revolving term loans does not require repayment until the period beginning October 1, 2001, at which time (if not extended) it will become repayable in equal quarterly increments over a two-year period. The \$35 million tranche will be repaid and permanently cancelled with the proceeds of this offering and the \$40 million tranche is payable in various amounts not exceeding \$15 million per annum.

Share Capital

On September 21, 1998, in connection with the Merger, we issued 2,118,749 Class A Voting Shares and 206,272 Class C Special Voting Shares in exchange for all the outstanding shares of Atlantis, increasing our capital account by \$154.7 million.

On November 18, 1998 we issued 2.9 million Class B Non-Voting Shares for net proceeds of \$80.4 million. Of the funds raised from this equity issue, \$51.9 million was invested in money market funds to provide for the Preferred Share Redemption and the balance of approximately \$28.5 million was used to fund the cash component of our \$81.4 million merger and restructuring charge.

On August 20, 1999, we completed a private placement resulting in the issuance of approximately 6.28 million Class B Non-Voting Shares to the principals of Kinowelt (the Kinowelt Private Placement) and net proceeds to us of approximately \$132 million.

Year 2000

Many existing computer programs were designed and developed without consideration for the Year 2000 issue, which could lead to the failure of computer applications or create erroneous results by or at the Year 2000. The Year 2000 issue is a business issue, the impact of which extends beyond traditional computer hardware and software to the possible failure of other systems and instrumentation, including equipment utilized by us and third parties with which we do business.

In addressing the Year 2000 issue, we have taken efforts to identify, test and modify or replace systems that may not be Year 2000 compliant. We believe that we have completed the assessment process on our own systems and equipment relating to Year 2000 compliance. We believe that we are compliant with respect to all significant business systems and equipment effective October 1999. Our standard for Year 2000 compliance requires that an essential system or piece of equipment be designed to be used prior to, on and after January 1, 2000.

As part of our capital spending program, we have replaced or modified many of our key systems with systems that are expected to be Year 2000 compliant. Although we believe that the costs associated with achieving Year 2000 compliance will not be material, there can be no assurance that we will not incur unanticipated expenses or that we will be able to successfully address all Year 2000 issues. If we have not been able to resolve our Year 2000 issues, they could have a material adverse impact on our business.

The impact of the Year 2000 issue on us will also be affected by the ability of our business partners, customers, suppliers and vendors and providers of facilities, equipment and services to be Year 2000 compliant. Failure by these third parties to be Year 2000 compliant may adversely impact our operations including our revenues, timing of cash receipts and production. We are making inquiries of such third parties on Year 2000 compliance and based on the responses to these inquiries we will decide to what extent, if any, a contingency plan should be developed. To date, we have not received responses from all third parties and have not independently confirmed any information received from third parties with respect to Year 2000 issues. Therefore, there cannot be any assurance that such third parties will address the Year 2000 issue and be Year 2000 compliant in a timely manner or will not suffer a business disruption that may affect our business.

OUR BUSINESS

The Company

We are the largest Canadian and a significant international diversified media and entertainment company. We create, produce and distribute filmed entertainment and are a leading Canadian specialty broadcaster, with significant interests in seven specialty television networks. We were formed on September 21, 1998 through the merger of Alliance and Atlantis (the Merger) and had LTM pro forma revenues and Adjusted EBITDA (as defined on page 13) of \$746.4 million and \$88.0 million, respectively. Our integrated, complementary operating groups are:

- The Television Group, which develops, finances, produces, acquires and distributes television series, movies and mini-series for Canadian, U.S. and international markets (59% of LTM pro forma revenues and 37% of LTM pro forma gross profit);
- The Motion Picture Group, which develops, finances, produces, acquires and distributes theatrical motion pictures for Canadian, U.S. and international markets and exhibits motion pictures in Canada (27% of LTM pro forma revenues and 23% of LTM pro forma gross profit); and
- The Broadcasting Group, which has significant interests in seven Canadian specialty television networks (11% of LTM pro forma revenues and 32% of LTM pro forma gross profit).

The Merger significantly enhanced our competitive position, critical mass and operational and geographic diversity and is yielding substantial economies of scale. The Merger has allowed us to exploit revenue growth opportunities in our domestic and international distribution businesses arising from a significantly larger program library, a broader customer base and increased brand recognition. The increased scale of our television and motion picture production activities has allowed us to selectively pursue projects with a focus on profitability and increased our ability to attract key talent.

The Merger is expected to result in estimated annualized cost savings of approximately \$20 million. We have taken all actions necessary to realize these cost savings, which include (i) \$15 million through corporate overhead and other infrastructure improvements (Phase One) and (ii) \$5 million through the combining of our specialty television network operations (Phase Two). On November 2, 1998, we completed Phase One with the elimination of 78 full-time and 44 contract and part-time positions and the closing of Atlantis' Amsterdam distribution office. On May 20, 1999, we were granted permission by the CRTC to combine the operations of our specialty television networks (Phase Two). As part of Phase Two, in June 1999 we announced the elimination of 42 full and part-time positions, and we expect to complete Phase Two by March 2000.

Recent Developments

On October 21, 1999, the CRTC approved our application to acquire a 47.85% interest in Sportscope Television Network Ltd. ("Sportscope"), which operates the Headline Sports specialty television network. On October 26, 1999, we paid \$16.2 million for the interest in Sportscope acquired by us (pending certain corporate approvals) and an additional \$1.3 million to assume a shareholder loan which has become payable by Sportscope to us.

On July 30, 1999, we announced a strategic partnership (the Kinowelt Transaction) with Kinowelt Medien AG (Kinowelt). Based on Kinowelt's public information, Kinowelt is the largest independent film distributor in Germany and a leading distributor in Europe, with related motion picture production operations. We have had a twelve-year relationship with Kinowelt and believe that the Kinowelt Transaction will allow us to expand our international motion picture distribution

presence while sharing the necessary investments with an established partner. The strategic partnership includes:

- A \$132 million investment (the Kinowelt Private Placement) in our Class B Non-Voting Shares by the principal shareholders of Kinowelt, the proceeds of which we used to repay indebtedness. The investment represented approximately 20% of our outstanding common equity, post-investment;
- Kinowelt's acquisition of 50% of our U.K. motion picture distribution business, with each of us agreeing to finance up to US\$12.5 million per year for three years to develop, produce and acquire motion pictures for U.K. release; and
- The establishment of a fund to develop, produce and acquire motion pictures for international distribution, with each of us agreeing to contribute up to US\$75 million over the next three years.

We anticipate that our financial commitments to these funds will be significantly reduced through "pre-sales". We believe that this strategic partnership will allow us to invest less capital for these funding activities than we planned to invest prior to the Kinowelt Transaction.

Competitive Strengths

Integrated Entertainment Company

We enjoy significant benefits and economies of scale as an integrated media and entertainment company with an established global distribution network. We believe that our vertical and horizontal integration provides us with several competitive advantages and the ability to maximize profitability and further penetrate growing international markets. These benefits include:

- Enhanced relationships with producers and customers;
- Greater ability to assess worldwide demand through our international distribution network when developing specific productions;
- Greater control of our programming from conception and production to final distribution, including broadcasting and exhibition outlets;
- Increasing the size and value of our program library from our Television and Motion Picture Groups; and
- The Broadcasting Group's access to our program library and new productions.

Operational Diversity and Leading Market Positions

We believe that our operational diversity and leading market positions provide us with greater stability and enhanced growth prospects. Our financial results are balanced by operating group, with no one operating group representing over 37% of our LTM pro forma gross profit. Our Television Group is the leading producer and distributor of prime-time dramatic television programming in Canada, as well as one of the largest English-language dramatic television producers in the world. Our Motion Picture Group is the largest film distributor in Canada, with approximately a 19% box office market share through September 1999. Our global television and motion picture distribution operations provide programming to distributors and broadcasters around the world through offices in London, Sydney, Los Angeles and Shannon, Ireland.

Strong Relationships with Leading Media Companies

Our strong, long-term relationships with leading media companies, coupled with our leading market positions, provide a strong base from which to grow our Television and Motion Picture Groups and expand our international presence. We began distributing CBS programming in Canada in 1996 and recently renewed our exclusive distribution contract through 2002. In 1998, we signed a television production output agreement with Endemol Entertainment ("Endemol"), a major European entertainment company, pursuant to which Endemol will purchase approximately \$100 million of our productions over the three year term of the agreement. In addition, we have long-term television production output agreements with Telecinco (Spain), Eagle Pictures (Italy) and TV3 (New Zealand). In 1999, we signed a four-year agreement with Canal Plus, a leading French entertainment company, to serve as the exclusive Canadian distributor for 1,250 titles from its library. Our Motion Picture Group has had exclusive Canadian distribution agreements with New Line Cinema since 1989 and Miramax Films since 1994, each of which was recently extended again through 2001 and 2005, respectively. In addition, we have exclusive Canadian distribution agreements with Artisan Entertainment through 2001, USA Films through March 2002 and Destination Films through 2002. We also have a long term video and DVD distribution and marketing joint venture with Universal Studios. Furthermore we expect that the Kinowelt Transaction will enhance our motion picture distribution business in the U.K. and continental Europe.

Extensive and Growing Library

We believe that our growing, diverse television program and motion picture library represents a significant source of stable revenues, high margin income and underlying asset value. Our library allows us to leverage our established worldwide distribution network and in fiscal 1999 accounted for approximately \$122 million (17%) of pro forma revenues, which we expect to increase in the future. We have an extensive library of movies and television and children's programming. It consists of approximately 2,500 hours of worldwide programming rights and approximately 10,000 hours of Canadian rights, including over 7,000 motion pictures. Our distribution relationships with CBS, New Line Cinema, Miramax Films, USA Films, Artisan Entertainment, Destination Films and Canal Plus, as well as our own productions, enhance the growth, quality and value of our library.

Favorable Canadian Business Environment

Our Canadian operations and ownership provide us with a number of significant advantages. As part of their long-term mandate to foster Canadian business and culture, the Canadian federal and provincial governments support local producers, distributors and broadcasters by:

- Requiring Canadian broadcasters to air significant amounts of programming with Canadian content;
- Typically requiring cable operators to carry all licensed Canadian networks and to pay networks a subscription fee;
- Restricting specialty television network proliferation by typically licensing only one network per genre;
- Providing tax credits, incentives and investments for Canadian television and motion picture productions; and
- Establishing co-production treaties with over 50 countries, pursuant to which productions can qualify as local content and thus be eligible for government assistance and financing in more than one country.

Furthermore, we believe that producing programming in Canada offers other significant benefits, including (i) Canadian-produced programming is generally English-language and American “style”, which appeals to a broad, international audience; and (ii) lower production costs and an established infrastructure, including production facilities and experienced crews.

Proven and Committed Senior Management Team

Our proven and committed senior management team has an average of 20 years of creative, operating and financial experience. Key members of our senior management team founded Atlantis in 1978 and a predecessor to Alliance in 1973 and developed each business, primarily through internal growth, into diversified media and entertainment companies. We have won over 230 prestigious awards, including an Academy Award, seven Emmy Awards, five awards from the Cannes Film Festival and 26 Cable Ace Awards. Senior management currently owns or has committed to purchase approximately 9% of our equity on a fully-diluted basis, including \$21 million of equity acquired at the time of and since the Merger.

Business Strategy

We have developed our business strategy to manage our growth, increase our profitability and improve upon our leading market positions. We intend to continue to maximize the benefits of our horizontal and vertical integration within our three operating groups. The primary elements of our business strategy are as follows:

Expand Non-Production Businesses

We are continuing to expand our non-production businesses, which include broadcasting, program licensing from our library, distribution of third-party television programming and motion pictures and theatrical distribution. These businesses typically provide more predictable results and currently represent over 50% of our gross profit, a significant increase from historical levels. Our objective is to grow these businesses to represent greater than two-thirds of our gross profits by fiscal 2002. To achieve this objective, we are (i) growing the Broadcasting Group, which was established in 1994 and which represented approximately 32% of our LTM pro forma gross profit; (ii) increasing our library sales, which represented approximately 16% of our LTM pro forma gross profit; (iii) expanding our third-party television and motion picture distribution businesses (including completing more long-term distribution agreements), which represented approximately 14% of our LTM pro forma gross profit; and (iv) prudently growing Alliance Atlantis Cinemas.

Leverage Existing Broadcasting Platform

We are capitalizing on our Broadcasting Group’s multi-network platform in order to continue to increase revenues and profitability. We plan to respond to the CRTC’s anticipated request for new specialty television network applications in early 2000 to augment our current network offering; we will apply for licenses for thematic networks that target specific audiences and thus are more attractive to certain advertisers. We believe that adding new networks will increase our appeal to, and cross-selling opportunities with, advertisers and enable us to negotiate improved subscriber fees and tier placement with cable operators. In addition, by adding networks to our existing infrastructure, we believe that we will achieve greater economies of scale, including overhead synergies and program purchasing efficiencies. In January 2000, we plan to launch our recently-licensed French language networks, Canal Fiction and Canal Histoire, which will benefit from programming synergies with our existing English-language network equivalents, Showcase and History Television, respectively. In October 1999, we acquired, pending certain corporate approvals, a 47.85% interest in Headline Sports. Upon receiving CRTC approval, we will launch the Food Network Canada, replacing the U.S. Food Network which currently airs in Canada.

Continue to Improve Profitability and Balance of Television Productions

We are leveraging our leadership position in television production and distribution and the critical mass achieved from the Merger to focus on higher margin productions and increase the profitability of the Television Group. We are producing a balanced portfolio of dramatic, adventure and children's programming, which we believe will enhance our appeal to broadcasters who have a limited need for any particular type of programming. In addition, we are focusing on productions that will appeal to the U.S. market, the largest television market in the world, and have global appeal. Each of our current slate of 17 series is being distributed outside of Canada, including seven which have been licensed in the United States. Examples include:

- *Peter Benchley's Amazon*, which recently premiered as the top-rated new show in U.S. syndication and which has already been licensed by Eyemark Entertainment (CBS) in the United States for two years and by Beta-Film in Germany and WIC in Canada for three years each; and
- *Gene Roddenberry's Earth: Final Conflict®*, currently in its third season, which has recently been renewed for a fourth season in syndication by Tribune Entertainment in the United States, Tele München Gruppe in Germany and the CHUM Group in Canada.

To better balance our production mix and to take advantage of strong and growing worldwide demand, we are producing more children's programming, which tends to have relatively low production costs and high library value as it can often be re-broadcast for each new generation of children. For example we are producing a second season of *The Famous Jett Jackson* for the Disney Channel in the United States, *I was a Sixth Grade Alien* for Fox Family in the United States and several animated series.

Expand Distribution Activities

We are expanding our television and motion picture distribution capabilities, with a focus on international opportunities and controlling international distribution rights. We are taking advantage of the significant capacity of our worldwide network by distributing a greater amount of programming from third-party producers, who typically lack their own distribution network and expertise in foreign markets. For example, on October 6, 1999 we announced a new long-term exclusive Canadian distribution agreement with Destination Films, which extends through 2002. In partnership with Kinowelt, we expect to leverage our respective distribution successes in Canada and Germany to expand our motion picture distribution business in the U.K., which we believe is a significantly underserved, fragmented market with substantial growth opportunities. We are also seeking additional television production output agreements with international broadcasters and distributors. These agreements typically require the third-party to license a minimum amount of unspecified programming according to a set pricing schedule, which increases the predictability of our future revenues and reduces our production exposure. For example, Endemol has agreed to license from us approximately \$100 million of unspecified programming over the three-year term of our agreement. In addition, we intend to capitalize on vertical integration opportunities by prudently expanding our Alliance Atlantis Cinemas in partnership with a subsidiary of Viacom, Inc. We will continue to focus on major urban centers and plan to expand from our existing 16 screens to approximately 65 screens in seven cities over the next three years. In order to minimize the cost of this expansion we intend to continue to lease existing cinemas rather than purchase them.

Capitalize on Extensive, Growing Programming Library

We will continue to expand and maximize the long-term value of our library of television and motion picture programming by:

- Producing new, high quality television programs and motion pictures that will increase the depth and breadth of the library;
- Continuing to market our library titles in North America and further penetrating growing international markets; and
- Pursuing distribution agreements for and acquisitions of third-party television and motion picture programming, such as our recent agreement with France's Canal Plus.

Continue to Minimize Production Exposure

In general, before commencing production we cover through "pre-sales" approximately 80% of the production budget for each television series, movie or mini-series and approximately 70% of the production budget for each feature film. "Pre-sales" include the licensing of broadcast and distribution rights for specific regions, including the United States, as well as government tax credits, incentives and investments. We also reduce our exposure by focusing on low-to-moderate budget productions, maintaining low overhead (including hiring creative and production staff on a project-by-project basis) and, in appropriate circumstances, purchasing completion bonds which would cover certain budget overruns or costs of unforeseen events. Since fiscal 1998, our aggregate budget overruns were less than 0.5% of our total television and motion picture production costs.

Television

Industry Overview

The U.S. and Canadian television production and distribution industries serve the largest broadcast marketplace in the world. In 1997, U.S. and Canadian television broadcasters (including cable) spent more than \$13 billion for programming.

U.S. and Canadian television broadcasters purchase the majority of their programming from major studios, with the balance from independent producers such as us. Each of the major television networks in the United States and Canada currently schedules approximately 22 hours of prime time programming each week. Prime time programming generates the highest license fees in these markets and generally consists of a mix of hour-long drama series, movies of the week, situation comedies and mini-series. In recent years, the market share of the conventional broadcast networks in the United States has fallen due to the dramatic expansion of other networks, specialty networks and the development of a first run syndication market. First run syndication involves a syndicator selling a program to individual network affiliates and independent television stations in different markets. Once the syndicator establishes sufficient geographic penetration (in the United States, typically 70% of television households), the syndicator is able to sell advertising to national advertisers. In order to broadcast a program, the stations either pay a license fee, grant the syndicator advertising time within the program for sale to advertisers or both.

The international television industry is experiencing significant growth and becoming an increasingly important source of revenue for television producers and distributors as worldwide demand for programming increases. Many governments have encouraged this expansion by privatizing national broadcast systems and significantly increasing the availability of broadcast licenses. The introduction of sophisticated delivery technologies (including cable and satellite transmission) and pay television, increased cable penetration and growth in video and DVD have also contributed to this growth. Most foreign broadcasters air a mix of both local programming to satisfy local content regulations and popular international programming, largely from the United States and Canada, which appeals to a wide audience.

Television Production

Our Television Group is the largest producer and distributor of prime-time dramatic television in Canada and among the leading English-language dramatic television producers in the world. This business is geographically diversified, with approximately 35%, 31% and 34% of LTM pro forma revenues originating from Canada, the United States and the rest of the world, respectively. In fiscal 2000, we have committed orders to produce 270 hours of programming, comprised of 17 drama, adventure and children's series (including nine series renewals) and 26 hours of television movies and mini-series. We have produced programming for a broad customer base including ABC, CBS, FOX, NBC, UPN, HBO, Fox Family, Showtime, TNT, The Disney Channel, The Sci-Fi Channel, and USA Network in the United States and CBC, CTV, Global, WIC and YTV in Canada. Prior to commencing productions, we obtain financial commitments from third parties by licensing broadcast and distribution rights and by utilizing government tax credits, incentives and investments (collectively, "pre-sales"); cash from "pre-sales" is received primarily upon completion and delivery of a production. "Pre-sales" typically cover over 80% of our television projects' production budgets and allow us to significantly reduce our production exposure. Since the beginning of fiscal 1998 to the end of fiscal 2000, we have covered approximately 84% of our television production budgets, on average, with "pre-sales".

Television production involves developing a creative concept or literary property into a script and then commencing the production process, which includes hiring talent, filming the program and technical and post-production work. We originate projects internally or acquire them from others. We sell distribution rights to a combination of U.S., Canadian and international syndicators and broadcasters. Our strategy (including the use of "pre-sales") generally results in lower production exposure and an earlier return on our investment versus the typical major network production strategy, which involves producing pilots for a wide range of series, with the assumption that a few will be ordered as series and subsequently renewed, and that these few successful series will cover the costs of those that are not successful. A series with 65 episodes (39 in the case of animation) is eligible for second run syndication, which can generate substantial additional revenues without significant incremental costs. Television movies and mini-series are also valuable library assets, as they can be shown multiple times and fill discrete time slots.

Our current television slate includes nine successful series that have been renewed by Canadian and U.S. broadcasters:

Program	Genre	Broadcaster/Syndicator	Season
<i>Gene Roddenberry's Earth: Final Conflict®</i>	Sci-Fi	Tribune (U.S.); CHUM Group (Canada)	3 rd
<i>The Famous Jett Jackson</i>	Children's	Disney Channel (U.S.)	2 nd
<i>PSI FACTOR®: Chronicles of the Paranormal</i>	Sci-Fi	CBS/Eyemark (U.S.); Global (Canada)	4 th
<i>The Outer Limits</i>	Sci-Fi	Showtime (U.S.); MGM (U.S.); Global (Canada)	5 th
<i>Traders</i>	Drama	Global (Canada)	5 th
<i>Power Play</i>	Drama	CTV (Canada)	2 nd
<i>Cold Squad</i>	Drama	CTV (Canada)	3 rd
<i>Nothing Too Good for a Cowboy</i>	Drama	CBC (Canada)	2 nd
<i>Da Vinci's Inquest</i>	Drama	CBC (Canada)	2 nd

At the January 1999 conference held by the National Association of Television Program Executives, *The Hollywood Reporter* compiled a top 10 list of new series that were most likely to generate significant interest and sales, which included two of our new productions:

- *Peter Benchley's Amazon*: An action-adventure series from the author of *Jaws*, Peter Benchley. This series has already been syndicated in the United States by Eyemark Entertainment, a division of CBS, for two years and by Beta-Film in Germany and WIC in Canada for three years each; and
- *Beastmaster*: An action-adventure series based on the book that inspired the movie of the same name, which is syndicated in the United States by Tribune Entertainment and in Europe by Endemol Entertainment.

As part of our strategy to expand our children's programming, we recently launched the "AAC Kids" banner. Children's programming has strong and growing worldwide demand and tends to have relatively low production costs and high library value, as it can often be re-broadcast for each new generation of children. Our children's programming includes *The Famous Jett Jackson* and six new series that we will launch in fiscal 2000:

- *I was a Sixth Grade Alien* (for YTV in Canada and Fox Family in the United States): A live-action series, which was the highest rated of four new series to debut on Fox Family this summer and which is based on a new series of books by the popular children's author Bruce Coville;
- *Drop the Beat* (for CBC in Canada): A live-action series about two hip-hop deejays and a spin-off from the award-winning series *Straight Up*;
- *China Wings*: An animated series about two young boys growing up in China at the turn of the century;
- *Hoze Houndz* (for YTV in Canada): An animated series based on the award-winning Halloween special by the same name;
- *Pumper Pups* (for YTV in Canada): An animated series which follows the adventures of Pumper the talking fire truck and his troupe of eager pups; and
- *Monster by Mistake*: A 3-D animated series based on the award-winning Halloween special by the same name.

In addition to television series, we have produced a number of high-quality, successful movies-of-the-week and mini-series. In 1999, we launched the four hour May sweeps mini-series *Joan of Arc* (shown by CBS in the United States and CBC in Canada) starring Leelee Sobieski, Jacqueline Bisset, Peter Strauss, Robert Loggia, Olympia Dukakis, Shirley MacLaine and Peter O'Toole. *Joan of Arc* was recently awarded the American Television Critics Association award for best mini-series and received 13 Primetime Emmy Award nominations, with Peter O'Toole winning best supporting actor. Other recent television movies and mini-series include:

- *Nuremberg*, starring Alec Baldwin and premiering in 2000 on TNT;
- *Catch a Falling Star*, starring Sela Ward and premiering in 2000 on CBS;
- *Forget Me Never*, starring Mia Farrow and Martin Sheen (CBS);
- *Flowers for Algernon*, starring Matthew Modine (CBS);
- *Scandalous Me: The Jacqueline Susann Story* (USA Network, CTV);
- *Beauty* (CBS);

- *Thirst* (NBC);
- *Shot Through the Heart* (HBO); and
- *Survivor* (UPN).

Television Distribution

Our television distribution business is centered around our new productions and our growing, valuable library of approximately 12,500 hours of programming, including approximately 10,000 hours of Canadian programming rights and approximately 2,500 hours of worldwide programming rights. Our library is comprised of both our own and third-party programming, including television series, movies and mini-series and over 7,000 motion pictures. We distribute our new productions and content from our library to over 400 broadcasters and buyers in approximately 200 countries, including an increasing amount through long-term output agreements, especially in key European markets. We are also the exclusive distributor in Canada of CBS's programming library and certain current CBS productions.

We distribute our own and third party television programming, and we receive revenues from program license fees paid by broadcasters and buyers. In the United States and Canada, programming is delivered by conventional broadcast networks, cable and specialty television networks, individual television stations and DTH delivery services. Our television distribution customers include such conventional broadcast networks as ABC, CBS, FOX, NBC, PBS, UPN and WB in the United States and CBC, CTV, Global, WIC and CHUM Group in Canada. Our cable and specialty television network customers include HBO, Fox Family, The Disney Channel, Lifetime, The Sci-Fi Channel, Showtime, TBS, The Family Channel, TNT and USA Network in the United States and Bravo, Canal D, Prime, Space, Super Ecran, TMN, WTN and our own HGTV Canada, Life Network, Showcase and History Television networks in Canada. Approximately 31% and 38% of our programming license revenues in fiscal 1999 were generated from the United States and Canada, respectively.

Our television distribution business provides us with access to growing markets outside North America as well, where we generated approximately 31% of our programming license revenues in fiscal 1999. Long-term output agreements, such as our agreements with Endemol Entertainment (Europe), Telecinco (Spain), Eagle Pictures (Italy) and TV3 (New Zealand), provide us with increased access to these markets. In addition, these international output deals secure buyers in advance for our own television productions, which increases the predictability of our revenues and reduces our production exposure. For example, Endemol Entertainment committed to purchase approximately \$100 million of unspecified programming over three years and acts as our program sub-distributor for such programming in Europe, Africa and the Middle East.

Additionally, we seek to leverage our worldwide distribution network by entering into long-term third party distribution agreements. We have been CBS's exclusive Canadian distributor of its programming library and certain current productions since 1996 and recently extended our agreement through 2002. CBS programming that we distribute includes many popular television series such as *Everyone Loves Raymond*, *Walker*, *Texas Ranger*, *60 Minutes* and *Touched By An Angel*. Revenues generated from these types of agreements are typically commission based.

Motion Pictures

Industry Overview

Motion picture production involves the development, financing and production of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of media including theatrical exhibition; video and DVD; pay-per-view, pay, cable and conventional

television; and other ancillary media. In 1998 North American motion picture distributors earned approximately \$45 billion in revenues. This represents growth of 48% since 1994. International demand for North American motion pictures is growing at a faster rate than domestic demand. The increase in the number of new delivery technologies and the development of multiple distribution channels in international markets are expected to result in significant growth and benefit the owners of film and television distribution rights.

The U.S. motion picture industry is comprised of major studios and independent producers, with the major studios dominating the industry in terms of number of theatrical releases. Major studios, which have been consolidating the industry, include: Metro-Goldwyn-Mayer Inc. (including MGM Pictures, UA Pictures, Orion and Goldwyn), Universal Studios, Warner Bros. (including New Line Cinema and Castle Rock Entertainment), Twentieth Century Fox Film Corporation, Sony Pictures Entertainment Inc. (including Columbia and Tri Star), Paramount Pictures Corporation, and The Walt Disney Company (including Buena Vista, Touchstone and Miramax Films). The major studios are typically large, diversified corporations that have global film production and distribution capabilities.

Independent production companies are playing an increasingly important role in the production of motion pictures for the worldwide market. Industry consolidation has created a significant demand for independently produced, high quality motion pictures from under-supplied independent distributors. Independently produced motion pictures typically have lower production budgets and are not as widely released as those produced and distributed by the major studios. Unlike us, many independent production companies have limited or no internal distribution capabilities and thus rely on the major studios and to a lesser extent independent distributors, to distribute their motion pictures.

Motion Picture Distribution

Our Motion Picture Group is the largest distributor of films in Canada, with over 100 motion pictures scheduled for release in 1999, and in 1999 through September we led the Canadian market with approximately a 19% box office share. In fiscal 1999, distribution accounted for approximately 85% of the Motion Picture Group's gross profit. We primarily distribute films from leading independent production companies to theaters, television and video and DVD. We have long-term exclusive Canadian motion picture distribution agreements with New Line Cinema, Miramax Films, USA Films (formerly October Films), Artisan Entertainment and Destination Films. Recent films that we distributed from these producers include *Life is Beautiful*, *Shakespeare in Love*, *Austin Powers: The Spy Who Shagged Me*, *The Muse* and *The Blair Witch Project*. These relationships are based on our ability to generate higher per capita revenues per film due to our extensive knowledge, presence and experience in the Canadian market. We also operate a chain of upscale, art-house cinemas in Canada in partnership with Famous Players, a subsidiary of Viacom, Inc. In August 1998, we entered into a long-term video and DVD distribution and marketing joint venture with Universal Studios, which significantly expanded our operations in this growing market.

We also distribute motion pictures directly in the U.K. and to third-party distributors in continental Europe and the rest of the world through our established, global distribution network. In fiscal 2000 we expect to distribute 18 to 24 films theatrically in the U.K. We believe that the U.K. is an underserved, fragmented market with substantial growth opportunities. We intend to expand our U.K. distribution business and motion picture distribution presence in continental Europe in partnership with Kinowelt.

We typically acquire distribution rights for a motion picture in all distribution channels and in one or more geographic areas in exchange for a non-refundable advance, which we typically pay in

several installments. Our distribution rights to third-party programming typically extend for a term of over 15 years and we earn revenues in the following distribution channels:

- *Theatrical Exhibition:* Initially, we advertise and promote the motion picture and license it to theater owners, earning a distribution fee based on a specified percentage of gross receipts. After we have recouped the non-refundable advance, our print and advertising costs and a specified commission, the producer receives any excess from the proceeds of the film;
- *Video and DVD:* We sell videocassettes and DVD's directly to retailers and indirectly to video rental outlets. In fiscal 1999 we released 144 films on video, 40 of which were also released on DVD. We are expanding our distribution business through this growing channel with our long-term video and marketing joint venture with Universal Studios;
- *Pay-per-view:* We license motion pictures to pay-per-view television operators and earn a portion of the fees that cable television subscribers pay to purchase individual programs;
- *Broadcast, Cable, Pay and Satellite Television:* We license motion pictures to broadcasters and other programmers, who pay license fees for the right to air programming a specified number of times over a specified time period; and
- *Ancillary Revenues:* We distribute motion pictures to airlines, schools, libraries, hospitals and the military; license rights to perform musical works embodied in a motion picture; and license rights to manufacture and distribute CD-ROM and video games, clothing and other merchandise derived from a motion picture or television program.

Motion Picture Production

Our Motion Picture Group also produces a small number of low-to-moderate budget films that are generally director-driven, art-house productions. Recent productions include Atom Egoyan's *The Sweet Hereafter*, which was nominated for two Academy Awards, and Istvan Szabo's *Sunshine*, starring Ralph Fiennes and William Hurt and which is scheduled for a December 1999 release. We typically cover, prior to commencing productions, approximately 70% of our production budgets through "pre-sales", which allows us to significantly reduce our production exposure. From the beginning of fiscal 1998 to the end of fiscal 2000, we expect to have produced 23 films. These films have an average production budget of approximately \$6.7 million and we have covered approximately 70% of their production budgets, on average, with "pre-sales".

Development activities precede the commencement of actual production and include preparing a script and budget, obtaining tentative commitments from a director and principal cast members and arranging "pre-sales". We have established relationships with prominent directors including Roman Polanski, Atom Egoyan, David Cronenberg, Denys Arcand, Istvan Szabo and Costa Gavras. Principal photography generally extends from seven to sixteen weeks, depending upon script, budget, locations and other factors. After filming, the motion picture enters post-production, where it is edited and dialogue, music and any special effects are added.

In addition to "pre-sales", we minimize our production exposure by focusing on low-to-moderate budget productions and maintaining low overhead and capital spending requirements; hiring creative and other production personnel and retaining certain other elements required for pre-production, filming and post-production activities on a project-by-project basis. In appropriate circumstances, we purchase completion bonds for our productions, which would cover certain budget overruns or costs of unforeseen events. We also enter into co-production agreements with other domestic and international producers to share production costs and activities as well as distribution rights. Canada is a party to co-production treaties with over 50 countries, which enable co-productions to qualify as local content and thus be eligible for government assistance and financing in more than one country, which further reduces our production costs.

Motion Picture Exhibition

To capitalize on our brand name and maximize profitability, in 1998 we launched a chain of upscale art-house cinemas in Canada in partnership with Famous Players, a subsidiary of Viacom, Inc. Alliance Atlantis Cinemas targets mature audiences in urban markets and exhibits upscale independent films, many of which we distribute. We currently operate 16 screens in Toronto and Vancouver and plan to grow to approximately 65 screens in seven cities over the next three years.

Broadcasting

Industry Overview

Canadian specialty television networks have experienced rapid growth since the first licenses were issued by the CRTC in 1982. Specialty television networks are available to those Canadians who subscribe to a particular cable or DTH service package and provide special interest, news, sports, arts and entertainment programming. As of April 1999, there were 53 Canadian specialty and premium services available to Canadian subscribers. The CRTC periodically issues requests for new network license applications and typically only licenses one network per genre in order to reduce network proliferation.

Specialty television networks derive substantially all of their revenues from subscription fees and advertising. The CRTC typically requires cable operators to carry each specialty television network and to pay a specified monthly fee per subscriber to the specialty television network owner. Specialty television networks are distributed either as part of a cable operator's basic service, or as part of an "extended" or "discretionary" tier including other Canadian or non-Canadian specialty television networks. The wholesale subscriber fee payable to a specialty television network for carriage of its service is regulated if it is carried as part of the basic service, but is not regulated if it is carried on an extended or discretionary tier. Regardless, the subscriber fee is specified in the specialty television network's agreement with the cable operator. Subscribers to extended or discretionary tiers pay monthly fees which reflect an amount for the basic service, plus an additional amount for the additional services for which they subscribe on the extended or discretionary tiers. Specialty broadcasters benefit from these stable, recurring subscriber fees, which are also supported by the high level of cable penetration (over 80%) in Canada. Advertising on specialty and pay television networks has been growing as has their share of total Canadian television viewing, which increased from 30% in 1996 to 42% in 1998. However, Canadian specialty television networks account for only 10% of advertising revenue, and we expect their advertising revenue share to grow significantly. CRTC broadcasting licenses are granted for specified periods and are customarily renewed upon application to the CRTC.

Specialty Broadcasting

Our Broadcasting Group is a leading owner and operator of specialty television networks in Canada. We launched our first two networks, Showcase and Life Network, in January 1995. We expanded our network portfolio with the addition of History Television and HGTV Canada, which were launched in October 1997. These four, national English-language networks are "must carry" services on every major English-language cable system in Canada. In fiscal 1999, our subscription fees, which accounted for approximately two-thirds of the Broadcasting Group's revenues, grew by 52% and our advertising revenues grew by 24%. Our four existing networks' ratings increased by 45% over the prior year according to the summer 1999 Nielsen ratings. In 1999 we and our partner, Astral Communications, were awarded licenses for two new French-language networks, which will be launched in January 2000. On average, we receive subscription fees of \$0.25 per subscriber for our English-language networks and will be entitled to receive \$0.75 per subscriber for our French-

language networks. In October 1999, we acquired, pending certain corporate approval, a 47.85% interest in Headline Sports. Upon receiving CRTC approval, we will launch the Food Network Canada, replacing the U.S. Food Network which currently airs in Canada. Our networks include:

- Showcase, a network featuring critically acclaimed movies and dramatic programs from around the world (wholly owned);
- Life Network, a network focused on “lifestyle” programming (wholly owned);
- History Television, a network specializing in documentaries, movies and original historical programming (88% interest);
- HGTV Canada, a home and garden “do it yourself” network (67% interest);
- Canal Fiction, a French-language version of Showcase (50% interest);
- Canal Histoire, a French-language version of History Television (50% interest);
- Headline Sports, a network featuring 24-hour sports news and highlights (47.85% interest); and
- Food Network Canada, a network focused on food related programming (51% interest, pending CRTC license award).

The Food Network Canada will replace the U.S. Food Network in Canada, for which we currently act as exclusive Canadian agent. The Food Network Canada will be able to sell advertising as well as generate subscription fee revenues, as opposed to the U.S. Food Network, which cannot sell advertising to Canadian advertisers directed to Canadian audiences. We intend to follow a similar plan for the U.S. Health Network, for which we also act as agent in Canada.

Film and Television Library

We have an extensive library of television and motion picture programming, which we distribute through our established, global distribution network. Our television program and motion picture library consists of approximately 2,500 hours of worldwide programming rights and approximately 10,000 hours of Canadian rights (including over 7,000 motion pictures). As at September 1999, the top twenty revenue generators from our library were:

- | | |
|--|--|
| 1. <i>Teenage Mutant Ninja Turtles</i> | 11. <i>The English Patient</i> |
| 2. <i>The Mask</i> | 12. <i>The Wedding Singer</i> |
| 3. <i>Pulp Fiction</i> | 13. <i>Mortal Kombat</i> |
| 4. <i>Dumb & Dumber</i> | 14. <i>Scream 2</i> |
| 5. <i>Due South</i> | 15. <i>Teenage Mutant Ninja Turtles II</i> |
| 6. <i>Good Will Hunting</i> | 16. <i>The Swan Princess</i> |
| 7. <i>Seven</i> | 17. <i>The Long Kiss Goodnight</i> |
| 8. <i>Total Recall 2070 (Series)</i> | 18. <i>Spawn</i> |
| 9. <i>Scream</i> | 19. <i>Night Heat</i> |
| 10. <i>Austin Powers: International Man of Mystery</i> | 20. <i>Pinocchio</i> |

Other Operations

Post-Production Services

We operate two post-production businesses in order to ensure that we have access to these services on a timely and quality efficient basis. Casablanca Sound and Picture Inc. (100% owned) provides sound and picture editing equipment and services for our own and third-party film and television productions. We also own 60% of the equity of Calibre Digital Design Inc., which provides computer generated special effects services for our television series, including *Peter Benchley's Amazon* and *Gene Roddenberry's Earth: Final Conflict®*, as well as third-party productions. Calibre Digital Design Inc. provides technologically advanced digital effects for live-action television series and feature films and various types of animation for cartoon series, segments and television commercials.

Alliance Atlantis Equicap Corporation

Alliance Atlantis Equicap is a registered securities dealer in the province of Ontario and originates and sells structured financing products related to the film and television industries. Alliance Atlantis Equicap packages items related to production services into limited partnerships, which it sells to Canadian investors to encourage production in Canada. Alliance Atlantis Equicap receives a commission for selling these limited partnerships.

Equicap Financial Corporation

Equicap Financial provides loans to independent film and television production companies to cover a portion of their production costs. Over 85% of these loans are typically provided by two commercial banks which lend to Equicap Financial on a basis which is non-recourse to Alliance Atlantis Communications Inc. The commercial bank loans are secured by charges over all of the assets of Equicap Financial and over the shares and intercompany debt of Equicap Financial. The commercial bank loans permit advances by Equicap Financial to finance production companies specifically approved by the commercial lenders; such advances are each secured by the individual third-party production for which the funds were advanced. Equicap Financial earns a fee from the production companies for arranging such financing as well as the difference between the interest rates charged to the third-party producers and by the commercial lenders. Equicap Financial has the advantage of drawing on our in-house expertise in assessing financial commitments to production companies. Since October 1996, Equicap Financial has completed 35 production financings with an average loan size and duration of approximately \$3.5 million and 16 months, respectively. The results of operations for Equicap Financial are included in the results of the Motion Picture Group.

New Media

Our New Media business was formed in 1999 to position ourselves to take advantage of growing Internet use and to leverage our existing broadcasting and library assets into new sources of revenue. The group intends to re-purpose existing video assets into the on-line world and develop new businesses that extend our brand names and take advantage of the media and content consumption habits of Internet users.

Competition

The business of producing and distributing television programs and motion pictures is highly competitive. We face intense competition from other producers and distributors, including the Hollywood studios, many of whom are substantially larger and have greater financial resources than we do and some of whom own their own television networks. We compete with other television and motion picture production companies for ideas and story lines created by third parties as well as for actors, directors and other personnel required for production. We compete for these creative

properties and creative personnel with a variety of international companies, including Metro-Goldwyn-Mayer, Universal Studios, Warner Bros., Twentieth Century Fox Film Corporation, Sony Pictures Entertainment Inc., Paramount Pictures Corporation, The Walt Disney Company, Hallmark Entertainment, Pearson plc and Spelling Television Inc., as well as numerous Canadian producers and distributors, including Nelvana Limited, Cinar Corporation, Sullivan Entertainment Inc., CanWest Entertainment, Salter Street Films Limited, Coscient Group Inc. and Lions Gate Entertainment Corp. Our Broadcasting Group competes with other operators of television networks, including Global, CTV, CHUM Group, CBC, TV Ontario, WIC, Astral Communications and Corus Entertainment.

Regulation

Jurisdiction

The CRTC has broad jurisdiction over Canadian domestic communications. Since 1968, broadcasting undertakings, including specialty television network licensees, have been, and continue to be, licensed and regulated by the CRTC pursuant to the *Broadcasting Act* (Canada) (the “Broadcasting Act”) and the relevant regulations enacted thereunder, including the Specialty Services Regulations, 1990 (the “Specialty Regulations”), the policies and decisions of the CRTC as issued from time to time and the conditions and expectations established in the license for each undertaking. Under the Broadcasting Act, the CRTC is responsible for regulating and supervising all aspects of the Canadian broadcasting system with a view to ensuring compliance with certain broadcasting policy objectives set out in the Broadcasting Act.

Licensing

The CRTC is empowered under the Broadcasting Act to issue licenses to eligible entities to operate specialty television networks. In February of this year, the CRTC commenced a public proceeding to develop an appropriate regulatory framework for the licensing of all new pay and specialty television networks. The proceeding is anticipated to determine ownership and carriage requirements, Canadian content expenditure requirements and the general regulatory framework for these services in a digital broadcasting environment. The CRTC’s decision in this matter is anticipated to be delivered shortly, following which it is anticipated that the CRTC will request applications for new pay and specialty services in 2000.

The federal government has issued a direction (the “Direction”) to the CRTC not to issue broadcasting undertaking licenses to, or renew broadcast undertaking licenses issued to, applicants who are not “Canadian” within the meaning of the Direction. Pursuant to the Direction, a corporation is deemed to be “Canadian” if: (a) it is incorporated or continued under the laws of Canada or a province thereof; (b) the chief executive officer is a resident Canadian; (c) not less than 80% of the directors are resident Canadians; (d) Canadians beneficially own and control not less than 80% of the issued and outstanding voting shares and not less than 80% of the votes; and (e) it is not otherwise controlled in fact by non-Canadians, a question of fact which may be determined by the CRTC in its discretion. Where a licensee is a subsidiary corporation, its parent corporation must also be incorporated or continued under the laws of Canada or a province thereof and Canadians must beneficially own and control not less than 66⅔% of the issued and outstanding shares and not less than 66⅔% of the votes. In addition, unless Canadians own and control 80% of the issued and outstanding voting shares and 80% of the votes of the parent corporation and unless its chief executive officer and 80% of its directors are resident Canadians, neither the parent corporation, nor its directors, may exercise any control or influence over any programming decisions of the licensed subsidiary. Alliance Atlantis Communications Inc. is not a direct licensee of any specialty television networks, but is the parent of subsidiary licensee corporations.

In order to ensure that we and our licensed subsidiaries comply with the requirements of the Direction, our articles include provisions pursuant to which our directors may refuse to issue or

register the transfer of any of our shares, where such issuance or transfer would, in their opinion, negatively affect our rights or those of our subsidiaries to obtain, maintain or renew any CRTC license.

The CRTC also imposes restrictions on the transfer of ownership and control of specialty television network licenses. Pursuant to the Specialty Regulations, a holder of a specialty television network license must obtain prior approval of the CRTC with respect to any act, agreement or transaction that directly or indirectly would result in a material change of ownership or effective control of the licensee, or of a person who has, directly or indirectly, effective control of the licensee. Transferees of ownership or control of a licensee must demonstrate to the CRTC that the transfer is in the public interest, and are typically required to provide a specific package of tangible benefits to the Canadian broadcasting system and the communities served by the licensee representing a financial contribution of 10% of value of the transaction as accepted by the CRTC.

Canadian Content Requirements

The Canadian independent television program production industry is assisted by the CRTC requirement that each Canadian over-the-air private broadcaster must broadcast Canadian programs (local content) for a minimum of 60% of its entire schedule and 50% of its schedule between 6 pm and midnight. Local content status can be achieved in a variety of ways, the most common of which is on the basis of a point system requiring that certain of the actors, writers, directors, and other program staff be Canadian and that specified Canadian expenditure levels be met in the production of the program by its producer. This determination is unrelated to the program subject matter. In addition, as a condition of their CRTC licenses, some Canadian broadcasters are currently required to spend a certain percentage of their revenues on local content. Rules mandating the broadcast of local content programs enable Canadian producers and distributors to make sales to Canadian broadcasters that might otherwise have been made by non-Canadian producers and distributors.

The CRTC recently announced a new regulatory framework for Canadian television broadcasting. The new framework is focused mainly on conventional, over-the-air private broadcasters and most significantly impacts the “largest multi-station ownership groups” which the CRTC defines as including CTV Network Ltd., TVA Group Inc., Global Communications Ltd. and WIC Western International Communications Ltd. Most aspects of this framework will come into effect on September 1, 2000 through amendments to the conditions of license of stations forming part of the largest multi-station ownership groups. Among the changes for stations in these groups is the addition of a requirement to broadcast, over the broadcast year, an average of at least 8 hours per week of “Priority Canadian programs”, as have been or will be defined by the CRTC, during the peak 7 pm to 11 pm viewing period, Monday through Sunday. These eight hours are in addition to the current 60%/50% Canadian content requirement discussed above, which requirement will remain in effect, unchanged. At present, stations in these groups that air dramatic programming with high levels of Canadian content are entitled to credit 150% of the running time of such programming against their overall 60%/50% Canadian content requirements. This time credit will be discontinued effective September 1, 2000 and will be replaced with two similar time credits for airing Canadian content dramatic programming applicable only against the required eight hours per week of Priority Canadian programming. The existing requirements for stations in these groups to spend a certain amount of their revenues on Canadian content programming will be discontinued effective September 1, 2000.

Canadian independent television producers are further assisted by the CRTC rule permitting simultaneous substitution in certain circumstances. Simultaneous substitution enables a Canadian broadcaster to require Canadian cable operators to delete the signal of a U.S. television broadcaster and to replace those signals with the signals of the Canadian broadcaster, including its Canadian television commercials, when the Canadian broadcaster is broadcasting the same

program at the same time as the U.S. broadcaster. The substitution ensures that Canadians are exposed to the Canadian broadcasters' commercials. This results in higher commercial revenues to Canadian broadcasters in general and enhances their financial capacity to license programs.

Canadian Government Film Distribution Policy Review

In early 1998, the Canadian government published a discussion paper outlining the Canadian public policy context for feature films and identifying some of the current issues relating to the Canadian film industry and invited comments and submissions from all interested Canadians. The discussion paper was meant to serve as a starting point for a national debate which will assist the Canadian government in developing specific policy and program changes respecting the Canadian feature film industry. As part of this review process, the Canadian government constituted the Canadian Feature Film Advisory Committee to provide a report on the state of Canada's feature film industry. The Committee has released its report, which makes several specific recommendations intended to encourage the production and distribution of Canadian feature films. It is uncertain whether these recommendations will result in changes to the existing Film Distribution Policy.

Intellectual Property

We use a number of trademarks for our products and services, including Alliance, Atlantis, Alliance Atlantis, AAC Kids, Alliance Atlantis Cinemas, Alliance Atlantis Broadcasting, Alliance Atlantis Releasing, Alliance Atlantis Home Video, Showcase, History, HGTV, Life, Equicap and Citadel as well as trademarks, logos and other representations of characters used in our productions. Many of these trademarks are registered by us, and those trademarks that are not registered are protected by common law. We have taken affirmative legal steps to protect our trademarks and we believe our trademark position is adequately protected. We also believe that our trademarks are generally well recognized by consumers of our products and are associated with a high level of quality and value.

Distribution rights to television programming and motion pictures are granted legal protection under the copyright laws of Canada, the United States and most foreign countries, which impose substantial civil and criminal sanctions for unauthorized duplication and exhibition of motion pictures and television programming. We believe that we take and plan to continue taking all appropriate and reasonable measures to secure, protect and maintain or obtain agreements from licensees to secure, protect and maintain copyright protection for all of the motion pictures and television programming produced and distributed by us under the laws of all applicable jurisdictions.

Properties and Facilities

We lease offices in Toronto, Montreal, Vancouver, Los Angeles, London (England), Sydney (Australia) and Shannon (Ireland). Our corporate head office is located at 121 Bloor Street East, Suite 1500, Toronto, Ontario, Canada, which consists of approximately 117,205 square feet of space under leases expiring on various dates beginning March 2003 and through to May 2007. Our broadcast facilities for Showcase and History Television are located at our corporate head office. We are in the process of combining the broadcast facilities for Life Network and HGTV Canada, which are currently located at 1155 Leslie Street, Toronto, Ontario with the Bloor Street facilities. In partnership with an industry third party, we own a production studio in Toronto which contains two 9,800 square foot studios and approximately 70,000 square feet of office and technical support space. We believe that our properties are in good condition and sufficient for our purposes.

Employees

At June 30, 1999, we employed approximately 600 employees in Canada, the United States, Europe and Australia. In addition, like any entertainment company, from time to time we employ the services of a variety of individuals, many of whom are engaged under collective bargaining

agreements negotiated with various guilds and unions. The key guilds and unions which negotiate on behalf of individuals engaged by production companies include: Alliance of Canadian Cinema, Television and Radio Artists (ACTRA) and Union of British Columbia Performers (UBCP) and Screen Actor's Guild (SAG) (for performers), Writers Association of Canada (WAC) and Writers Guild of America (WGA) (for writers), Directors Guild of Canada (DGC) and Directors Guild of America (DGA) (for directors and other key positions) and Association of Canadian Film Craftspeople (ACFC), National Association of Broadcast Employees and Technicians (NABET) and International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists and Allied Crafts (IATSE) (for technicians). We have never been the target of a strike. We believe that collective bargaining provides us with many benefits, including ease of hiring crews, relatively low cost of contract negotiations, and established grievance procedures. We believe relations with our employees are good.

Legal Proceedings

We are involved from time to time in various claims and lawsuits incidental to the ordinary course of our business, including intellectual property actions. Adverse determinations in litigation could result in the loss of our proprietary rights, subject us to significant liabilities, or require us to seek licenses from third parties, any one of which could have an adverse effect on our business and results of operations. Actions which are incidental to our business are typically covered by insurance and management has estimated the potential liability and expensed the amount on its financial statements. We do not anticipate that the damages which may be awarded in any action of which we are currently aware will exceed our insurance coverage. While no assurance can be given that these proceedings will be favorably resolved, we do not believe that the outcome of these legal proceedings will have a materially adverse impact on our financial position or results of operations.

MANAGEMENT

Executive Officers and Directors

Our principal executive officers and directors are set forth below:

<u>Name</u>	<u>Age</u>	<u>Position and Offices</u>
Michael I.M. MacMillan . . .	43	Chairman, Chief Executive Officer and Director
Lewis N. Rose	40	President and Director
W. Judson Martin	43	Executive Vice-President and Chief Financial Officer
Seaton S. McLean	44	President, Alliance Atlantis Television Production and Director
Edward A. Riley	47	President, Alliance Atlantis Television Distribution and Director
Peter A. Sussman	41	President, Alliance Atlantis Entertainment and Director
Victor Loewy	53	Chairman, Alliance Atlantis Motion Picture Group and Director
David Ginsburg	48	President, Alliance Atlantis Motion Picture Group
Patrice Theroux	37	President, Alliance Atlantis Motion Picture Distribution
Jeffrey Rayman	45	President, Alliance Atlantis Equicap and Director
Phillis Yaffe	50	President, Alliance Atlantis Broadcasting
Juris Silkans	56	President, Alliance Atlantis New Media
Pierre DesRoches	68	Director
Pierre Y. Ducros	60	Director
Harold P. Gordon	62	Director
Anthony F. Griffiths	69	Director
Ellis Jacob	45	Director
Allen Karp	59	Director
David J. Kassie	44	Director
Rainer Kölmel	52	Director
Barry J. Reiter	50	Director
Donald R. Sobey	64	Director
Edward Unzeitig	45	Director
Thomas J. Volpe	63	Director

Mr. MacMillan has been the Chairman, Chief Executive Officer and a director since the Merger. Mr. MacMillan was appointed Chairman, Chief Executive Officer of Atlantis in 1978 and was instrumental in the growth of that company. Mr. MacMillan was one of the founders of Atlantis in 1978. Mr. MacMillan also serves on the boards of the Canadian Film and Television Production Association, the Canadian Film Centre, Salter Street Films Limited, Great North Communications Ltd., Credo Entertainment Limited, ExtendMedia Inc. and Telemedia Inc.

Mr. Rose has been President and a director since the Merger. Prior to that time, he served as President and director of Atlantis since 1997 and as its Chief Financial Officer in 1996. Before joining Atlantis, Mr. Rose was Senior Vice-President, Chief Financial Officer and a director of Maple Leaf Foods Inc., Canada's largest food processing company and President of its grocery products business.

Mr. Martin was appointed Executive Vice-President and Chief Financial Officer in May 1999. From July 1995 to September 1997, Mr. Martin was Senior Executive Vice-President, Chief Financial Officer and a director of MDC Corporation Inc. From October 1982 through June 1995, Mr. Martin held various senior management positions with affiliates of the EdperBrascan Corporation, including Executive Vice-President and Chief Financial Officer of Brookfield Development Corporation and President and Chief Executive Officer of Trilon Securities Corporation.

Mr. McLean has been President, Alliance Atlantis Television Production and a director since the Merger. Prior to that time, Mr. McLean served as Executive Vice-President and a director of Atlantis since 1989. Mr. McLean was also one of the founders of Atlantis in 1978.

Mr. Riley has been President, Alliance Atlantis Television Distribution and a director since the Merger. Prior to that time, Mr. Riley was an Executive Vice-President and a director of Atlantis since 1989.

Mr. Sussman has been President, Alliance Atlantis Entertainment and a director since the Merger. Prior to that time, Mr. Sussman served as an Executive Vice-President and a director of Atlantis since 1989. Mr. Sussman is a member of the board of the National Association of Television Program Executives.

Mr. Loewy has been Chairman, Alliance Atlantis Motion Picture Group, and a director since the Merger. Prior to that time, Mr. Loewy was Vice-Chairman and a director of Alliance since 1989 and President of Alliance Motion Picture Distribution. Mr. Loewy was one of the founders of Alliance in 1985.

Mr. Ginsburg has been President, Alliance Atlantis Motion Picture Group since the Merger. Mr. Ginsburg was appointed President, Filmed Entertainment of Alliance in 1998. Since 1986, Mr. Ginsburg has been the President of Citadel Entertainment. Prior to 1986, Mr. Ginsburg practiced entertainment law as a partner at Sidley & Austin in Los Angeles.

Mr. Theroux has been President, Alliance Atlantis Motion Picture Distribution since the Merger. Mr. Theroux joined Alliance in 1988. He is a board member of L'Institut du Québec de Cinéma. Mr. Theroux is also a member of the advisory body to the Ministère du Culture du Québec.

Mr. Rayman has been President, Alliance Atlantis Equicap Corporation and a director since the Merger. Mr. Rayman had served as President, Alliance Equicap Corporation since 1989 and was elected a director of Alliance in 1995.

Ms. Yaffe was appointed President, Alliance Atlantis Broadcasting in May 1999. From 1993 to 1999, Ms. Yaffe was President, Alliance Broadcasting and became President and Chief Executive Officer, Showcase and History Television when they were licensed in 1994 and 1996, respectively.

Mr. Silkans was appointed President, Alliance Atlantis New Media in May 1999. Prior to that time Mr. Silkans was President, Atlantis Broadcasting and was appointed President of Life Network and President of HGTV Canada when they were licensed in 1994 and 1996, respectively.

Mr. DesRoches has been a director since the Merger and was elected a director of Alliance in 1995. He is currently a consultant to the telecommunications industry and was the director general of Telefilm Canada from 1988 until his retirement. Mr. DesRoches has consulted for the Department of National Heritage, the CBC and the Société des Entreprises Culturelles du Québec.

Mr. Ducros has been a director since the Merger and was elected a director of Atlantis in 1997. From 1973 to 1996 he was President and CEO of DMR Group Inc. Mr. Ducros has been a member of the Policy Committee of the Business Council on National Issues and a director of the Conference Board of Canada. Mr. Ducros is past Chairman of the Information Technology Association of Canada, the Canadian Association of Management Consultants, the Institute of Certified Management Consultants of Canada and the Institute of Certified Management Consultants

of Quebec. He is currently Chairman of the boards of Canadian Marconi and the University of Quebec in Montreal. He is also a member of the boards of the following corporations: National Bank Financial, BCE Emergis, ManuLife Financial and Cognos Incorporated.

Mr. Gordon has been a director since the Merger and was elected a director of Alliance in 1992. Since 1995, Mr. Gordon has been Vice-Chairman of Hasbro, Inc. and has been a director of Hasbro, Inc. since 1988. Prior to 1995, Mr. Gordon was a senior partner at Stikeman, Elliott. Mr. Gordon is also a director of Groupe Transcontinental G.T.C. Ltee and several other corporations and charitable organizations.

Mr. Griffiths has been a director since the Merger and was elected a director of Atlantis in 1996. Mr. Griffiths is currently a corporate director and an independent consultant. He is a director and the Chairman of Vitran Corporation Inc., Slater Steel Inc. and Russel Metals Inc. He is also a director of QLT Phototherapeutics Inc., Shaw Industries, Calian Technology Ltd., Brazilian Resources, Inc., Leitch Technology Corp., Lindsey Marden Group Inc., IMI International Medical Innovations Inc., The Hub Group Limited and Teklogix International Inc. From 1985 to 1993, Mr. Griffiths served in various capacities as President, CEO and Chairman of the board of Mitel Corporation.

Mr. Jacob has been a director since the Merger and was elected a director of Alliance in 1992. Mr. Jacob is the Chief Executive Officer of Galaxy Entertainment Inc. and has been Head of Business Integration and Consultant to the Company since the Merger. Prior to 1998, Mr. Jacob held a number of senior positions at Cineplex Odeon Corporation, most recently as Executive Vice-President and Chief Operating Officer.

Mr. Karp has been a director since the Merger and was elected a director of Alliance in 1992. In 1990 he was appointed President and Chief Executive Officer of Cineplex Odeon Corporation and after its merger with Sony's Loews Theatres Exhibition Group, became Chairman and Chief Executive Officer of Cineplex Odeon Corporation, a Canadian subsidiary of the new merged entity. He is also a director of Loews Cineplex Entertainment Corporation, Speedy Muffler King Inc., Teknion Corporation and Videoflicks.com Inc.

Mr. Kassie has been a director since the Merger and was elected a director of Alliance in 1992. Mr. Kassie is Vice-Chairman of CIBC, Head of CIBC World Markets and Chairman of CIBC Capital Partners. Prior to 1994, Mr. Kassie was Vice-President and Director, Head of Global Investment Banking, of Wood Gundy Securities Inc. Mr. Kassie is a director of Beamscope Canada Inc., First International Asset Management Inc. and Telesystem International Wireless Inc.

Mr. Kölmel has been a director since September 1999. Mr. Kölmel is the Chief Executive Officer, co-founder and a director of Kinowelt Medien AG, which was formed in 1984.

Mr. Reiter has been a director since the Merger and was elected a director of Atlantis in 1993. Mr. Reiter is Chairman of Algorithmics Inc. and Battery Technologies Inc. and a director of Lorus Therapeutics Inc., EFOS Inc, Eco Waste Solutions Inc. and Telepanel Systems Inc. He serves on, or chairs, senior committees of most of these boards. Mr. Reiter is a partner at Tory Haythe and a member of Tory Haythe's executive committee.

Mr. Sobey has been a director since the Merger and was elected a director of Alliance in 1996. Since 1985 he has been the Chairman of Empire Company Limited. Mr. Sobey is also a director of Atlantic Shopping Centres Limited, Aliant Telecommunications, the Canadian Tennis Association, Highliner Foods (National Sea Products Limited), the National Gallery of Canada, Paribas Participations Limitee PPL, Sobeys Inc., Toronto-Dominion Bank and Wajax Limited.

Mr. Unzeitig has been a director since September 1999. Mr. Unzeitig has been Chief Financial Officer and a director of Kinowelt Medien AG since 1997. Prior to this time Mr. Unzeitig was Chief Financial Officer of Magna Media, a publicly traded publishing company based in Munich, Germany.

Mr. Volpe has been a director since the Merger and was elected a director of Atlantis in 1995. Since 1986, Mr. Volpe has served as Senior Vice-President Financial Operations of The Interpublic Group of Companies and is also a director of Industry Leader's Fund, Silicon Gaming Corporation and American Technical Ceramics.

Principal Shareholders

As of October 14, 1999, Michael MacMillan, Seaton McLean, Peter Sussman and Edward Riley (the Alliance Atlantis Principals) held or had the right to acquire, directly or indirectly, 2,998,599 Class A Voting Shares in the Company, representing 59.5% of the issued and outstanding Class A Voting Shares on that date and the right to vote an additional 47,984 Class C Special Voting Shares. This represents 59.7% of the votes attaching to the Class A Voting Shares and the Class C Special Voting Shares on October 14, 1999. In addition, the Alliance Atlantis Principals hold less than 30,000 Class B Non-Voting Shares.

Employment Agreements

Each of the Alliance Atlantis Principals has entered into individual employment agreements with us dated September 21, 1998, expiring on March 31, 2004 and renewable automatically for successive five year periods on terms no less favorable to them than those of their respective current agreements and with regard to applicable industry standards; unless (i) he provides written notice of termination to us at least one year prior to the end of the then-current employment period; (ii) we terminate the agreement for cause or disability; or (iii) we terminate the agreement without cause upon suitable notice. "Suitable Notice" means 36 months' notice upon a change of control of Alliance Atlantis or within one year thereafter and 24 months notice in all other cases. Victor Loewy has also entered into an employment agreement with us having a three-year term expiring on September 21, 2001.

Arrangements with Mr. Robert Lantos

We have a production agreement for up to 5 years from the date of the Merger with Robert Lantos, the former Chairman and CEO of Alliance, pursuant to which we conveyed to Mr. Lantos seven feature film projects and two television movies (the "Existing Projects") for which Mr. Lantos is acting as producer. We will be reimbursed in full for our invested development costs in respect of the Existing Projects upon commencement of principal photography. We will fully finance the development (up to an aggregate of \$3.7 million from the date of the Merger) and production on the Existing Projects and will receive worldwide distribution rights for a term of 30 years. Under this agreement, Mr. Lantos is also entitled to identify and develop up to eight additional feature film projects (the "New Projects"). We have agreed that the development costs for the New Projects will be paid 50% by Mr. Lantos and 50% by us on a *pro rata* basis, provided that our development costs do not exceed \$200,000 per project; we will receive worldwide distribution rights for a term of 30 years for the New Projects. As part of his compensation under this agreement Mr. Lantos receives a producer's fee of 5% of the budget of each project.

We have also agreed to finance up to \$100 million (in aggregate) of production costs for Mr. Lantos' motion pictures, subject to individual budget caps on each film. We are required to finance Mr. Lantos' feature films on a "negative pick-up" basis whereby we will cause to be issued in Mr. Lantos' name an irrevocable letter of credit for the full amount of the film's production budget subject to the film's budget cap. The letter of credit must be maintained until delivery of the completed film, which delivery must take place within two years of Mr. Lantos' receipt of the letter of credit from us. There can be no more than an aggregate of \$65 million of letters of credit outstanding at any time (excluding, in each case, the \$10 million Standby Letter of Credit referred to below). If we fail to provide a letter of credit for any feature film project, we have agreed to pay to Mr. Lantos an amount equal to 10% of the budget for such project, payable out of a \$10 million

standby letter of credit, provided to Mr. Lantos as security for our obligations described in this paragraph, and we forfeit our right to recoup our investment in such project, our right to distribute such project and our ancillary rights in such project.

Mr. Lantos has provided a non-competition and non-solicitation covenant in favor of us until September 21, 2002. Mr. Lantos is entitled, during the last year of such period, to develop, produce or co-produce feature film productions with third parties of his choice and to be involved in certain competitive businesses with non-Canadians.

MATERIAL CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

Changes in Share Capital Structure

Our authorized share capital was changed on September 24, 1999 to add a Class D Special Non-Voting Share. The principal attribute of the Class D Special Non-Voting Share is the right of the holder to elect up to 2 directors to our board of directors, depending upon the holder's level of equity ownership of us. The Class D Special Non-Voting Share was created as part of the Kinowelt Transaction in which approximately 6.28 million Class B Non-Voting Shares and 1 Class D Special Non-Voting Share were issued to the principals of Kinowelt for proceeds of approximately \$132 million. In addition, in a transaction unrelated to the Kinowelt Transaction, we redeemed our redeemable preferred shares on September 23, 1999 (the Preferred Share Redemption). The following chart sets out our authorized share capital and our issued and outstanding shares as at October 31, 1999, reflecting these transactions.

<u>Shares</u>	<u>Authorized</u>	<u>Issued and Outstanding</u>
Class A Voting Shares	Unlimited	5,041,510
Class B Non-Voting Shares	Unlimited	25,074,854
Class C Special Voting Shares	275,000	63,541.9
Class D Special Non-Voting Shares	1	1

Changes in Loan Capital Structure

Our changes in material lending arrangements are described under the heading "Description of Certain Indebtedness".

DESCRIPTION OF CERTAIN INDEBTEDNESS

Existing Credit Facility

We have one committed credit facility, the Existing Credit Facility dated as of September 1998 and entered into with a syndicate of lenders (the "Lenders"). The Existing Credit Facility consists of the following:

- a. a revolving facility in an amount up to the lesser of \$400 million and a specified borrowing base. This facility is used to finance film and television production and distribution costs and for general corporate purposes. It is available until September 2001 and thereafter (if not extended by mutual agreement of Alliance Atlantis and the Lenders) converts into a two year reducing term facility, which matures in September 2003 and which is reduced in equal quarterly instalments;
- b. a reducing revolving term facility of up to \$35 million. This facility was used to finance restructuring costs relating to the Merger. It will be repaid in full and permanently cancelled with the proceeds of this offering; and
- c. reducing revolving term facilities of up to \$30 million in total and revolving facilities of up to \$10 million in total (subject to a specified borrowing base), which are available to our

broadcasting subsidiaries. These facilities mature in August 2003 and the term portion will be reduced in equal quarterly instalments starting September 1999. These facilities are subject to earlier repayment in the event any applicable CRTC license expires.

Borrowings under the Existing Credit Facility are secured by a first ranking lien and security interest against substantially all of the assets of the Company and the broadcast borrowers, as applicable. Our obligations under the Existing Credit Facility are guaranteed by substantially all of our wholly owned subsidiaries and secured by first ranking liens on the property and assets of those subsidiaries, and are also secured by liens against the property and assets of certain of our non-wholly owned subsidiaries and certain other affiliates carrying out productions which are financed by us.

Advances under the Existing Credit Facility are available by way of Canadian dollar bankers' acceptances, Canadian dollar prime rate loans, U.S. dollar base rate loans, LIBOR advances and letters of credit. Interest rates are in all cases variable and fluctuate within a range depending on the ratio of our debt to earnings from time to time.

The Existing Credit Facility contains covenants imposing certain operating and financial restrictions on us and our subsidiaries as well as customary affirmative covenants and industry-specific covenants. The terms of the Existing Credit Facility restrict, among other things, our ability to: (i) declare dividends, redeem or repurchase capital stock or make other distributions to our shareholders; (ii) prepay or redeem debt; (iii) grant liens; (iv) make loans, acquisitions and investments; (v) incur more debt; (vi) amend or otherwise alter debt and other material agreements; (vii) make capital expenditures; (viii) engage in mergers, reorganizations and asset sales or licenses out of the ordinary course of business; (ix) alter our lines of business; (x) engage in transactions with related parties; (xi) enter into certain sale leaseback transactions; (xii) incur development costs and distribution and production expenses not supported by adequate "pre-sales"; (xiii) issue shares redeemable at the option of the holder and issue stock of subsidiaries to third parties; or (xiv) enter into productions without complying with certain completion bonding requirements. See "Risk Factors—Restrictions Imposed by Debt Instruments."

Events of default under the Existing Credit Facility include: (i) failure to pay principal, interest or other amounts when due; (ii) breach of any covenant or representation and warranty contained in the loan documents; (iii) cross-default provisions to other material indebtedness (including, without limitation, the Notes); (iv) customary events of bankruptcy, insolvency or dissolution of the Company or its subsidiaries; (v) the enforcement of certain judgments against the Company, its subsidiaries or their assets or the seizing of material assets by other encumbrances; (vi) a change of control of the Company; and (vii) the removal or voluntary departure of any three of Michael MacMillan, Lewis Rose, Victor Loewy, Seaton McLean, Peter Sussman or Edward Riley. Upon the occurrence and continuance of an event of default under the Existing Credit Facility, the Lenders are entitled to terminate their commitments to lend and declare the outstanding advances due and payable.

Equicap Financial Corporation Credit Facilities

Equicap Financial Corporation, an indirect wholly owned subsidiary of the Company, has an aggregate of \$50 million in revolving credit facilities under separate arrangements with two Canadian chartered banks. These facilities are used by Equicap Financial Corporation to provide interim financing to third party producers for their film or television production expenses. These facilities are non-recourse to Alliance Atlantis Communications Inc. and are not guaranteed by Alliance Atlantis Communications Inc. The Equicap Financial Corporation credit facilities are secured by charges over all of the assets of Equicap Financial Corporation and over the shares and inter-company debt of Equicap Financial Corporation.

The Equicap Financial Corporation credit facilities permit advances to finance productions specifically approved by the lenders. The facilities are committed for a term of 364 days and are renewable after that term with the consent of the applicable lender. If the facilities are not renewed, all outstanding amounts become one-year reducing term loans. The facilities contain customary representations and warranties, covenants and events of default.

Other Indebtedness

We have outstanding \$8.8 million principal amount of unsecured subordinated debentures, which are convertible into Class A Voting Shares of the Company. The debentures bear interest at the rate of 6.5% per annum, payable in cash or additional debentures at our option, and mature on April 5, 2002. Commencing October 28, 1999, the debentures are redeemable at our option, subject to the satisfaction of certain conditions, at the issue price together with accrued and unpaid interest to the date of redemption.

Certain of our subsidiaries have additional indebtedness in respect of loans (known as industry loans) made by broadcasting industry lenders (such as Rogers Cablesystems Limited, CanWest Global Broadcasting Inc. and Baton Broadcasting Inc.) which loans are generally advanced in connection with specific productions and secured in a first-ranking position against the assets of the applicable production and, in certain cases, by guarantees from us. Such loans are public-policy mandated and generally made at favorable interest rates and on favorable terms. As at June 30, 1999, total indebtedness of our subsidiaries in respect of such loans was \$7.1 million.

At the time of the Merger, we entered into a \$70 million credit facility with a Canadian chartered bank to finance restructuring costs related to the Merger and to secure our obligation to redeem preferred shares issued at the time of the Merger. The credit facility was fully repaid and the preferred shares redeemed with a portion of the proceeds of the Public Share Offering and that facility has been cancelled. We entered into a second credit facility in the amount of up to \$75 million with a Canadian chartered bank which was fully repaid and cancelled with a portion of the proceeds of the Kinowelt Private Placement.

PRO FORMA INTEREST COVERAGE

Interest coverage has been included in this prospectus in accordance with Canadian disclosure requirements, has been calculated for the twelve-month period ended June 30, 1999 and is based on the Pro Forma Financial Statements included elsewhere in this prospectus after giving effect to the issuance of the Notes and the payment of indebtedness referred to under the heading "Use of Proceeds" and the other transactions described herein.

Interest coverage on long-term debt is equal to consolidated net earnings before interest expense on long-term debt and income taxes divided by interest expense on long-term debt. For purposes of calculating interest coverage, long-term debt includes the Notes and other interest-bearing liabilities and excludes debt to be retired from the proceeds of the Notes, and interest requirements include interest on the Notes and the amount of interest that has been capitalized during the period, less interest expense related to interest that was capitalized prior to such period.

The Company's interest requirements on long term liabilities, after giving effect to the issue of the Notes and the other transactions described herein, amounted to \$36.7 million for the twelve-month period ended June 30, 1999. The consolidated net loss of the Company as reported for the twelve-month period ended June 30, 1999, calculated on the basis set forth above, was equal to \$(25.5) million, including the effect of \$49.0 million (\$81.4 million pre-tax) of merger and restructuring expenses, which would have represented (0.7) times the interest requirements for this period.

DESCRIPTION OF THE NOTES

The Notes are to be issued under an indenture to be dated as of _____, 1999 (the "Indenture"), between the Company and The Bank of Nova Scotia Trust Company of New York, as trustee (the "Trustee"). The statements under this caption relating to the Notes and the Indenture are summaries and do not purport to be complete, and are subject to, and are qualified in their entirety by reference to, all the provisions of the Indenture, including the definitions of certain terms therein and those terms made a part thereof by the Trust Indenture Act of 1939, as amended. Unless otherwise indicated, references under this caption to sections, "§" or articles are references to the Indenture. Where reference is made to particular provisions of the Indenture or to defined terms not otherwise defined herein, such provisions or defined terms are incorporated herein by reference. The Indenture is subject to the provisions of the Canada Business Corporations Act and, consequently, is exempt from the operation of certain provisions of the Trust Indenture Act of 1939 pursuant to Rule 4d-9 thereunder. A copy of the Indenture substantially in the form in which it is to be executed will be filed with the Securities and Exchange Commission (the "Commission") as an exhibit to the Registration Statement of which this Prospectus is a part.

For purposes of this description, references to the "Company" refer to Alliance Atlantis Communications Inc. only, and not to any of its subsidiaries.

General

The Notes will be senior subordinated obligations of the Company and will initially be limited to an aggregate principal amount of US\$200 million. Up to an additional US\$150 million aggregate principal amount of Notes may be issued under the Indenture from time to time without the consent of the Holders of the Notes, subject to the limitations set forth under "*Certain Covenants—Limitation on Debt*". The Notes will mature on _____, 2009. The Notes will bear interest at the rate per annum shown on the front cover of this Prospectus from _____, 1999 or from the most recent Interest Payment Date to which interest has been paid or provided for, payable semi-annually on _____ and _____ of each year, commencing _____, 2000, to the Person in whose name a Note (or any predecessor Note) is registered at the close of business on the preceding _____ or _____, as the case may be. The Notes will bear interest on overdue principal and premium, if any, and, to the extent permitted by law, overdue interest at the rate per annum shown on the front cover of this Prospectus plus one percent. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months. The yearly rate of interest that is equivalent to the rate payable under the Notes is the rate payable multiplied by the actual number of days in the year and divided by 360 and is disclosed herein solely for the purpose of providing the disclosure required by the Interest Act (Canada). (§§ 301, 308 and 311)

Principal of and premium, if any, and interest on the Notes will be payable, and the Notes may be presented for registration of transfer and exchange, at the office or an agency of the Company maintained for that purpose in the Borough of Manhattan in the City of New York, *provided, however*, that at the option of the Company, payment of interest on the Notes may be made by check mailed to the address of the Person entitled thereto as it appears in the Register. Until otherwise designated by the Company, such office or agency will be the corporate trust office of the Trustee as Paying Agent and Registrar. (§§ 301, 306 and 1002)

The Notes will be issued in fully registered form, without coupons, in denominations of US\$1,000 and any integral multiple thereof. (§ 302) No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. (§ 306)

The Notes will not have the benefit of any sinking fund.

Book-Entry System

The Notes will be issued in the form of a fully registered global security (the “Global Security”), which will be deposited with The Depository Trust Company, New York, New York (the “Depository”) and registered in the name of Cede & Co., as the Depository’s nominee. Except as set forth below, the Global Security may be transferred, in whole and not in part, only to the Depository or another nominee of the Depository.

So long as the Depository or its nominee is the registered owner thereof, the Depository or such nominee, as the case may be, will be considered the sole owner or Holder of the Notes represented by the Global Security for all purposes under the Indenture. Except as provided below, owners of beneficial interests in the Global Security (the “Beneficial Owners”) will not be entitled to have Notes represented by the Global Security registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or Holders thereof under the Indenture.

The following is based on information furnished by the Depository:

The Depository will act as securities depository for the Notes. The Notes will be issued as fully registered securities registered in the name of Cede & Co. (the Depository’s partnership nominee). The Depository is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. The Depository holds securities that its participants (“Participants”) deposit with the Depository. The Depository also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants (“Direct Participants”) include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. The Depository is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the Depository’s system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to the Depository and its Participants are on file with the Securities and Exchange Commission.

Purchases of Notes under the Depository’s system must be made by or through Direct Participants, which will receive a credit for such Notes in the Depository’s records. The ownership interest of the Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from the Depository of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in the Global Security are to be accomplished by entries made on the books of participants acting on behalf of Beneficial Owners.

To facilitate subsequent transfers, the Global Security is deposited with the Depository or its custodian and is registered in the name of the Depository’s nominee, which will initially be Cede & Co. The deposit of the Global Security with the Depository and its registration in the name of Cede & Co. effect no change in beneficial ownership. The Depository has no knowledge of the actual Beneficial Owners of the Global Security; the Depository’s records reflect only the identity of the Direct Participants to whose accounts the Notes are credited, which may or may not be the

Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

If any redemption notices are issued under the Indenture they will be sent to Cede & Co. If less than all of the Notes are to be redeemed, the Depositary's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Conveyance of notices and other communications by the Depositary to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither the Depositary nor its nominee will consent or vote with respect to the Global Security. Under its usual procedures, the Depositary mails an omnibus proxy (an "Omnibus Proxy") to the Company as soon as possible after the applicable record date. The Omnibus Proxy assigns the Depositary's or its nominee's consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the applicable record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Global Security will be made to the Depositary. The Depositary's practice is to credit Direct Participants' accounts on the applicable payment date in accordance with their respective holdings shown on the Depositary's records unless the Depositary has reason to believe that it will not receive payment on such date. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participant and not of the Depositary, the Trustee or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to the Depositary is the responsibility of the Company or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of the Depositary, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants. Neither the Company nor the Trustee will have any responsibility or liability for the disbursements of payments in respect of ownership interests in the Notes by the Depositary or the Direct or Indirect Participants or for maintaining or reviewing any records of the Depositary or the Direct or Indirect Participants relating to ownership interests in the Notes or the disbursement or payments in respect thereof.

A Beneficial Owner shall give notice to elect to have its Notes purchased pursuant to an Offer to Purchase by the Company through its Direct or Indirect Participant, to the Trustee, and shall effect delivery of such Notes by causing the Direct Participant to transfer the Participant's interest in the Global Security representing such Notes, on the Depositary's records, to the Trustee. The requirement for physical delivery of Notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the Global Security representing such Notes are transferred by Direct Participants on the Depositary's records.

The Depositary's management is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems." The Depositary has informed its Participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and interest payments) to securityholders, book-entry deliveries, and settlement of trades within the Depositary, continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. Additionally, the Depositary's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, the Depositary's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third party vendors from whom the Depositary licenses software and hardware, and third party vendors on whom the Depositary relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. The Depositary has informed the Industry that it is contacting (and will continue to contact) third party vendors from whom the Depositary acquires services to: (i) impress upon them the importance of such services being Year 2000 compliant; and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, the Depositary is in the process of developing such contingency plans as it deems appropriate.

The Depositary may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Company or the Trustee. Under such circumstances, and in the event that a successor securities depository is not obtained, Notes in definitive form are required to be printed and delivered to each Beneficial Owner.

A Global Security shall be exchangeable for Notes registered in the names of persons other than DTC or its nominee or a successor depository or its nominee only if (i) DTC or such successor depository, as applicable, notifies the Company that it is unwilling or unable to continue as a depository for such Global Security and no successor depository shall have been appointed by the Company within 90 days of such notice, (ii) DTC or such successor depository, as applicable, at any time, ceases to be a clearing agency registered or in good standing under the Exchange Act at which time DTC or such successor depository, as applicable, is required to be so registered to act as such depository and no successor depository shall have been appointed by the Company within 90 days, (iii) the Company, in its sole discretion, determines that such Global Security shall be so exchangeable or (iv) there shall have occurred and shall be continuing an Event of Default with respect to the Notes. In any of such events, Notes in definitive form will be printed and delivered.

The information in this section concerning the Depositary and the Depositary's system has been obtained from sources that the Company believes to be reliable, but is subject to any changes to the arrangements between the Company and the Depositary and any changes to such procedures that may be instituted unilaterally by the Depositary.

Optional Redemption

General

The Notes will be subject to redemption, at the option of the Company, in whole or in part, at any time on or after _____, 2004 and prior to maturity, on one or more occasions upon not less than 30 nor more than 60 days' notice mailed to each Holder of Notes to be redeemed at such Holder's address appearing in the Register, in amounts of US\$1,000 or an integral multiple of US\$1,000, at the following Redemption Prices (expressed as percentages of the principal amount) plus accrued interest to but excluding the Redemption Date (subject to the right of Holders of record on the relevant Regular Record Date to receive interest due on an Interest Payment Date that is on or prior to the Redemption Date), if redeemed during the 12-month period beginning of the years indicated:

<u>Year</u>	<u>Redemption Price</u>
2004	%
2005	%
2006	%
2007 and thereafter	100.00%

In addition, the Notes will be subject to redemption, prior to _____, 2002, in the event that the Company receives net proceeds from sales of its Common Stock (other than sales to a Subsidiary of the Company), in which case the Company may, at its option, use all or a portion of any such net proceeds to redeem Notes in a principal amount of at least \$10 million and up to an aggregate amount equal to 35% of the aggregate original principal amount of the Notes; *provided, however*, that Notes in an amount equal to at least 65% of the aggregate original principal amount of the Notes remain outstanding after each such redemption. Any such redemption must occur on a Redemption Date within 75 days of any such sale and upon not less than 30 nor more than 60 days' notice mailed to each Holder of Notes to be redeemed at such Holder's address appearing in the Register, in amounts of US\$1,000 or an integral multiple of US\$1,000, at a redemption price of _____ % of the principal amount of the Notes plus accrued interest to but excluding the Redemption Date (subject to the right of Holders of record on the relevant Regular Record Date to receive interest due on an Interest Payment Date that is on or prior to the Redemption Date).

If less than all the Notes are to be redeemed, the Trustee shall select, in such manner as it shall deem fair and appropriate, the particular Notes to be redeemed or any portion thereof that is an integral multiple of US\$1,000. (§§ 203, 1101, 1104, 1105 and 1107)

Redemption for Changes in Withholding Taxes

The Notes will be subject to redemption, at the option of the Company, as a whole but not in part, at any time upon not fewer than 30 nor more than 60 days' notice mailed to each Holder of Notes at the addresses appearing in the Register at a redemption price equal to 100% of the principal amount of the Notes plus accrued interest to but excluding the Redemption Date if the Company has become or would become obligated to pay on the next date on which any amount would be payable under or with respect to the Notes, any Additional Amounts as a result of any change or amendment to the laws (or regulations promulgated thereunder) of Canada (or any political subdivision or taxing authority thereof or therein) (collectively, a "Taxing Authority"), or any change in or amendment to any official position or administration or assessing practices regarding the application or interpretation of such laws or regulations, which change or amendment is announced or becomes effective on or after the date of the Prospectus. See "—Additional Amounts". (§ 1101)

Subordination

The indebtedness evidenced by the Notes will, to the extent set forth in the Indenture, be subordinate in right of payment to the prior indefeasible payment in full in cash or cash equivalents of all Senior Debt. Upon any payment or distribution of assets to creditors upon any liquidation, dissolution, winding-up, reorganization, assignment for the benefit of creditors or marshalling of assets of the Company, whether voluntary or involuntary, or any bankruptcy, insolvency, receivership or similar proceedings of the Company, the holders of all Senior Debt will first be entitled to receive indefeasible payment in full in cash or cash equivalents of all amounts due on, under or in respect of all Senior Debt, or provision shall be made for such payment, before the Holders of the Notes will be entitled to receive or retain any payment in respect of the principal of or premium, if any, or interest on, or any obligation to repurchase, the Notes. In the event that the Trustee or the Holder of any Note receives any payment or distribution of assets of the Company of any kind or character (including any such payment or distribution which may be payable or deliverable by the reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Notes) before all the Senior Debt is so indefeasibly paid in full in cash or cash equivalents, then such payment or distribution will be held by the recipient in trust for the holders of Senior Debt, and will be required to be paid over or delivered immediately to the holders of Senior Debt (or their representative or representatives) or other person making payments

or distributions of assets of the Company for application to the payment of all Senior Debt remaining unpaid, to the extent necessary to indefeasibly pay the Senior Debt in full in cash or cash equivalents. However, notwithstanding the foregoing, Holders of the Notes may receive shares of stock of the Company or securities of the Company which are subordinate in right of payment to all Senior Debt to substantially the same extent as the Notes are so subordinated ("subordinated consideration").

No payments or other distribution of assets or securities of the Company on account of principal of, premium, if any, or interest on, or in respect of the redemption or purchase or other acquisition of, the Notes (except for subordinated consideration), and no defeasance of the Notes, may be made by the Company if there shall have occurred and be continuing a Senior Payment Default. "Senior Payment Default" means any default in the payment of any principal of or premium, if any, or interest on, or any other amount payable in respect of, Senior Debt when due, whether at the stated maturity of any such payment or by declaration of acceleration, call for redemption or otherwise.

Upon the occurrence of a Senior Nonmonetary Default and receipt of written notice by the Company and the Trustee of the occurrence of such Senior Nonmonetary Default from the holder(s) of or agent or trustee or other representative for the Designated Senior Debt which is the subject of such Senior Nonmonetary Default, no payments or other distribution of assets or securities of the Company on account of principal of, premium, if any, or interest on, or in respect of the redemption or purchase or other acquisition of, the Notes (except for subordinated consideration), and no defeasance of the Notes, may be made by the Company for a period (the "Payment Blockage Period") commencing on the date of the receipt of such notice and ending the earlier of (1) the date on which such Senior Nonmonetary Default and all other Senior Nonmonetary Defaults as to which notice has been given after the start of such payment blockage period shall have been cured or waived or ceased to exist and any acceleration of Designated Senior Debt shall have been rescinded or annulled or all Designated Senior Debt the subject of such Senior Nonmonetary Default shall have been discharged, (2) the 179th day after the date of the receipt of such notice and (3) the date on which the Payment Blockage Period shall have been terminated by written notice to the Company or the Trustee from the holder(s) of or the agent or trustee or other representative for the Designated Senior Debt initiating the Payment Blockage Period. In any event, not more than one Payment Blockage Period may be commenced during any 360-day period and there shall be a period of at least 181 days during each 360-day period when no Payment Blockage Period is in effect. In addition, no Senior Nonmonetary Default that existed or was continuing on the date of the commencement of a Payment Blockage Period may be made the basis of the commencement of a subsequent Payment Blockage Period whether or not within a period of 360 consecutive days, unless such Senior Nonmonetary Default shall have been cured for a period of not less than 90 consecutive days. "Senior Nonmonetary Default" means the occurrence or existence and continuance of an event of default with respect to Designated Senior Debt, other than a Senior Payment Default, permitting the holders of the Designated Senior Debt (or a trustee or other agent on behalf of the holders thereof) then to declare such Designated Senior Debt due and payable prior to the date on which it would otherwise become due and payable. In the event that the Trustee or the Holder of any Note receives any payment or distribution of assets of the Company of any kind or character (including any such payment or distribution which may be payable or deliverable by the reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Notes), prohibited by the foregoing provisions, then such payment or distribution will be held by the recipient in trust for the holders of Senior Debt (or their representative or representatives) and will be required to be paid over and delivered immediately to the holders of Senior Debt (or their representative or representatives). (Article Thirteen)

The failure to make any payment on the Notes by reason of the provisions of the Indenture described under this “Subordination” heading will not be construed as preventing the occurrence of an Event of Default with respect to the Notes arising from any such failure to make payment. Upon termination of any period of payment blockage the Company shall resume making any and all required payments in respect of the Notes, including any missed payments.

“Senior Debt” means the principal of (and premium, if any) and interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company whether or not such claim for post-petition interest is allowed in such proceeding) on, and penalties and any obligation of the Company for reimbursement, indemnities and fees or other amounts due pursuant to the terms of all agreements, documents, and instruments providing for, creating, securing, guaranteeing, evidencing or otherwise entered into in connection with, (i) the Credit Facilities of the Company, and (ii) Debt of the Company in existence on the date of the Indenture or permitted to be Incurred by the Company under the terms of the Indenture; *provided, however*, that the following shall not constitute Senior Debt: (1) any Debt as to which the terms of the instrument creating or evidencing the same expressly provide that such Debt is not superior in right of payment to the Notes or is *pari passu* with or subordinated in right of payment to the Notes, (2) any Debt (other than Permitted Interest Rate or Currency Agreements) incurred after the date of the Indenture which is subordinated in right of payment in any respect to the Existing Credit Facility, (3) Debt evidenced by the Notes, (4) any Debt owed to a Person when such Person is a Subsidiary or (except in the case of a financial institution) any other Affiliate of the Company, (5) any obligation of the Company arising from Redeemable Stock of the Company, (6) that portion of any Debt (other than Debt incurred under clause (1) of the second paragraph of the “*Limitation on Debt*” covenant) which is Incurred in violation of the Indenture, (7) Debt which, when Incurred and without respect to any election under Section 1111(b) of Title 11, United States Code, is without recourse to the Company, (8) Debt issued as a dividend on, or in redemption of or exchange for, Capital Stock of the Company and (9) Debt under the 6.5% convertible unsecured subordinated debentures of the Company outstanding at the date of the Indenture.

“Designated Senior Debt” means the Existing Credit Facility and any other Senior Debt of the Company which at the time of determination exceeds \$10 million in aggregate principal amount outstanding or available under a committed facility and as to which the Trustee has received an Officers’ Certificate of the Company specifying such Senior Debt as “Designated Senior Debt”.

By reason of such subordination, in the event of a liquidation or insolvency, creditors of the Company who are holders of Senior Debt may recover more, ratably, than Holders of the Notes.

For the purposes of the provisions under this “Subordination” heading and the “*Limitation on Ranking of Debt*” covenant, Debt shall not be deemed subordinate in right of payment to other Debt solely by reason of (i) such other Debt having the benefit of a security interest in property of the Company or (ii) having the benefit of a security interest in property of the Company ranking junior to the security interest in property of the Company securing such other Debt.

The subordination provisions described above will not be applicable to payments in respect of the Notes made from a defeasance trust properly established prior to the occurrence of any Senior Payment Default or Senior Non-monetary Default in connection with any defeasance or covenant defeasance of the Notes as described under “—Defeasance.” (Article Thirteen)

A Holder of Notes by acceptance of such Notes agrees to be bound by the foregoing provisions and authorizes and expressly directs the Trustee, on such Holder’s behalf, to take such action as may be necessary or appropriate to effectuate the subordination provided for in the Indenture and appoints the Trustee as such Holder’s attorney-in-fact for such purpose.

In addition, the Notes will be effectively subordinated to all indebtedness and other liabilities of the Company's subsidiaries. As of June 30, 1999, after giving *pro forma* effect the sale of the Notes and the application of the aggregate net proceeds thereof, the indebtedness and liabilities (including trade payables) of the Company's subsidiaries would have been \$382.1 million, excluding intercompany liabilities. The Indenture will permit the Company's subsidiaries to incur additional indebtedness under certain circumstances.

Certain Covenants

The Indenture contains, among others, the following covenants:

Limitation on Debt

The Company may not incur any Debt, and may not permit any Restricted Subsidiary to incur any Debt, except that the Company and its Restricted Subsidiaries may incur Debt if, after giving *pro forma* effect to the incurrence of such Debt and the receipt and application of the proceeds thereof, the Consolidated Cash Flow Coverage Ratio of the Company would be greater than 2.0 to 1.0.

Notwithstanding the foregoing limitation, the following Debt may be incurred:

(1) Debt incurred by the Company or any Restricted Subsidiary under the Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) not to exceed the greater of (A) \$600 million or (B) the Borrowing Base of the Company and its Restricted Subsidiaries on a consolidated basis;

(2) Debt (other than Debt described in another clause of this covenant) outstanding on the date of the Indenture after giving effect to the application of the proceeds of the Notes;

(3) Debt owed by the Company to any Restricted Subsidiary for which fair value has been received or Debt owed by a Restricted Subsidiary to the Company or a Restricted Subsidiary; *provided, however*, that (A) any such Debt owing by the Company to a Restricted Subsidiary (whether payable on demand or otherwise) shall be expressly subordinated to the payment in full of all obligations under the Notes and evidenced by an inter-company promissory note and (B) upon either (i) the transfer or other disposition by such Restricted Subsidiary or the Company of any Debt so permitted to a Person other than the Company or another Restricted Subsidiary or (ii) in the case of Debt owed to a Restricted Subsidiary, such Restricted Subsidiary ceasing to be a Restricted Subsidiary, the provisions of this clause (3) shall no longer be applicable to such Debt and such Debt shall be deemed to have been incurred at the time of such transfer or other disposition;

(4) Debt incurred by the Company or any Restricted Subsidiaries consisting of Permitted Interest Rate or Currency Agreements;

(5) Debt incurred by the Company under the Notes, in an amount not to exceed US\$200 million;

(6) Debt (A) in respect of bid, performance, surety or appeal bonds provided in the ordinary course of business and (other than in the case of surety or appeal bonds) consistent with industry practice and (B) arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligations of the Company or any of its Restricted Subsidiaries pursuant to such agreements, incurred in connection with the disposition of any business, assets or Restricted Subsidiary of the Company or any of its Restricted Subsidiaries and not exceeding the gross proceeds therefrom, other than Guarantees of Debt incurred by any Person acquiring all or any

portion of such business or assets or Restricted Subsidiary of the Company or any of its Restricted Subsidiaries for the purpose of financing such acquisition;

(7) Debt which is exchanged for or the net proceeds of which are used to refinance or refund, or any extension or renewal of, the Notes or outstanding Debt Incurred pursuant to the first paragraph of this covenant, or clause (2) or (7) of this paragraph (each of the foregoing, a “refinancing”) in an aggregate principal amount not to exceed the principal amount of the Debt so refinanced plus the amount of any premium required to be paid in connection with such refinancing pursuant to the terms of the Debt so refinanced or the amount of any premium or penalty reasonably determined by the Company as necessary to accomplish such refinancing by means of a tender offer or privately negotiated repurchase, plus the expenses of the Company or the Restricted Subsidiary, as the case may be, Incurred in connection with such refinancing; *provided, however*, that (A) Debt, the proceeds of which are used to refinance the Notes or Debt which is *pari passu* with or subordinate in right of payment to the Notes shall only be permitted if (i) in the case of any refinancing of the Notes (other than for a refinancing of the Notes which results in the repayment in full of all outstanding Notes) or Debt which is *pari passu* with the Notes, the refinancing Debt is made *pari passu* with the Notes or subordinated to the Notes, and (ii) in the case of any refinancing of Debt which is subordinated to the Notes, the refinancing Debt constitutes Debt which is subordinated to the Notes at least to the same extent as the Debt being refinanced; and (B) the refinancing Debt by its terms, or by the terms of any agreement or instrument pursuant to which such Debt is issued (other than for a refinancing of the Notes which results in the repayment in full of all outstanding Notes), (i) does not provide for payments of principal of such Debt at the stated maturity thereof or by way of a sinking fund applicable thereto or by way of any mandatory redemption, defeasance, retirement or repurchase thereof (including any redemption, defeasance, retirement or repurchase which is contingent upon events or circumstances, but excluding any retirement required by virtue of acceleration of such Debt upon any event of default thereunder), in each case prior to the stated maturity (or the stated maturities of installments of principal, as applicable) of the Debt being refinanced (unless after the final stated maturity of the Notes), (ii) does not permit redemption or other retirement (including pursuant to an offer to purchase) of such Debt at the option of the holder thereof prior to the final stated maturity of the Debt being refinanced (unless after the final stated maturity of the Notes), other than a redemption or other retirement at the option of the holder of such Debt (including pursuant to an offer to purchase) which is conditioned upon provisions substantially similar to those described under the “*Change of Control*” and “*Limitation on Asset Dispositions*” covenants, (iii) in the case of any refinancing of Debt Incurred by the Company, the refinancing Debt may be Incurred only by the Company (or in the case of Senior Debt, a Restricted Subsidiary), and in the case of any refinancing of Debt Incurred by a Restricted Subsidiary, the refinancing Debt may be Incurred only by a Restricted Subsidiary or the Company, and (iv) in the case of any refinancing of Preferred Stock of a Restricted Subsidiary, such Preferred Stock may be refinanced only with Preferred Stock of a Restricted Subsidiary or the Company;

(8) Debt consisting of Guarantees by the Company or any of its Restricted Subsidiaries of Debt of the Company or any of its Restricted Subsidiaries otherwise permitted to be Incurred under the Indenture;

(9) Debt Incurred pursuant to Industry Loans; *provided* that the amount of Debt outstanding under this clause (9) and clause (1) of this paragraph shall not, in the aggregate, exceed the amount of Debt permitted to be outstanding under clause (1) of this paragraph;

(10) Purchase Money Secured Debt and Capital Lease Obligations in respect of property acquired after the date of original issuance of the Notes, and any renewal, extension, refinancing or refunding thereof, in a principal amount not to exceed, at any one time outstanding, \$10 million; *provided* that in the case of any Capital Lease Obligation, the principal amount of such Capital

Lease Obligation does not, at the time of Incurrence, exceed the fair market value of the property acquired or constructed in connection with such Capital Lease Obligation; and

(11) the Incurrence by the Company or any Restricted Subsidiary of Debt (in addition to Debt permitted by any other clause of this covenant) pursuant to this clause (11) in an aggregate principal amount (or accreted value, as applicable) at anytime not to exceed \$15 million. (§ 1008)

For purposes of determining compliance with this covenant, in the event that an item of Debt outstanding or to be Incurred meets the criteria of more than one of the types of Debt described in this covenant, the Company, in its sole discretion, may classify and from time to time reclassify such item of Debt and only be required to include the amount and type of such Debt in accordance with such classification.

Limitation on Restricted Payments

The Company

(1) may not, and may not permit any Restricted Subsidiary to, directly or indirectly, declare or pay any dividend or make any distribution (including any payment in connection with any merger, amalgamation or consolidation derived from assets of the Company or any Restricted Subsidiary) in respect of its Capital Stock or to the holders thereof in such capacity, excluding (A) any dividends or distributions by the Company payable solely in shares of its Capital Stock (other than Redeemable Stock) or in options, warrants or other rights to acquire its Capital Stock (other than Redeemable Stock), (B) in the case of a Restricted Subsidiary, dividends or distributions payable to the Company or a Restricted Subsidiary or pro rata dividends or distributions and (C) dividends or distributions paid by the Company to a Wholly Owned Restricted Subsidiary,

(2) may not, and may not permit any Restricted Subsidiary to, directly or indirectly, purchase, redeem or otherwise acquire or retire for value (A) any Capital Stock of the Company or any Related Person of the Company or (B) any options, warrants or other rights to acquire shares of Capital Stock of the Company or any Related Person of the Company or any securities convertible or exchangeable into shares of Capital Stock of the Company or any Related Person of the Company held by a Person other than the Company or a Restricted Subsidiary,

(3) may not make, or permit any Restricted Subsidiary to make, any Investment in any Unrestricted Subsidiary or any Affiliate or any Person that would become an Affiliate after giving effect thereto or any Related Person, other than an Investment in (A) the Company or a Restricted Subsidiary of the Company or (B) a Person that will become or be merged with or into, or amalgamated or consolidated with, or transfers or conveys substantially all of its assets to, or is liquidated into, a Restricted Subsidiary of the Company as a result of such Investment, and

(4) may not, and may not permit any Restricted Subsidiary to, redeem, repurchase, defease or otherwise acquire or retire for value prior to any scheduled maturity, repayment or sinking fund payment Debt of the Company which is *pari passu* with or subordinate in right of payment to the Notes (other than Debt issued under the Indenture and excluding repayment of any demand Debt owed by the Company to a Restricted Subsidiary or by a Restricted Subsidiary to the Company or another Restricted Subsidiary) (each of clauses (1) through (4) being a "Restricted Payment") if:

- (A) an Event of Default, or an event that with the passing of time or the giving of notice, or both, would constitute an Event of Default, shall have occurred and is continuing or would result from such Restricted Payment, or
- (B) after giving *pro forma* effect to such Restricted Payment as if such Restricted Payment had been made at the beginning of the applicable four-fiscal quarter period, the Company

could not incur at least \$1.00 of additional Debt pursuant to the terms of the Indenture described in the first paragraph of the "*Limitation on Debt*" covenant, or

- (C) upon giving effect to such Restricted Payment, the aggregate of all Restricted Payments since the date of the Indenture exceeds the sum of:
- (i) 50% of cumulative Consolidated Net Income (or, in the case such Consolidated Net Income shall be negative, less 100% of such deficit) of the Company since September 30, 1999 through the last day of the last full fiscal quarter ending immediately preceding the date of such Restricted Payment for which quarterly or annual financial statements are available (taken as a single accounting period); plus
 - (ii) 100% of the aggregate net proceeds received by the Company after the date of the Indenture, including the fair market value of property other than cash (as determined in good faith by the Board of Directors and evidenced by a Board resolution filed with the Trustee), from contributions of capital or the issuance and sale (other than to a Subsidiary) of Capital Stock (other than Redeemable Stock) of the Company, options, warrants or other rights (including purchases under any employee stock ownership plan) to acquire Capital Stock (other than Redeemable Stock) of the Company and Debt of the Company that has been converted into or exchanged for Capital Stock (other than Redeemable Stock and other than by or from a Subsidiary) of the Company after the date of the Indenture, *provided* that any such net proceeds received by the Company from an employee stock ownership plan financed by loans from the Company or a Restricted Subsidiary shall be included only to the extent such loans have been repaid with cash on or prior to the date of determination; plus
 - (iii) an amount equal to the net reduction in Investments by the Company and its Restricted Subsidiaries subsequent to the date of the Indenture in any Person subject to clause (3) above resulting from dividends, repayments of loans or advances, return of capital, interest on loans or other transfers of assets, in each case to the Company or any Restricted Subsidiary from such Person or from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, but only to the extent such amount is not included in Consolidated Net Income and not to exceed in the case of any one Person the amount of Investments previously made by the Company and its Restricted Subsidiaries in such Person.

Prior to the making of any Restricted Payment (other than a Restricted Payment permitted under clause (2), (3) or (5) of the next paragraph) which, together with any Restricted Payments not previously reported pursuant to the requirements of this sentence, exceeds \$2 million, the Company shall deliver to the Trustee an Officers' Certificate setting forth the computations by which the determinations required by clauses (B) and (C) above were made and stating that no Event of Default, or event that with the passing of time or the giving of notice, or both, would constitute an Event of Default, has occurred and is continuing or will result from such Restricted Payment.

Even if the Company is unable to comply with the first paragraph of this covenant, so long as no Event of Default, or event that with the passing of time or the giving of notice, or both, would constitute an Event of Default, shall have occurred and be continuing or would result from such event, (1) the Company and any Restricted Subsidiary may pay any dividend on Capital Stock of any class within 60 days after the declaration thereof if, on the date when the dividend was declared, the Company or such Restricted Subsidiary could have paid such dividend in accordance with the first paragraph of this covenant; (2) the Company may refinance any Debt otherwise permitted by clause (7) of the second paragraph under the "*Limitation on Debt*" covenant described above or purchase, redeem, acquire or retire any Debt solely in exchange for, by conversion into or out of the net proceeds of the substantially concurrent sale (other than from or to

a Restricted Subsidiary or from or to an employee stock ownership plan financed by loans from the Company or a Restricted Subsidiary) of shares of Capital Stock (other than Redeemable Stock) of the Company; (3) the Company may purchase, redeem, acquire or retire any shares of Capital Stock of the Company solely in exchange for or out of the net proceeds of the substantially concurrent sale (other than from or to a Restricted Subsidiary or from or to an employee stock ownership plan financed by loans from the Company or a Restricted Subsidiary) of shares of Capital Stock (other than Redeemable Stock) of the Company; (4) the Company may purchase or redeem or retire for value any Debt from Net Available Proceeds to the extent permitted under the “*Limitation on Asset Dispositions*” covenant; (5) the Company or any Restricted Subsidiary may make Investments in Permitted Special Purpose Vehicles to be used for the production or distribution of television programming or motion pictures in the ordinary course of business, on terms that are commercially reasonable to the Company or such Restricted Subsidiary; (6) the Company or any Restricted Subsidiary may make Investments in Permitted Broadcasting Joint Ventures in the ordinary course of business, on terms that are commercially reasonable to the Company or such Restricted Subsidiary; (7) the Company may pay dividends on the Redeemable Stock of the Company or the Preferred Stock of a Restricted Subsidiary issued after the date of the Indenture in accordance with the “*Limitation on Debt*” covenant; (8) the Company may make certain purchases, redemptions acquisitions, cancellations or other retirements for a nominal value per right of any rights granted pursuant to any shareholders’ rights plan (i.e., a “poison pill”); (9) the Company may repurchase the Capital Stock deemed to occur upon the exercise of stock options if such Capital Stock represents a portion of the exercise price thereof; or (10) the Company or any Restricted Subsidiary may make Restricted Payments not to exceed \$10 million in the aggregate after the date of the Indenture. Any payment made pursuant to clause (1), (7), (8), (9) or (10) of this paragraph shall be a Restricted Payment for purposes of calculating aggregate Restricted Payments pursuant to the preceding paragraph and the amount of the net proceeds from any exchange, conversion or sale of Capital Stock of the Company pursuant to clause (2) or (3) of this paragraph shall be excluded from the calculation of the amount available for Restricted Payments pursuant to clause (C)(ii) of the preceding paragraph. (§ 1011)

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

The Company may not, and may not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary (1) to pay dividends (in cash or otherwise) or make any other distributions in respect of its Capital Stock owned by the Company or any other Restricted Subsidiary or pay any Debt or other obligation owed to the Company or any other Restricted Subsidiary; (2) to make loans or advances to the Company or any other Restricted Subsidiary; or (3) to transfer any of its property or assets to the Company or any other Restricted Subsidiary.

The restrictions described in the first paragraph of this covenant shall not apply to, and the Company may, and may permit any Restricted Subsidiary to, create or suffer to exist any such encumbrance or restriction:

(A) pursuant to any agreement in effect on the date of the Indenture;

(B) pursuant to an agreement relating to any Debt Incurred by or Capital Stock of a Person (other than a Restricted Subsidiary existing on the date of the Indenture or any Restricted Subsidiary carrying on any of the businesses of any such Restricted Subsidiary) prior to the date on which such Person became a Restricted Subsidiary and outstanding on such date and not Incurred in anticipation of becoming a Restricted Subsidiary, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person so acquired;

(C) pursuant to an agreement effecting an amendment, restatement, extension, replacement, renewal, refunding or refinancing of any agreement referred to in clause (A) or (B) of this paragraph; *provided, however*, that the provisions contained in such amendment, restatement, replacement, renewal, extension, refunding or refinancing agreement relating to such encumbrance or restriction are not materially less favorable in the aggregate than the provisions contained in the agreement the subject thereof, which, if determined in good faith by the Board of Directors and evidenced by a resolution of the Board of Directors filed with the Trustee, shall be conclusive;

(D) in the case of clause (3) of the first paragraph of this covenant, pursuant to restrictions contained in any security agreement (including a capital lease) securing Debt of a Restricted Subsidiary otherwise permitted under the Indenture or in the related Debt agreement, but only to the extent such restrictions restrict the transfer of the property subject to such security agreement;

(E) in the case of clause (3) of the first paragraph of this covenant, pursuant to customary nonassignment provisions entered into in the ordinary course of business consistent with past practices in leases, licenses and other contracts to the extent such provisions restrict the transfer or subletting of any such lease or the assignment of rights under any such contract or license;

(F) with respect to a Restricted Subsidiary, imposed pursuant to any agreement which has been entered into for the sale or disposition of all or substantially all of the Capital Stock or assets of such Restricted Subsidiary, *provided* that consummation of such transaction would not result in an Event of Default or an event that, with the passing of time or the giving of notice or both, would constitute an Event of Default, that such restriction terminates if such transaction is closed or abandoned and that the closing or abandonment of such transaction occurs within one year of the date such agreement was entered into;

(G) which is the result of applicable corporate law or regulation relating to the payment of dividends or distributions;

(H) pursuant to the Indenture, or an indenture or other agreement pursuant to which Debt that is *pari passu* or subordinated to the Notes is issued, *provided* that the provisions contained in such indenture or other agreement are not materially more restrictive, taken as a whole, than the provisions contained in the Indenture (as determined in good faith by the Board of Directors and evidenced by a Board Resolution filed with the Trustee); or

(I) pursuant to customary limitations in joint venture, shareholder or similar agreements entered into in the ordinary course of business.

Limitation on Ranking of Certain Debt

The Company may not Incur any Debt (other than Senior Debt) which by its terms is both (a) subordinate in right of payment to any Senior Debt and (b) senior in right of payment to the Notes (it being understood that Debt shall not be deemed subordinate in right of payment to other Debt solely by reason of such other Debt having the benefit of a security interest in property of the Company). The Company may not permit any Restricted Subsidiary to Incur any Debt which by its terms is subordinated in right of payment to any general unsecured obligations of such Restricted Subsidiary. (§ 1013)

Limitation on Liens Securing Company Subordinated Debt

The Company may not, and may not permit any Restricted Subsidiary to, Incur or suffer to exist any Lien on or with respect to any property or assets now owned or hereafter acquired to secure any Debt of the Company that is expressly by its terms *pari passu* with or subordinate or junior in right of payment to the Notes without making, or causing such Restricted Subsidiary to make, effective provision for securing the Notes (a) in the event such Debt is *pari passu* with the

Notes, equally and ratably with such Debt as to such property or assets for so long as such Debt will be so secured or (b) in the event such Debt is subordinate in right of payment to the Notes, prior to such Debt as to such property or assets for so long as such Debt will be so secured. (§ 1014)

Limitation on Asset Dispositions

The Company may not, and may not permit any Restricted Subsidiary to, make any Asset Disposition in one or more related transactions unless:

(1) the Company or the Restricted Subsidiary, as the case may be, receives consideration for such disposition at least equal to the fair market value for the assets sold or disposed of as determined by the Board of Directors in good faith and evidenced by a Board Resolution filed with the Trustee;

(2) at least 75% of the consideration for such disposition consists of cash or readily marketable cash equivalents or the assumption of Debt of the Company (other than Debt that is subordinated to the Notes) or of such Restricted Subsidiary, as the case may be, relating to such assets and release from all liability on the Debt assumed; and

(3) an amount equal to all Net Available Proceeds, less any amounts invested within 360 days of such disposition in assets related to the business of the Company and its Restricted Subsidiaries, are applied within 360 days of such disposition

- (A) first, to the extent the Company elects or is required, to the permanent repayment or reduction of Senior Debt or Debt of Restricted Subsidiaries (other than Debt owed to the Company or another Restricted Subsidiary) then outstanding,
- (B) second, to the extent any remaining Net Available Proceeds exceeds \$10 million, to make an Offer to Purchase Outstanding Notes at 100% of their principal amount plus accrued interest to the date of purchase and, to the extent required by the terms thereof, to repurchase any other Debt of the Company or a Restricted Subsidiary that is *pari passu* with the Notes at a price no greater than 100% of the principal amount thereof plus accrued interest to the date of purchase,
- (C) third, to the extent of any remaining Net Available Proceeds following the completion of the Offer to Purchase or repurchase pursuant to clause (B), to the repayment of other Debt of the Company or Debt of a Restricted Subsidiary, to the extent permitted under the terms thereof, and
- (D) fourth, to the extent of any remaining Net Available Proceeds, to any other use as determined by the Company which is not otherwise prohibited by the Indenture.

Notwithstanding the foregoing, the Company shall not be required to, but at its option may, purchase more than 25% of the original principal amount of the Notes in the aggregate pursuant to clause (3)(B) of the first paragraph of this covenant prior to the day following the fifth anniversary of the original issuance of the Notes. The maximum amount to be applied to the purchase of the Notes in connection with any such Offer to Purchase having a purchase date prior to the day following the fifth anniversary of the original issuance of the Notes shall be the lesser of (x) the remaining Net Available Proceeds required to be applied to such Offer to Purchase and (y) 25% of the original principal amount of the Notes less the aggregate principal amount of Notes purchased or required to be purchased pursuant to all previous mandatory Offers to Purchase under the Indenture. The aggregate amount of Net Available Proceeds not applied to Offers to Purchase pursuant to this paragraph shall be deposited in an escrow account to be used in accordance with the requirements of the next sentence. If the aggregate amount of Net Available Proceeds not

applied to Offers to Purchase pursuant to this paragraph exceeds \$10 million, the Company shall be required, promptly after the fifth anniversary of the original issuance of the Notes, to make an Offer to Purchase Notes, in accordance with the requirements described in clause (3)(B) of the first paragraph of this covenant, in an aggregate amount equal to the aggregate amount of Net Available Proceeds from this covenant in excess of 25% of the original principal amount of Notes that was not applied to Offers to Purchase Notes pursuant to the provisions of this paragraph. To the extent that such Net Available Proceeds are not required to be used in accordance with the requirements of the prior sentence, the escrow account shall be released and all amounts therein returned to the Company for use in accordance with clause 3(D) of the first paragraph of this covenant.

The Company will comply with all applicable tender offer rules in connection with any Offer to Purchase pursuant to this covenant, including Section 14(e) of, and Rule 14e-1 under, the Securities Exchange Act of 1934, as amended (the “Exchange Act”), to the extent applicable. (§ 1015)

Limitation on Disposition of Capital Stock of Restricted Subsidiaries

The Company may not, and may not permit any Restricted Subsidiary to, issue, transfer, convey, lease or otherwise dispose of any shares of Capital Stock of a Restricted Subsidiary or securities convertible or exchangeable into, or options, warrants, rights or any other interest with respect to, Capital Stock of a Restricted Subsidiary if as a result of such transaction such Restricted Subsidiary would cease to be a Restricted Subsidiary, unless such transaction (1) (a) consists of a sale of all of the Capital Stock of such Restricted Subsidiary owned by the Company and its Restricted Subsidiaries and (b) complies with the “*Limitation on Asset Dispositions*” covenant described above to the extent such provisions apply or (2) consists of a sale of less than all of the Capital Stock of such Restricted Subsidiary, *provided* that the Company’s or a Restricted Subsidiary’s Investment in such Restricted Subsidiary less, up to the amount of such Investment, the aggregate net cash proceeds received by the Company from such transaction (“Net Investments”), together with all other Net Investments in Restricted Subsidiaries for which a transaction within this clause (2) has occurred, shall be no greater than 1% of the Company’s Consolidated Tangible Assets as of the date of such sale. (§ 1016)

Transactions with Affiliates and Related Persons

The Company may not, and may not permit any Restricted Subsidiary to, enter into any transaction (or series of related transactions) with an Affiliate or Related Person of the Company (other than the Company or a Restricted Subsidiary), including any Investment, either directly or indirectly, unless such transaction is on terms no less favorable, taken as a whole, to the Company or such Restricted Subsidiary than those that could be obtained in a comparable arm’s length transaction with an entity that is not an Affiliate or Related Person.

For any such transaction that involves in excess of \$5 million, a majority of the disinterested members of the Board of Directors shall determine that the transaction satisfies the above criteria and shall evidence such a determination by a Board Resolution filed with the Trustee. For any transaction that involves in excess of \$20 million the Company shall also obtain an opinion from a nationally recognized expert in the United States or Canada with experience in appraising the terms and conditions of the type of transaction (or series of related transactions) for which the opinion is required stating that such transaction (or series of related transactions) is on terms no less favorable, taken as a whole, to the Company or such Restricted Subsidiary than those that could be obtained in a comparable arm’s length transaction with an entity that is not an Affiliate or Related Person of the Company, which opinion shall be filed with the Trustee.

The foregoing requirements shall not apply to (i) any compensation or employment benefit arrangement (including stock options) entered into by the Company or any Restricted Subsidiary in the ordinary course of business or which have been approved by the Board of Directors of the Company or the compensation committee thereof; (ii) customary directors' fees; (iii) payments to officers, directors and employees under indemnification arrangements permitted by applicable law; (iv) loans and advances to officers, directors and employees of the Company or any Restricted Subsidiary in the ordinary course of business or approved by the Board of Directors or the compensation committee thereof, in an amount not to exceed \$20 million at any one time outstanding; (v) issuances of Capital Stock by the Company or issuances of Capital Stock by a Restricted Subsidiary to the Company or a Restricted Subsidiary; (vi) transactions in the ordinary course of business with a Permitted Special Purpose Vehicle; and (vii) any dividend or distribution permitted to be made under the "*Limitation on Restricted Payments*" covenant that is made ratably to all stockholders of the applicable class or series of Capital Stock. (§ 1017)

Payments for Consent

The Company may not, and may not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement. (§ 1018)

Change of Control

Within 30 days of the occurrence of a Change of Control Triggering Event, the Company will be required to make an Offer to Purchase all Outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued interest to the date of purchase. A "Change of Control Triggering Event" will be deemed to have occurred if both a Change of Control and a Rating Decline occur. A "Change of Control" will be deemed to have occurred at such time as either (1) any Person or any Persons (other than the Company, any Subsidiary of the Company, any Principal Shareholder or any Affiliate of such Principal Shareholder) acting together that would constitute a "group" (a "Group") for purposes of Section 13(d) of the Exchange Act, or any successor provision thereto, together with any Affiliates or Related Persons thereof (other than with respect to the Company), shall beneficially own (within the meaning of Rule 13d-3 under the Exchange Act, or any successor provision thereto) at least 50% of the aggregate voting power of all classes of Voting Stock of the Company; or (2) any Person or Group together with any Affiliates or Related Persons thereof (other than Principal Shareholders or any Affiliate of any Principal Shareholder), shall succeed in having a sufficient number of its nominees elected to the Board of Directors of the Company such that such nominees, when added to any existing director remaining on the Board of Directors of the Company after such election who was a nominee of or is an Affiliate or Related Person of such Person or Group, will constitute a majority of the Board of Directors of the Company.

A "Rating Decline" will be deemed to have occurred if at any time within 90 days (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for a possible downgrade by any Rating Agency) after the date of public notice of a Change of Control, or the intention of the Company or any Person to effect a Change of Control, the rating of the Notes is decreased by any Rating Agency by one or more Gradations and the rating by such Rating Agency on the Notes following such downgrade is below Investment Grade.

If an Offer to Purchase is made, there can be no assurance that the Company will have funds sufficient to pay the purchase price and accrued interest described above for all of the Notes that

might be tendered by Holders seeking to accept the Offer to Purchase. The failure of the Company to make the Offer to Purchase and the failure of the Company to pay the purchase price and accrued interest described above on the date specified therefor will give the Trustee and the Holders of Notes the rights described under “—Events of Default”.

In the event that the Company makes an Offer to Purchase the Notes, the Company intends to comply with any applicable securities laws and regulations, including any applicable requirements of Section 14(e) of, and Rule 14e-1 under, the Exchange Act. (§ 1009)

Provision of Financial Information

Whether or not the Company is required to be subject to Section 13(a) or 15(d) of the Exchange Act, or any successor provision thereto, the Company shall file with the Commission the annual reports, quarterly reports and other documents which it would have been required to file with the Commission pursuant to such Section 13(a) or 15(d) or any successor provision thereto if it were so required, such documents to be filed with the Commission on or prior to the respective dates (the “Required Filing Dates”) by which the Company would have been required so to file such documents if it were so required.

The Company shall also in any event (1) within 15 days of each Required Filing Date (A) transmit by mail to all Holders, as their names and addresses appear in the Security Register, without cost to such Holders, and (B) furnish to the Trustee, copies of the annual reports, quarterly reports and other documents which the Company files with the Commission pursuant to such Section 13(a) or 15(d) or any successor provision thereto or would have been required to file with the Commission pursuant to such Section 13(a) or 15(d) or any successor provision thereto if the Company were required to be subject to such Sections and (2) if filing such documents by the Company with the Commission is not permitted under the Exchange Act, promptly upon written request supply copies of such documents to any prospective Holder. (§ 1010)

Unrestricted Subsidiaries

The Company may designate any Subsidiary of the Company to be an “Unrestricted Subsidiary” as provided below, in which event such Subsidiary and each other Person that is then or thereafter becomes a Subsidiary of such Subsidiary will be deemed to be an Unrestricted Subsidiary.

“Unrestricted Subsidiary” means (1) any Subsidiary designated as such by the Board of Directors as set forth below where following such designation, (A) neither the Company nor any of its other Subsidiaries (other than another Unrestricted Subsidiary) (i) provides credit support for, or Guarantee of, any Debt of such Subsidiary or any Subsidiary of such Subsidiary (including any undertaking, agreement or instrument evidencing such Debt) or (ii) is directly or indirectly liable for any Debt of such Subsidiary or any Subsidiary of such Subsidiary, and (B) no default with respect to any Debt of such Subsidiary or any Subsidiary of such Subsidiary (including any right which the holders thereof may have to take enforcement action against such Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Debt of the Company and its Subsidiaries (other than an Unrestricted Subsidiary) to declare a default on such other Debt or cause the payment thereof to be accelerated or payable prior to its final scheduled maturity, and (2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors may designate any Subsidiary to be an Unrestricted Subsidiary unless such Subsidiary owns any Capital Stock of, or owns or holds any Lien on any property of, any other Subsidiary of the Company which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary; *provided, however*, that either (x) the Subsidiary to be so designated has total assets of \$1,000 or less or (y) immediately after giving effect to such

designation, the Company could Incur at least \$1.00 of additional Debt pursuant to the first paragraph under the “*Limitation on Debt*” covenant and *provided, further*, that the Company could make a Restricted Payment pursuant to the “*Limitation on Restricted Payments*” covenant in an amount equal to the greater of the fair market value or book value of such Subsidiary, and such amount is thereafter treated as a Restricted Payment for the purpose of calculating the aggregate amount available for Restricted Payments thereunder.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary, *provided that*, immediately after giving effect to such designation, (i) no Event of Default or event that with the passing of time or the giving of notice, or both, would constitute an Event of Default shall have occurred and be continuing, (ii) the Company could Incur at least \$1.00 of additional Debt pursuant to the first paragraph under the “*Limitation on Debt*” covenant and (iii) all Liens of such Subsidiary outstanding immediately following such designation would, if incurred at that time, have been permitted to be Incurred for all purposes of the Indenture. Any such designation by the Board of Directors shall be evidenced by filing with the Trustee a certified copy of the Board Resolution giving effect to such designation and an officers’ certificate certifying that such designation complies with the foregoing conditions. (§ 101)

Mergers, Consolidations and Certain Sales of Assets

The Company may not, in a single transaction or a series of related transactions, (a) amalgamate, consolidate or merge with or into any other Person or permit any other Person to amalgamate, consolidate or merge with or into the Company or (b) directly or indirectly transfer, sell, lease or otherwise dispose of all or substantially all of its assets, unless:

(1) in a transaction in which the Company does not survive or in which the Company sells, leases or otherwise disposes of all or substantially all of its assets, the successor entity to the Company is organized under the laws of the United States of America, any State thereof, the District of Columbia, Canada or any territory or province thereof and shall expressly assume, by a supplemental indenture executed and delivered to the Trustee in form satisfactory to the Trustee, all of the Company’s respective obligations under the Indenture;

(2) immediately before and after giving effect to such transaction on a *pro forma* basis (including treating any Debt which becomes an obligation of the Company or a Restricted Subsidiary as a result of such transaction as having been Incurred by the Company or such Restricted Subsidiary at the time of the transaction), no Event of Default or event that with the passing of time or the giving of notice, or both, would constitute an Event of Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction, the Consolidated Net Worth of the Company (or other successor entity to the Company) is equal to or greater than that of the Company immediately prior to the transaction;

(4) immediately after giving effect to such transaction on a *pro forma* basis (including treating any Debt which becomes an obligation of the Company or a Subsidiary as a result of such transaction as having been Incurred by the Company or such Subsidiary at the time of the transaction), the Company (including any successor entity to the Company) could Incur at least \$1.00 of additional Debt pursuant to the provisions of the Indenture described in the first paragraph under the “*Limitation on Debt*” covenant above;

(5) if, as a result of any such transaction, property or assets of the Company would become subject to a Lien prohibited by the provisions of the Indenture described under the “*Limitation on Liens Securing Company Subordinated Debt*” covenant, the Company or the successor entity to the Company shall have secured the Notes as required by said covenant; and

(6) certain other conditions are met;

provided that clauses (3) and (4) above shall not apply to any amalgamation, merger or consolidation, or transfer, sale, lease or other disposition of assets, between the Company and one or more Wholly Owned Restricted Subsidiaries. (§ 801)

Additional Amounts

All payments made by the Company under or with respect to the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge imposed or levied by or on behalf of the Government of Canada or of any province or territory thereof or any political subdivision thereof, or by any authority or agency therein or thereof having power to tax (hereinafter "Taxes"), unless the Company is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. If the Company is so required to withhold or deduct any amount of interest for or on account of Taxes from any payment made under or with respect to the Notes, the Company will pay such additional amounts of interest ("Additional Amounts") as may be necessary so that the net amount received by each Holder (including Additional Amounts) after such withholding or deduction will not be less than the amount the Holder would have received if such Taxes had not been withheld or deducted; *provided* that no Additional Amounts will be payable with respect to a payment made to a Holder (an "Excluded Holder") (1) with which the Company does not deal at arm's length (within the meaning of the *Income Tax Act* (Canada)) at the time of making such payment or (2) which is subject to such Taxes by reason of any connection between such Holder and Canada or any province or territory thereof other than the mere holding of Notes or the receipt of payments thereunder.

The Company will also (1) make such withholding or deduction and (2) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Company will furnish to the Holders of the Notes, within 30 days after the date the payment of any Taxes is due pursuant to applicable law, certified copies of tax receipts evidencing such payment by the Company.

The Company will indemnify and hold harmless each Holder (other than all Excluded Holders) for the amount of (1) any Taxes not withheld or deducted by the Company and levied or imposed and paid by such Holder as a result of payments made under or with respect to the Notes, (2) any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, and (3) any Taxes imposed with respect to any reimbursement under clause (1) or (2) of this paragraph.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Company is aware that it will be obligated to pay Additional Amounts with respect to such payment, the Company will deliver to the Trustee an Officers' Certificate stating the fact that such Additional Amounts will be payable, the amounts so payable and such other information necessary to enable the Trustee to pay such Additional Amounts to Holders on the payment date. Whenever in the Indenture there is mentioned, in any context, the payment of principal (and premium, if any), interest or any other amount payable under or with respect to any Note, such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this section to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof. (§ 1019)

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms, as well as any other terms used herein for which no definition is provided. (§ 101)

“*Accounts Receivable*” of a Person means the Receivables of such Person arising in the ordinary course of business from the sale of products or the provision of services by such Person.

“*Affiliate*” of any Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Person. For the purposes of this definition, “control” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“*Asset Disposition*” by any Person means any transfer, conveyance, sale, lease or other disposition by such Person or any of its Restricted Subsidiaries (including a consolidation or merger or other sale of any such Restricted Subsidiary with, into or to another Person in a transaction in which such Restricted Subsidiary ceases to be a Restricted Subsidiary, but excluding a disposition by a Restricted Subsidiary of such Person to such Person or a Wholly Owned Restricted Subsidiary of such Person or by such Person to a Wholly Owned Restricted Subsidiary of such Person) of (1) shares of Capital Stock (other than directors’ qualifying shares) or other ownership interests of a Restricted Subsidiary of such Person, (2) substantially all of the assets of such Person or any of its Restricted Subsidiaries representing a division or line of business or (3) other assets or rights of such Person or any of its Restricted Subsidiaries outside of the ordinary course of business; *provided, however*, in each of the foregoing instances in clauses (1), (2) and (3), that the aggregate consideration for such transfer, conveyance, sale, lease or other disposition is equal to \$5 million or more. The term “Asset Disposition” shall not include (i) a Restricted Payment that is made in compliance with the “*Limitation on Restricted Payments*” covenant, (ii) any disposition of properties and assets of the Company or any Restricted Subsidiary that is governed under and complies with “—Mergers, Consolidations and Certain Sales of Assets”, (iii) the designation of any Subsidiary as an Unrestricted Subsidiary or the contribution to the capital of any Unrestricted Subsidiary, in either case in compliance with the applicable provisions of the Indenture, (iv) the licensing of television programming, motion pictures or other entertainment productions by such Person in the ordinary course, (v) a simultaneous exchange by the Company or a Restricted Subsidiary of television, movie or broadcasting assets or rights for other television, movie or broadcasting assets or rights, *provided* that the assets or rights received by the Company or Restricted Subsidiary have at least equal fair market value to the Company or Restricted Subsidiary (as determined in good faith by the Board of Directors evidenced by a Board Resolution filed with the Trustee) or (vi) any disposition of assets of the Company or one of its Restricted Subsidiaries in a Sale and Leaseback Transaction made in compliance with the terms of the Indenture, except if (and to the extent that) the cash or cash equivalents received for such assets exceed the amount of cash or cash equivalents the Company or such Restricted Subsidiary places on deposit as security for lease or similar payment obligations in connection with such transaction by an amount in excess of \$5 million.

“*Borrowing Base*” of any Person means an amount equal to the sum of (1) 80% of (i) the amount of the Accounts Receivable of such Person shown on such Person’s consolidated balance sheet less (ii) the value of any such Accounts Receivable of such Person pledged, contributed, sold or otherwise transferred or encumbered pursuant to any Receivables Sale and (2) 60% of the amount shown on such Person’s consolidated balance sheet as investment in completed film and television programs, in each case in clauses (1) and (2) of this definition determined in accordance with generally accepted accounting principles.

“*Capital Lease Obligation*” of any Person means the obligation to pay rent or other payment amounts under a lease of (or other Debt arrangements conveying the right to use) real or personal property of such Person which is required to be classified and accounted for as a capital lease or a liability on the face of a balance sheet of such Person in accordance with generally accepted

accounting principles. The stated maturity of such obligation shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. The principal amount of such obligation shall be the capitalized amount thereof that would appear on the face of a balance sheet of such Person in accordance with generally accepted accounting principles.

“*Capital Stock*” of any Person means any and all shares, interests, participations or other equivalents (however designated) of corporate stock or other equity participations, including partnership interests, whether general or limited, of such Person (but shall not include Redeemable Stock or Preferred Stock of Subsidiaries).

“*Common Stock*” of any Person means Capital Stock of such Person that does not rank prior, as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding-up of such Person, to shares of Capital Stock of any other class of such Person.

“*Consolidated Cash Flow Available for Fixed Charges*” for any period means the Consolidated Net Income of the Company and its Restricted Subsidiaries for such period increased by, to the extent such amount was deducted in calculating Consolidated Net Income, the sum of (1) Consolidated Interest Expense of the Company and its Restricted Subsidiaries for such period, plus (2) Consolidated Income Tax Expense of the Company and its Restricted Subsidiaries for such period, plus (3) the consolidated depreciation and amortization expense included in the income statement of the Company and its Restricted Subsidiaries for such period but excluding any amortization related to capitalized investments that were made in prior periods in film and television programs plus, to the extent not included above, plus (4) other non-cash charges of the Company and its Restricted Subsidiaries reducing Consolidated Net Income for such period, and minus, to the extent not previously deducted (5) other non-cash items of the Company and its Restricted Subsidiaries for such period increasing Consolidated Net Income for such period.

“*Consolidated Cash Flow Coverage Ratio*” as of any date of determination means the ratio of (1) Consolidated Cash Flow Available for Fixed Charges of the Company and its Restricted Subsidiaries for the period of the most recently completed four consecutive fiscal quarters for which quarterly or annual financial statements are available to (2) Consolidated Fixed Charges of the Company and its Restricted Subsidiaries for such period; *provided, however*, that Consolidated Fixed Charges shall be adjusted to give effect on a *pro forma* basis to any Debt that has been Incurred by the Company or any Restricted Subsidiary since the end of such period that remains outstanding and to any Debt that is proposed to be Incurred by the Company or any Restricted Subsidiary as if in each case such Debt had been Incurred on the first day of such period and as if any Debt that is no longer outstanding or will no longer be outstanding as the result of the Incurrence of any such Debt had not been outstanding as of the first day of such period; *provided, however*, that in making such computation, the Consolidated Interest Expense of the Company and its Restricted Subsidiaries attributable to interest on any proposed Debt bearing a floating interest rate shall be computed on a *pro forma* basis as if the rate in effect on the date of computation had been the applicable rate for the entire period; and *provided further* that, in the event the Company or any of its Restricted Subsidiaries has made Asset Dispositions or acquisitions of assets not in the ordinary course of business (including acquisitions of other Persons by merger, consolidation or purchase of Capital Stock) during or after such period, or is making such acquisition in connection with the Incurrence of the Debt, the computation of both Consolidated Cash Flow Available for Fixed Charges and Consolidated Fixed Charges shall be made on a *pro forma* basis as if the Asset Dispositions or acquisitions had taken place on the first day of such period.

“*Consolidated Fixed Charges*” for any period means the sum of (1) Consolidated Interest Expense but excluding that portion of interest capitalized in a prior period which is expensed during

such period and (2) the consolidated amount of interest capitalized by the Company and its Restricted Subsidiaries during such period (other than amounts included in clause (1)) calculated in accordance with generally accepted accounting principles.

“*Consolidated Income Tax Expense*” for any period means the consolidated provision for income taxes of the Company and its Restricted Subsidiaries for such period calculated on a consolidated basis in accordance with generally accepted accounting principles.

“*Consolidated Interest Expense*” means, for any period, the consolidated interest expense included in a consolidated income statement (without deduction of interest income) of the Company and its Restricted Subsidiaries for such period calculated on a consolidated basis in accordance with generally accepted accounting principles, including without limitation or duplication (or, to the extent not so included, with the addition of) (1) the amortization of Debt discounts, (2) any payments or fees with respect to letters of credit, bankers’ acceptances or similar facilities to the extent such are included in accordance with generally accepted accounting principles, (3) fees with respect to Interest Rate or Currency Agreements, (4) Preferred Stock dividends of the Company and its Restricted Subsidiaries (other than with respect to Redeemable Stock) declared and paid or payable in the period, (5) accrued Redeemable Stock dividends of the Company and its Restricted Subsidiaries, whether or not declared or paid, (6) interest on Debt guaranteed by the Company and its Restricted Subsidiaries, (7) the portion of any rental obligation allocable to interest expense determined in accordance with generally accepted accounting principles, and (8) that portion of interest capitalized in a prior period which is expensed during such period including that portion which has been included during such period in direct operating costs and which relates to interest expense.

“*Consolidated Net Income*” for any period means the consolidated net income (or loss) of the Company and its Restricted Subsidiaries for such period determined on a consolidated basis in accordance with generally accepted accounting principles; *provided* that there shall be excluded therefrom (1) the net income (or loss) of any Person acquired by the Company or a Restricted Subsidiary in a pooling-of-interests transaction for any period prior to the date of such transaction (except to the extent included in clause (2) below), (2) the net income (or loss) of any Person that is not a Restricted Subsidiary except to the extent of the amount of dividends or other distributions actually paid to the Company or a Restricted Subsidiary by such Person during such period, (3) for purposes of the “*Limitation on Restricted Payments*” covenant only, the net income (but not net loss) of any Restricted Subsidiary that is subject to a restriction which prevents the payments of dividends or the making of distributions to the Company or another Restricted Subsidiary to the extent of such restriction, other than a restriction of the type referred to in clause (I) of the “*Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries*” covenant, (4) gains or losses in the period on dispositions of assets out of the ordinary course of business by the Company or its Restricted Subsidiaries (net of fees and expenses relating to the transaction giving rise thereto), (5) all extraordinary gains and extraordinary losses in the period, (6) the cumulative effect of changes in accounting principles, (7) non-cash gains or losses in the period resulting from fluctuations in currency exchange rates, and (8) the tax effect of any of the items described in clauses (1) through (7) above.

“*Consolidated Net Worth*” of any Person means the consolidated stockholders’ equity of such Person, determined on a consolidated basis in accordance with generally accepted accounting principles, less amounts attributable to Redeemable Stock of such Person; *provided, however* that, with respect to the Company, adjustments following the date of the Indenture to the accounting books and records of the Company in accordance with generally accepted accounting principles resulting from the acquisition of control of the Company by another Person shall not be given effect to.

“*Consolidated Tangible Assets*” of any Person means the sum of the Tangible Assets of such Person after eliminating inter-company items, determined on a consolidated basis in accordance with generally accepted accounting principles, including appropriate deductions for any minority interest in Tangible Assets of such Person’s Restricted Subsidiaries; *provided, however* that, with respect to the Company, adjustments following the date of the Indenture to the accounting books and records of the Company in accordance with generally accepted accounting principles resulting from the acquisition of control of the Company by another Person shall not be given effect.

“*Credit Facilities*” means one or more debt facilities or commercial paper facilities, in each case with banks or other institutional or commercial lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, renewed, extended, substituted, restated, refinanced, restructured, supplemented, replaced or otherwise modified from time to time (including, without limitation, any successive amendments, renewals, extensions, substitutions, restatements, refinances, restructures, supplements, or other modifications of the foregoing, and any increases in the amount of the commitments thereunder), in one or more different countries, with one or more different lenders and different related notes, collateral documents, guarantees and other instruments and agreements executed in connection therewith.

“*Debt*” means (without duplication), with respect to any Person, whether recourse is to all or a portion of the assets of such Person and whether or not contingent, (1) every obligation of such Person for money borrowed, (2) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments, including obligations Incurred in connection with the acquisition of property, assets or businesses, (3) every reimbursement obligation of such Person with respect to letters of credit, bankers’ acceptances or similar facilities issued for the account of such Person, (4) every obligation of such Person issued or assumed as the deferred purchase price of property or services (including securities repurchase agreements but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business), (5) every Capital Lease Obligation of such Person, (6) all Receivables Sales of such Person, together with any obligation of such Person to pay any discount, interest, fees, indemnities, penalties, recourse, expenses or other amounts in connection therewith, (7) all Redeemable Stock issued by such Person, (8) if such Person is a Restricted Subsidiary, all Preferred Stock issued by such Person, (9) every obligation to pay rent or other payment amounts of such Person with respect to any Sale-Leaseback Transaction to which such Person is a party, *provided* that the obligations for which the Company or a Restricted Subsidiary has pledged as security cash or cash equivalents in amounts necessary to satisfy such obligations, shall not constitute Debt, (10) every obligation under Interest Rate or Currency Agreements of such Person, and (11) every obligation of the type referred to in clauses (1) through (10) above of another Person and all dividends of another Person the payment of which, in either case, such Person has Guaranteed or is responsible or liable, directly or indirectly, as obligor, Guarantor or otherwise. The “amount” or “principal amount” of Debt at any time of determination as used herein represented by (a) any contingent Debt (including letters of credit), shall be the maximum principal amount thereof, (b) any Debt issued at a price that is less than the principal amount at maturity thereof, shall be the amount of the liability in respect thereof determined in accordance with generally accepted accounting principles, (c) any Receivables Sale, shall be the amount of the unrecovered capital or principal investment of the purchaser (other than the Company or a Wholly Owned Restricted Subsidiary) thereof, excluding amounts representative of yield or interest earned on such investment, (d) any Redeemable Stock, shall be the maximum fixed redemption or repurchase price in respect thereof, and (e) any Preferred Stock, shall be the maximum voluntary or involuntary liquidation preference plus accrued and unpaid dividends in respect thereof, in each case as of such time of determination. Notwithstanding the foregoing, Debt shall not include (i) Distribution Guarantees; (ii) liability for federal, state, provincial, local or other

taxes or (iii) reimbursement obligations under commercial letters of credit issued in the ordinary course of business.

"Distribution Guarantees" means any guarantee or commitment of a Person in the ordinary course of business and consistent with industry practice to cover any portion of the costs of, or obligations incurred in connection with, a television, motion picture or other entertainment production in conjunction with the acquisition of distribution rights of the television, motion picture or other entertainment production by such Person.

"Existing Credit Facility" means the amended and restated credit agreement dated September 25, 1998 between the Company and certain of its Subsidiaries, as borrowers, and Royal Bank of Canada, as agent, and certain other lenders named therein, as such agreement may be amended, renewed, extended, substituted, restated, refinanced, restructured, supplemented, replaced or otherwise modified from time to time (including, without limitation, any successive amendments, renewals, extensions, substitutions, restatements, refinances, restructures, supplements, or other modifications of the foregoing, and any increases in the amount of the commitments thereunder), with one or more different lenders and different related notes, collateral documents, guarantees and other instruments and agreements executed in connection therewith.

"generally accepted accounting principles" means, as at any date of determination, generally accepted accounting principles in Canada (unless otherwise indicated) and which are applicable as of the date of determination.

"Gradation" means a gradation within a Rating Category or a change to another Rating Category, which shall include "+" and "-", in the case of Standard & Poor's current Rating Categories (e.g., a decline from BB+ to BB would constitute a decrease of one gradation); "1", "2" and "3" in the case of Moody's current Rating Categories (e.g., a decline from B1 to B2 would constitute a decrease of one gradation); or the equivalent in respect of successor Rating Categories of Standard & Poor's or Moody's or Rating Categories used by Rating Agencies other than Standard & Poor's or Moody's.

"Guarantee" by any Person means any obligation, contingent or otherwise, of such Person guaranteeing, or having the economic effect of guaranteeing, any Debt of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including, without limitation, any obligation of such Person, (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Debt, (2) to purchase property, securities or services for the purpose of assuring the holder of such Debt of the payment of such Debt, or (3) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt (and "Guaranteed", "Guaranteeing" and "Guarantor" shall have meanings correlative to the foregoing); *provided, however*, that the Guarantee by any Person shall not include endorsements by such Person for collection or deposit, in either case, in the ordinary course of business.

"Incur" means, with respect to any Debt or other obligation of any Person, to create, issue, incur (by conversion, exchange or otherwise), assume, Guarantee or otherwise become liable in respect of such Debt or other obligation, including by acquisition of Restricted Subsidiaries or the recording, as required pursuant to generally accepted accounting principles or otherwise, of any such Debt or other obligation on the balance sheet of such Person (and "Incurrence", "Incurred", "Incurable" and "Incurring" shall have meanings correlative to the foregoing); *provided, however*, that a change in generally accepted accounting principles that results in an obligation of such Person that exists at such time becoming Debt shall not be deemed an Incurrence of such Debt and neither the accrual of interest nor the accrual of original issue discount shall be deemed to be an incurrence of Debt.

“Industry Loan” means loans from third party financiers to the film and television industry whose lending mandate is based, to a significant extent or solely, on public policy.

“Interest Rate or Currency Agreement” of any Person means any forward contract, futures contract, swap, option or other financial agreement or arrangement (including, without limitation, caps, floors, collars, puts and similar agreements) relating to, or the value of which is primarily dependent upon, interest rates or currency exchange rates.

“Investment” by any Person means any direct or indirect loan, advance or other extension of credit or capital contribution (by means of transfers of cash or other property to others or payments for property or services for the account or use of others, or otherwise) to, or purchase or acquisition of Capital Stock, bonds, notes, debentures or other securities or evidence of Debt issued by, any other Person, including any payment on a Guarantee of any obligation of such other Person, but shall not include (1) trade accounts receivable in the ordinary course of business, (2) any non-cash consideration received in connection with an Asset Disposition that was made in compliance with the *“Limitation on Asset Dispositions”* covenant, or in satisfaction of judgments or claims; (3) Permitted Interest Rate or Currency Agreements; (4) loans and advances made to officers, directors and employees not subject to or made in compliance with the *“Limitation on Transactions with Affiliates”* covenant; (5) any acquisition of assets, Capital Stock or other securities by the Company or a Restricted Subsidiary to the extent that the consideration therefor consists of Capital Stock (other than Redeemable Stock) of the Company; (6) the acquisition by the Company, directly or through a Restricted Subsidiary, of 47.85% of the Capital Stock and related shareholder loans of Sportscope Television Inc.; and (7) Distribution Guarantees in the ordinary course of business, consistent with industry practice.

“Investment Grade” means BBB- or above, in the case of Standard & Poor’s (or its equivalent under any successor Rating Categories of Standard & Poor’s), Baa3 or above, in the case of Moody’s (or its equivalent under any successor Rating Categories of Moody’s), and the equivalent in respect of the Rating Categories of any Rating Agencies substituted for Standard & Poor’s or Moody’s.

“Lien” means, with respect to any property or assets, any mortgage or deed of trust, pledge, hypothecation, assignment, Receivables Sale, deposit arrangement, security interest, lien, charge, encumbrance, preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever having the effect of securing such property or assets (including, without limitation, any conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing).

“Moody’s” means Moody’s Investor Service, Inc. and its successors.

“Net Available Proceeds” from any Asset Disposition by any Person means cash or readily marketable cash equivalents received (including by way of sale or discounting of a note, instalment receivable or other receivable, but excluding any other consideration received, including, without limitation, in the form of assumption by the acquiror of Debt or other obligations relating to such properties or assets) therefrom by such Person, net of (1) all legal, title and recording tax expenses, commissions and other fees and expenses Incurred and all federal, state, provincial, foreign and local taxes required to be accrued as a liability as a consequence of such Asset Disposition, (2) all payments made by such Person or its Restricted Subsidiaries on any Debt which is secured by such assets in accordance with the terms of any Lien upon or with respect to such assets or which must by the terms of such Lien, or in order to obtain a necessary consent to such Asset Disposition or by applicable law or by contractual obligation, be repaid out of the proceeds from such Asset Disposition, (3) all distributions and other payments made to (or provided for) minority interest holders in Restricted Subsidiaries of such Person or joint ventures as a result of such Asset Disposition and (4) appropriate amounts to be provided by such Person or any Restricted

Subsidiary thereof, as the case may be, as a reserve in accordance with generally accepted accounting principles against any liabilities associated with such assets and retained by such Person or any Restricted Subsidiary thereof, as the case may be, after such Asset Disposition, including, without limitation, liabilities under any indemnification obligations and severance and other employee termination costs associated with such Asset Disposition, in each case as determined by the Company, in its reasonable good faith judgment, evidenced by a certificate of the Chief Executive Officer or Chief Financial Officer of the Company filed with the Trustee; *provided, however*, that any reduction in such reserve within twelve months following the consummation of such Asset Disposition will be treated for all purposes of the Indenture and the Notes as a new sale or transfer of assets subject to the “*Limitation on Asset Dispositions*” covenant at the time of such reduction with Net Available Proceeds equal to the amount of such reduction.

“*Offer to Purchase*” means a written offer (the “*Offer*”) sent by the Company by first class mail, postage prepaid, to each Holder at the Holder’s address appearing in the Register on the date of the Offer offering to purchase up to the principal amount of Notes specified in such Offer at the purchase price specified in such Offer (as determined pursuant to the Indenture). Unless otherwise required by applicable law, the Offer shall specify an expiration date (the “*Expiration Date*”) of the Offer to Purchase which shall be, subject to any contrary requirements of applicable law, not less than 30 days or more than 60 days after the date of such Offer and a settlement date (the “*Purchase Date*”) for purchase of Notes within five Business Days after the Expiration Date. The Company shall notify the Trustee at least 15 Business Days (or such shorter period as is acceptable to the Trustee) prior to the mailing of the Offer of the Company’s obligation to make an Offer to Purchase, and the Offer shall be mailed by the Company or, at the Company’s request, by the Trustee in the name and at the expense of the Company. The Offer shall contain information concerning the business of the Company and the Restricted Subsidiaries which the Company in good faith believes will enable such Holders to make an informed decision with respect to the Offer to Purchase (which at a minimum will include (1) the Company’s most recent annual and quarterly financial statements and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” contained in the documents required to be filed with the Trustee pursuant to the Indenture (which requirements may be satisfied by delivery of such documents together with the Offer), (2) a description of material developments in the Company’s business subsequent to the date of the latest of such financial statements referred to in clause (1) (including a description of the events requiring the Company to make the Offer to Purchase), (3) if applicable, appropriate *pro forma* financial information concerning the Offer to Purchase and the events requiring the Company to make the Offer to Purchase and (4) any other information required by applicable law to be included therein). The Offer shall contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase. The Offer shall also state:

- (a) the Section of the Indenture pursuant to which the Offer to Purchase is being made;
- (b) the Expiration Date and the Purchase Date;
- (c) the aggregate principal amount of the Outstanding Notes offered to be purchased by the Company pursuant to the Offer to Purchase (including, if less than 100%, the manner by which such has been determined pursuant to the Section hereof requiring the Offer to Purchase) (the “*Purchase Amount*”);
- (d) the purchase price to be paid by the Company for each US\$1,000 aggregate principal amount of Notes accepted for payment (as specified pursuant to the Indenture) (the “*Purchase Price*”);
- (e) that the Holder may tender all or any portion of the Notes registered in the name of such Holder and that any portion of a Note tendered must be tendered in an integral multiple of US\$1,000 principal amount;

(f) the place or places where Notes are to be surrendered for tender pursuant to the Offer to Purchase;

(g) that interest on any Note not tendered or tendered but not purchased by the Company pursuant to the Offer to Purchase will continue to accrue;

(h) that on the Purchase Date the Purchase Price will become due and payable upon each Note being accepted for payment pursuant to the Offer to Purchase and that interest thereon shall cease to accrue on and after the Purchase Date;

(i) that each Holder electing to tender a Note pursuant to the Offer to Purchase will be required to surrender such Note at the place or places specified in the Offer prior to the close of business on the Expiration Date (such Note being, if the Company or the Trustee so requires, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing);

(j) that Holders will be entitled to withdraw all or any portion of Notes tendered if the Company (or their Paying Agent) receives, not later than the close of business on the Expiration Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Note the Holder tendered, the certificate number of the Note the Holder tendered and a statement that such Holder is withdrawing all or a portion of his tender;

(k) that (a) if Notes in an aggregate principal amount less than or equal to the Purchase Amount are duly tendered and not withdrawn pursuant to the Offer to Purchase, the Company shall purchase all such Notes and (b) if Notes in an aggregate principal amount in excess of the Purchase Amount are tendered and not withdrawn pursuant to the Offer to Purchase, the Company shall purchase Notes having an aggregate principal amount equal to the Purchase Amount on a *pro rata* basis (with such adjustments as may be deemed appropriate so that only Notes in denominations of US\$1,000 or integral multiples thereof shall be purchased); and

(l) that in the case of any Holder whose Note is purchased only in part, the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Note without service charge, a new Note or, of any authorized denomination as requested by such Holder, in an aggregate principal amount equal to and in exchange for the unpurchased portion of the Note so tendered.

Any Offer to Purchase shall be governed by and effected in accordance with the Offer for such Offer to Purchase.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, a Vice Chairman of the Board, the President or a Vice President, and by the Chief Financial Officer, the Treasurer, an Assistant Treasurer, the Corporate Controller, the Secretary or an Assistant Secretary, of the Company and delivered to the Trustee.

"Permitted Broadcasting Joint Venture" means a Person (1) which is established with a separate legal identity and limited liability; (2) in which the Company or a Restricted Subsidiary owns, or immediately following an Investment at the time of determination will own, at least 10% of the ownership interests and of the voting interests; (3) which is engaged or will be engaged solely in carrying on business as a licensed broadcasting undertaking or which derives substantially all its value from interests in one or more such undertakings; and (4) in which the Company does not hold any interests as of the date of the Indenture.

"Permitted Interest Rate or Currency Agreement" of any Person means any Interest Rate or Currency Agreement entered into with one or more financial institutions that is designed to protect such Person against fluctuations in interest rates or currency exchange rates with respect to Debt

Incurred and which shall have a notional amount no greater than the payments due with respect to the Debt being hedged thereby, or in the case of currency protection agreements, against currency exchange rate fluctuations relating to then existing financial obligations and not for purposes of speculation.

"Permitted Special Purpose Vehicle" means a Person which is, or was, established: (1) with separate legal identity and limited liability; (2) as an Affiliate of the Company; and (3) in accordance with industry practice for the sole purpose of a single television, motion picture or other entertainment production, or series of related television, motion picture or other entertainment productions, and which has no assets and liabilities other than those directly acquired or incurred in connection with such transaction(s).

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Preferred Stock" of any Person means Capital Stock of such Person of any class or classes (however designated) that ranks prior, as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding-up of such Person, to shares of Capital Stock of any other class of such Person.

"Principal Shareholders" means (1) Stampco Holdings Inc., and (2) (a) Michael MacMillan, Seaton McLean, Edward Riley and Peter Sussman, their spouses, heirs, executors or legal representatives, (b) any trust created for the benefit of the persons described in clause (a), and (c) any Person at least 80% of the outstanding Capital Stock of which is owned by one or more persons described in clauses (a) and (b).

"Purchase Money Secured Debt" of any Person means Debt of such Person secured by a Lien on real or personal property of such Person which Debt (1) constitutes all or a part of the purchase price or construction cost of such property or (2) is Incurred prior to, at the time of or within 270 days after the acquisition or substantial completion of such property for the purpose of financing all or any part of the purchase price or construction cost thereof; *provided, however*, that (a) the Debt so Incurred does not exceed 100% of the purchase price or construction cost of such property, (b) such Lien does not extend to or cover any property other than such item of property and any improvements on such item, (c) the purchase price or construction cost for such property is or should be included in "addition to property, plant and equipment" in accordance with generally accepted accounting principles and (d) the purchase or construction of such property is not part of any acquisition of a Person or business unit or line of business.

"Rating Agencies" means (1) Standard & Poor's and Moody's or (2) if Standard & Poor's and Moody's or both of them are not making ratings of the Notes publicly available, a nationally recognized U.S. rating agency or agencies, as the case may be, selected by the Company, which will be substituted for Standard & Poor's or Moody's or both, as the case may be.

"Rating Categories" means (1) with respect to Standard & Poor's, any of the following categories (any of which may include a "+" or "-"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (2) with respect to Moody's, any of the following categories (any of which may include a "1", "2" or "3"): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (3) the equivalent of any such categories of Standard & Poor's or Moody's used by another Rating Agency, if applicable.

"Receivables" means receivables, chattel paper, instruments, documents or intangibles evidencing or relating to the right to payment of money.

“Receivables Sale” of any Person means any sale of Receivables of such Person (pursuant to a purchase facility or otherwise), other than in connection with a disposition of the business operations of such Person relating thereto or a disposition of defaulted Receivables for purposes of collection and not as a financing arrangement.

“Redeemable Stock” of any Person means any Capital Stock of such Person that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or otherwise (including upon the occurrence of an event) matures or is required to be redeemed (pursuant to any sinking fund obligation or otherwise) for cash or securities constituting Debt or is convertible into or exchangeable for Debt or is redeemable at the option of the holder thereof, in whole or in part, at any time prior to the final Stated Maturity of the Notes.

“Related Person” of any Person means any other Person directly or indirectly owning (1) 10% or more of the Outstanding Common Stock of such Person (or, in the case of a Person that is not a corporation, 10% or more of the equity interest in such Person) or (2) 10% or more of the combined voting power of the Voting Stock of such Person; *provided* that with respect to the *“Limitation on Restricted Payments”* covenant, Related Person of the Company shall not include a Person who becomes a Related Person after commencement by the Company or a Restricted Subsidiary of a tender offer for such other Person.

“Restricted Subsidiary” means any Subsidiary of the Company (or other Person if expressly specified as such), whether existing on or after the date of the Indenture, unless such Subsidiary is an Unrestricted Subsidiary.

“Sale-Leaseback Transaction” of any Person means an arrangement with any lender or investor or to which such lender or investor is a party providing for the leasing, licensing or similar arrangement by such Person of any property or asset of such Person which has been or is being sold or transferred by such Person to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such property or asset or of the proceeds of such sale or a portion thereof. The stated maturity of such arrangement shall be the date of the last payment of rent or any other amount due under such arrangement prior to the first date on which such arrangement may be terminated by the lessee without payment of a penalty.

“Standard & Poor’s” means Standard & Poor’s Ratings Group, a division of McGraw Hill, Inc., and its successors.

“Subordinated Debt” means Debt of the Company as to which the payment of principal of (and premium, if any) and interest and other payment obligations in respect of such Debt shall be subordinate to the prior payment in full of the Notes to at least the following extent: (1) no payments of principal of (or premium, if any) or interest on or otherwise due in respect of such Debt may be permitted for so long as any default in the payment of principal (or premium, if any) or Interest on the Notes exists; (2) in the event that any other default that with the passing of time or the giving of notice, or both, would constitute an event of default exists with respect to the Notes, upon notice by 25% or more in principal amount of the Notes to the Trustee, the Trustee shall have the right to give notice to the Company and the holders of such Debt (or trustees or agents therefor) of a payment blockage, and thereafter no payments of principal of (or premium, if any) or interest on or otherwise due in respect of such Debt may be made for a period of 179 days from the date of such notice; and (3) such Debt may not (a) provide for payments of principal of such Debt at the stated maturity thereof or by way of a sinking fund applicable thereto or by way of any mandatory redemption, defeasance, retirement or repurchase thereof by the Company (including any redemption, retirement or repurchase which is contingent upon events or circumstances, but excluding any retirement required by virtue of acceleration of such Debt upon an event of default thereunder), in each case prior to the final Stated Maturity of the Notes or

(b) permit redemption or other retirement (including pursuant to an offer to purchase made by the Company) of such other Debt at the option of the holder thereof prior to the final Stated Maturity of the Notes, other than a redemption or other retirement at the option of the holder of such Debt (including pursuant to an offer to purchase made by the Company) which is conditioned upon a change of control of the Company pursuant to provisions substantially similar to those described under the “*Change of Control*” covenant (and which shall provide that such Debt will not be repurchased pursuant to such provisions prior to the Company’s repurchase of the Notes required to be repurchased by the Company pursuant to the provisions described under the “*Change of Control*” covenant).

“*Subsidiary*” of any Person means (1) a corporation more than 50% of the combined voting power of the outstanding Voting Stock of which is owned, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person or by such Person and one or more Subsidiaries thereof, (2) any other Person (other than a corporation) in which such Person, or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries thereof, directly or indirectly, has at least a majority ownership and power to direct the policies, management and affairs thereof or (3) any other Person not described in clauses (1) and (2) above in which such Person, or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries thereof, directly or indirectly, has at least a 49% ownership and the power, pursuant to a written contract or agreement, to direct the policies and management or the financial and other affairs thereof.

“*Tangible Assets*” of any Person means, at any date, the gross book value as shown by the accounting books and records of such Person of all its property, both real and personal, less (1) the net book value of all its licenses, patents, patent applications, copyrights, trademarks, trade names, goodwill, non-compete agreements or organizational expenses and other like intangibles, (2) unamortized debt discount and expense, (3) all reserves for depreciation, obsolescence, depletion and amortization of its properties and (4) all other proper reserves which in accordance with generally accepted accounting principles should be provided in connection with the business conducted by such Person; *provided, however*, that, with respect to the Company and its Restricted Subsidiaries, adjustments following the date of the Indenture to the accounting books and records of the Company and its Subsidiaries in accordance with generally accepted accounting principles resulting from the acquisition of control of the Company by another Person shall not be given effect to.

“*Voting Stock*” of any Person means Capital Stock of such Person which ordinarily has voting power for the election of directors (or Persons performing similar functions) of such Person, whether at all times or only so long as no senior class of securities has such voting power by reason of any contingency.

“*Wholly Owned Restricted Subsidiary*” of any Person means a Restricted Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which (other than directors’ qualifying shares) shall at the time be owned by such Person or by one or more Wholly Owned Restricted Subsidiaries of such Person or by such Person and one or more Wholly Owned Restricted Subsidiaries of such Person.

Events of Default

The following will be Events of Default under the Indenture:

- (1) failure to pay principal of (or premium, if any, on) any Note when due (or any Additional Amounts related thereto);

- (2) failure to pay any interest (or any Additional Amounts related thereto) on any Note when due, and any such failure continued for 30 days;
- (3) default in the payment of principal and interest on Notes required to be purchased pursuant to an Offer to Purchase as described under the “*Change of Control*” and “*Limitation on Asset Dispositions*” covenants when due and payable;
- (4) failure to perform or comply with the provisions described under “—Mergers, Consolidations and Certain Sales of Assets”;
- (5) failure to perform any other covenant or agreement of the Company under the Indenture or the Notes and such failure continued for 60 days after written notice to the Company by the Trustee or Holders of at least 25% in aggregate principal amount of Outstanding Notes;
- (6) default under the terms of any instrument evidencing or securing Debt for money borrowed by the Company or any Restricted Subsidiary having an outstanding principal amount of \$5 million individually or in the aggregate which default results in the acceleration of the payment of all or any portion of such indebtedness or constitutes the failure to pay all or any portion of such indebtedness when due at final stated maturity after any applicable grace period which shall not have been cured or waived;
- (7) the rendering of a final judgment or judgments (not subject to appeal) against the Company or any Restricted Subsidiary in an amount in excess of \$5 million (net of applicable insurance coverage) which remains undischarged or unstayed for a period of 60 days after the date on which the right to appeal has expired; and
- (8) certain events of bankruptcy, insolvency or reorganization affecting the Company or any Restricted Subsidiary. (§ 501)

If an Event of Default (other than an Event of Default specified in clause (8) above) shall occur and be continuing, either the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Notes may declare the principal of all Notes due and payable immediately; *provided, however*, that after such acceleration, but before a judgement or decree based on acceleration, the Holders of a majority in aggregate principal amount of Outstanding Notes may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the non-payment of accelerated principal, have been cured or waived as provided in the Indenture. If an Event of Default specified in clause (8) above occurs and is continuing, then the principal of all the Outstanding Notes shall become due and payable without any declaration or other act on the part of either Trustee or any Holder.

No Holder of any Note will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless such Holder shall have previously given to the Trustee written notice of a continuing Event of Default and unless also the Holders of at least 25% in aggregate principal amount of the Outstanding Notes shall have made a written request, and offered reasonable indemnity, to the Trustee to institute such proceeding as trustee, and the Trustee shall not have received from the Holders of a majority in aggregate principal amount of the Outstanding Notes a direction inconsistent with such request and shall have failed to institute such proceeding within 60 days. (§ 507) However, such limitations do not apply to a suit instituted by a Holder of a Note for enforcement of payment of the principal of and premium, if any, or interest on such Note on or after the respective due dates expressed in such Note. (§ 508)

Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the Holders of the Notes, unless such Holders shall have offered to the Trustee reasonable indemnity. (§ 603) Subject

to such provisions for the indemnification of the Trustee, the Holders of a majority in aggregate principal amount of the Outstanding Notes will have the right to direct the time, method and place of conducting any proceeding or any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. (§ 512)

The Company will be required to furnish to the Trustee, quarterly, a statement as to the performance by the Company of certain of its obligations under the Indenture and as to any default in such performance. (§ 1020)

Satisfaction and Discharge of the Indenture

The Indenture will cease to be of further effect as to all Outstanding Notes (except as to (1) rights of registration of transfer and exchange and the Company's right of optional redemption, (2) substitution of apparently mutilated, defaced, destroyed, lost or stolen Notes, (3) rights of Holders to receive payment of principal and interest and Additional Amounts on the Notes, (4) rights, obligations and immunities of the Trustee under the Indenture and (5) rights of the Holders of the Notes as beneficiaries of the Indenture with respect to any property deposited with the Trustee payable to all or any of them), if (A) the Company will have paid or caused to be paid the principal of and interest on the Notes as and when the same will have become due and payable or (B) all Outstanding Notes (except lost, stolen or destroyed Notes which have been replaced or paid) have been delivered to the Trustee for cancellation. (Article Twelve)

Defeasance

The Indenture will provide that, at the option of the Company, (1) if applicable, the Company will be discharged from any and all obligations in respect of the Outstanding Notes or (2) if applicable, the Company may omit to comply with certain restrictive covenants, that such omission shall not be deemed to be an Event of Default under the Indenture and the Notes, in either case (1) or (2) upon irrevocable deposit with the Trustee, in trust, of money and/or U.S. government obligations which will provide money in an amount sufficient in the opinion of a nationally recognized firm of independent certified public accountants to pay the principal of and premium, if any, and each installment of interest, if any, on the Outstanding Notes.

With respect to clause (2) of the first paragraph of this covenant, the obligations under the Indenture, other than with respect to such covenants and the specific Events of Default relating to such covenant, shall remain in full force and effect. Such trust may only be established if, among other things (A) with respect to clause (1) of the first paragraph of this covenant, the Company has received from, or there has been published by, the Internal Revenue Service a ruling or there has been a change in law, which in the Opinion of Counsel qualified to practice in the United States provides that Holders of the Notes will not recognize gain or loss for U.S. federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to U.S. federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred; or, with respect to clause (2) of the first paragraph of this covenant, the Company has delivered to the Trustee an Opinion of Counsel qualified to practice in the United States to the effect that the Holders of the Notes will not recognize gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred; (B) the Company has delivered to the Trustee an Opinion of Counsel qualified to practice in Canada or a ruling from Revenue Canada, Taxation to the effect that Holders of the Notes who are not resident in Canada will not recognize income, gain or loss for Canadian federal, provincial or territorial income tax or other tax purposes as a result of such deposit and defeasance and will be subject to any Canadian federal or provincial income tax and other tax on the same

amounts, in the same manner and at the same times as would have been the case had such deposit and defeasance not occurred; (C) such deposit, defeasance and discharge will not result in a breach or violation of, or constitute a default under, any agreement or instrument to which the Company or any Restricted Subsidiary is party or by which the Company or any Restricted Subsidiary is bound; (D) no Event of Default or event that with the passing of time or the giving of notice, or both, shall constitute an Event of Default shall have occurred or be continuing; (E) at the time of such deposit, no default in the payment of all or a portion of principal of (or premium, if any) or interest on or other obligations in respect of any Senior Debt shall have occurred and be continuing and no other event of default with respect to any Senior Debt shall have occurred and be continuing permitting after notice or the lapse of time, or both the acceleration thereof; (F) the Company has delivered to the Trustee an Opinion of Counsel to the effect that such deposit shall not cause the Trustee or the trust so created to be subject to the Investment Company Act of 1940, as amended; and (G) certain other customary conditions precedent are satisfied. (Article Twelve)

Modification and Waiver

Modifications and amendments of the Indenture and the Notes may be made by the Company and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the Outstanding Notes; *provided, however*, that no such modification or amendment may, without the consent of the Holder of each Outstanding Note affected thereby, (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note, (2) reduce the principal amount of (or the premium) or interest on, any Note, (3) change the place or currency of payment of principal of (or premium), or interest on, any Note, (4) impair the right to institute suit for the enforcement of any payment on or with respect to any Note, (5) reduce the above-stated percentage of Outstanding Notes necessary to modify or amend the Indenture, (6) reduce the percentage of aggregate principal amount of Outstanding Notes necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults, (7) modify any provisions of the Indenture relating to the modification and amendment of the Indenture or the waiver of past defaults or covenants, except as otherwise specified, (8) following the mailing of any Offer to Purchase, modify any Offer to Purchase for the Notes required under the “*Limitation on Asset Dispositions*” and the “*Change of Control*” covenants contained in the Indenture in a manner materially adverse to the Holders thereof, (9) modify “—Additional Amounts,” in a manner adverse to the Holders or (10) modify subordination provisions in a manner adverse to the holders. (§ 902)

Subject to compliance with the “*Limitation on Debt*” covenant, the Company and the Trustee may enter into supplemental indentures to issue additional Notes under the Indenture, as permitted by the Indenture, without the consent of the Holders of Notes.

The Holders of a majority in aggregate principal amount of the Outstanding Notes, on behalf of all Holders of Notes, may waive compliance by the Company with certain restrictive provisions of the Indenture. (§ 1021) Subject to certain rights of the Trustee, as provided in the Indenture, the Holders of a majority in aggregate principal amount of the Outstanding Notes, on behalf of all Holders of Notes, may waive any past default under the Indenture, except a default in the payment of principal, premium or interest or a default arising from failure to purchase any Note tendered pursuant to an Offer to Purchase. (§ 513)

Governing Law

The Indenture and the Notes will be governed by the laws of the State of New York.

Enforceability of Judgments

Since a substantial portion of the assets of the Company and certain of its subsidiaries are outside the United States, any judgment obtained in the United States against the Company, including judgments with respect to the payment of principal, premium, if any, or interest on the Notes may not be collectible within the United States.

The Company has been informed by its Canadian counsel, Tory Tory, that the laws of the Province of Ontario and the federal laws of Canada applicable therein permit an action to be brought against the Company in a court of competent jurisdiction in such Province on any final and conclusive judgment in personam of any federal or state court located in the Borough of Manhattan in The City of New York ("New York Court") with respect to the Indenture or the Notes that has not been stayed and is not impeachable as void or voidable under the internal laws of the State of New York and that is for a sum certain if (1) the New York Court rendering such judgment had jurisdiction over the judgment debtor, as recognized by the courts of the Province of Ontario (and submission by the Company in the Indenture to the jurisdiction of the New York Court will be sufficient for the purpose); (2) such judgment was not obtained by fraud or in a manner contrary to natural justice and the enforcement thereof would not be inconsistent with public policy, as such term is understood under the laws of the Province of Ontario or contrary to any order made by the Attorney General of Canada under the Foreign Extraterritorial Measures Act (Canada); (3) the enforcement of such judgment does not constitute, directly or indirectly, the enforcement of foreign revenue, expropriatory or penal laws; and (4) the action to enforce such judgment is commenced within six years after the date of such judgment. The Company has been advised by such counsel that they do not know of any reason under present laws of the Province of Ontario and the federal laws of Canada applicable therein for avoiding enforcement of such judgments of New York Courts under either the Indenture or the Notes based upon public policy.

Consent to Jurisdiction and Service

The Indenture provides that the Company will irrevocably appoint CT Corporation System, 1633 Broadway, New York, New York 10019 as its agent for service of process in any suit, action or proceeding with respect to the Indenture or the Notes and for actions brought under the federal or state securities laws brought in any federal or state court located in the Borough of Manhattan in The City of New York, and the Company shall submit to the non-exclusive jurisdiction of such courts.

The Trustee

The Indenture will provide that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it under the Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. (§ 602)

The Trustee is permitted to engage in transactions with the Company or any Affiliate thereof; *provided, however*, that if it acquires any conflict of interest, it must eliminate such conflict within 90 days or resign. (§ 608)

CERTAIN INCOME TAX CONSIDERATIONS

Certain U.S. Federal Income Tax Considerations

The following summary describes certain U.S. federal income tax consequences of the ownership of Notes to a U.S. Holder (as defined below). It deals only with Notes held as capital assets by investors who purchase the Notes in the offering at the offering price, and not with special classes of holders, such as dealers in securities or currencies, traders in securities that elect mark to market, banks, tax-exempt organizations, S corporations, life insurance companies, persons that hold Notes as a hedge, or as part of a straddle or conversion transaction, taxpayers subject to the alternative minimum tax or whose functional currency is not the U.S. dollar. In addition, this summary does not describe any foreign, state or local tax considerations. Investors who purchase the Notes at a price other than the offering price should consult their tax advisor as to the possible applicability to them of the amortizable bond premium or market discount rules. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE CONSEQUENCES, IN THEIR PARTICULAR CIRCUMSTANCES, UNDER THE CODE AND THE LAWS OF ANY OTHER TAXING JURISDICTION, OF THE OWNERSHIP OF NOTES.

For the purposes of this summary, a U.S. Holder is a beneficial owner that is (i) an individual citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate or trust that is subject to U.S. federal income tax without regard to the source of its income or (iv) a trust if a United States court is able to exercise primary supervision over administration of the trust and one or more United States persons have authority to control all substantial decisions of the trust.

A U.S. Holder of a Note will be required to report as ordinary interest income for U.S. federal income tax purposes interest paid or accrued on the Note (including Additional Amounts, if any, and any Canadian income tax withheld) in accordance with the U.S. Holder's method of tax accounting. Such income will generally be treated as foreign source passive income (or, in the case of certain U.S. Holders, financial services income) for foreign tax credit purposes.

A U.S. Holder's tax basis for a Note generally will be the holder's purchase price for the Note. Upon the sale or exchange of a Note, a U.S. Holder generally will recognize gain or loss equal to the difference (if any) between the amount realized and the U.S. Holder's tax basis in the Note. In general, such gain or loss will be capital gain or loss (except to the extent attributable to deemed but unpaid interest). Net capital gains (i.e., capital gain in excess of capital loss) recognized by a noncorporate U.S. Holder, including an individual, upon a disposition of a Note that has been held for more than 12 months will generally be subject to a maximum U.S. federal income tax rate of 20% or, in the case of a Note that has been held for 12 months or less, will be subject to tax at ordinary income tax rates. Such gain or loss, if any, will be U.S. source. The deductibility of capital losses is subject to limitations.

A holder of a Note may be subject to backup withholding at the rate of 31% with respect to interest paid on the Notes and to proceeds from the sale, exchange, redemption or retirement of the Note, unless such holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates that fact or (b) provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. A holder of a Note who does not provide

the Company with the holder's correct taxpayer identification number may be subject to penalties imposed by the Internal Revenue Service.

Backup withholding is not an additional tax. Any amount paid as backup withholding will be creditable against the holder's U.S. federal income tax liability.

Certain Canadian Federal Income Tax Considerations

The following is a summary of the principal Canadian federal income tax considerations generally applicable to a person (a "United States holder") who purchases Notes pursuant to the offering of the Notes and who, for the purposes of the *Income Tax Act* (Canada) (the "Canadian Tax Act") and at all relevant times, is not resident in Canada, deals at arm's length with the Company, and does not use or hold and is not deemed or considered to use or hold the Notes in carrying on business in Canada. Special rules which are not discussed in this summary may apply to a United States holder that is an insurer that carries on an insurance business in Canada and elsewhere.

This summary is based on the current provisions of the Canadian Tax Act and the regulations thereunder (the "Regulations") in force on the date hereof, all specific proposals to amend the Canadian Tax Act and the Regulations publicly announced by the Minister of Finance (Canada) prior to the date hereof and the Company's understanding of the published administrative practices of Revenue Canada. This summary does not take into account or anticipate any other changes in law or administrative practice, whether by legislative, government or judicial decision or action and does not take into account provincial, territorial or foreign income tax legislation or considerations.

This summary is of a general nature only, and is not intended to be, nor should it be interpreted as, legal or tax advice to any particular United States holder and no representation is made with respect to the Canadian income tax consequences to any particular person acquiring Notes. United States holders should therefore consult their own tax advisors with respect to their particular circumstances.

Under the Canadian Tax Act, payments by the Company to a United States holder of principal, interest and premium, if any, on the Notes will be exempt from Canadian withholding tax.

No other taxes on income (including taxable capital gains) will be payable by a United States holder under the Canadian Tax Act solely as a consequence of the ownership, acquisition or disposition of Notes.

RELATIONSHIPS BETWEEN THE COMPANY AND CERTAIN OF THE UNDERWRITERS

RBC Dominion Securities Corporation and TD Securities (USA) Inc., two of the Underwriters, are indirect subsidiaries of Canadian chartered banks and are lenders under our Existing Credit Facility. Chase Securities Inc. and SG Cowen Securities Corporation, two other Underwriters, are also affiliates of Canadian banks which are lenders under our Existing Credit Facility. The outstanding indebtedness under the Existing Credit Facility was \$472.1 million as of June 30, 1999. The outstanding indebtedness to the ultimate parent of RBC Dominion Securities Corporation under a facility for Equicap Financial Corporation (one of our wholly-owned subsidiaries) was \$17.4 million as of June 30, 1999. We are in compliance with the terms of such credit facilities. The decision of the Underwriters to underwrite this offering was made independently of their affiliated banks, which had no involvement in determining whether and when to underwrite such securities or the terms of this offering. The decision to distribute the Notes and the determination of the terms of the distribution were made through negotiations between the Company and the Underwriters. Neither RBC Dominion Securities Corporation, TD Securities (USA) Inc., Chase Securities Inc. nor SG Cowen Securities Corporation will receive any benefit from this offering other than their respective portions of the fee payable by us.

LEGAL MATTERS

Certain legal matters in connection with the offering of the Notes will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, Toronto, Ontario, with respect to matters of United States law, and by Tory Haythe, Toronto, Ontario (in Ontario, practising as Tory Tory) with respect to matters of Canadian law. Certain legal matters in connection with this offering of Notes will be passed upon for the Underwriters by Shearman & Sterling, Toronto, Ontario and New York, New York with respect to matters of United States law.

Barry J. Reiter, one of our directors, is also a partner in the law firm of Tory Haythe. As of October 13, 1999, the members of the law firms which comprise the Tory Haythe firm own securities as follows: the lawyers of Tory Tory owned beneficially, directly or indirectly, less than 1% of the issued and outstanding shares of all classes of our shares and the lawyers of Tory Haythe (New York) owned beneficially, directly or indirectly, less than 1% of the issued and outstanding shares of all classes of our shares.

EXPERTS

The Consolidated Financial Statements included and incorporated by reference in this prospectus have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing in this prospectus. The Consolidated Financial Statements included and incorporated by reference in this prospectus have been included and incorporated in reliance upon the report of PricewaterhouseCoopers LLP, given upon their authority as experts in accounting and auditing. The Atlantis Financial Statements (as defined below) incorporated by reference in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report. The Atlantis Financial Statements incorporated by reference in this prospectus have been incorporated in reliance upon the report of Deloitte & Touche LLP, given upon their authority as experts in accounting and auditing.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the securities commission or similar authority in each of the provinces and territories of Canada are specifically incorporated by reference in and form an integral part of this prospectus.

- a. Management Proxy Circular dated August 18, 1999, with respect to the annual and special meeting of shareholders of Alliance Atlantis held on September 23, 1999, other than the sections entitled "Report on Executive Compensation" and "Performance Graph";
- b. Annual Information Form of Alliance Atlantis dated August 18, 1999 for the fiscal year ended March 31, 1999;
- c. Management's Discussion and Analysis of Financial Condition and Results of Operations for Alliance Atlantis found on pages 33 to 39, inclusive, of our 1999 annual report (the "Annual Report");
- d. Audited consolidated balance sheets of Alliance Atlantis as at March 31, 1999, and 1998 and consolidated statements of operations and retained earnings and cash flows for each of the years in the three-year period ended March 31, 1999 together with the accompanying report of the auditor found on pages 40 to 59 inclusive, of the Annual Report;
- e. Interim unaudited consolidated balance sheet of Alliance Atlantis as at June 30, 1999 and the consolidated statements of operations and retained earnings and cash flows for the three-month periods ended June 30, 1999 and 1998.

- f. Audited consolidated financial statements of Atlantis as at and for the period ended December 31, 1997, which includes a consolidated balance sheet, statements of earnings and retained earnings and changes in financial position together with the accompanying report of the auditor (the "Atlantis Financial Statements");
- g. Unaudited financial statements of Atlantis from January 1, 1998 to September 21, 1998, which includes consolidated balance sheets of Atlantis as at September 21, 1998 and September 30, 1997, consolidated statements of earnings and retained earnings and changes in financial position for the three-month periods ended September 21, 1998 and September 30, 1997 and for the nine-month periods ended September 21, 1998 and September 30, 1997;
- h. A material change report filed by Alliance Atlantis dated August 30, 1999 in respect of the closing of the Kinowelt Private Placement; and
- i. A material change report filed by Alliance Atlantis dated October 6, 1999 in respect of the creation of the Class D Special Non-Voting Shares and the Preferred Share Redemption.

Any of our documents of the type referred to above and any material change reports (excluding confidential reports) which are required to be filed by us with the securities commissions and other similar authorities in Canada after the date of this short form prospectus and prior to the termination of this offering will be deemed to be incorporated by reference into this short form prospectus.

The information permitted to be omitted from this prospectus will be contained in a supplemented prospectus and will be deemed to be incorporated herein as of the date of such supplemented prospectus.

Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

AVAILABLE INFORMATION

Information has been incorporated by reference in this prospectus from documents filed with the Ontario Securities Commission. Copies of the documents incorporated by reference may be obtained on request without charge from the Corporate Secretary of the Company at 121 Bloor Street East, Suite 1500, Toronto, Ontario, M4W 3M5, Canada (Telephone No. (416) 967-1174).

We have filed with the United States Securities and Exchange Commission (the "Commission") a registration statement on Form F-10 relating to the Notes. This prospectus, which constitutes a part of that registration statement, does not contain all of the information set forth in the registration statement, certain items of which are contained in the exhibits to the registration statement as permitted by the rules and regulations of the Commission. See "Documents Filed as Part of the

Registration Statement.” Items of information omitted from this prospectus but contained in the registration statement may be inspected and copied at the public reference facilities maintained by the Commission at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the following regional offices of the Commission: Citicorp Center, 500 West Madison Street, Chicago, Illinois 60661 and Seven World Trade Center, Suite 1300, New York, New York 10004. Copies of these items, including copies of all or any portion of the registration statement can be obtained from the Public Reference Section of the Commission at prescribed rates.

We are subject to the information requirements of the Exchange Act and, in accordance with the requirements, file reports and other information with the Commission. Under a multijurisdictional disclosure system adopted by the United States, such reports and other information may be prepared in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. Such reports and other information may be inspected and copied at the public reference facilities maintained by the Commission at the locations referred to above.

DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the Commission as part of the Registration Statement of which this prospectus forms a part: the documents referred to under “Documents Incorporated by Reference”; certified resolutions of our board of directors dated October 14, 1999; interest calculations for the twelve-month period ended June 30, 1999; consents of PricewaterhouseCoopers LLP and Deloitte & Touche LLP; consent of Tory Tory; powers of attorney; form of Indenture; form of Underwriting Agreement; the Statement of Eligibility on Form T-1 of the Trustee for the Indenture; and a written irrevocable consent and power of attorney of the Company on Form F-X.

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AUDITORS' REPORT

To the Directors of Alliance Atlantis Communications Inc.

We have audited the consolidated balance sheets of Alliance Atlantis Communications Inc. (formerly Alliance Communications Corporation) as at March 31, 1999 and 1998 and the consolidated statements of operations and retained earnings and cash flows for each of the years in the three-year period ended March 31, 1999. 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1999 and 1998 and the results of its operations and cash flows for each of the years in the three-year period ended March 31, 1999 in accordance with Canadian generally accepted accounting principles.

July 19, 1999, except as to note 21 which
is at October 26, 1999
Toronto, Canada

(Signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

ALLIANCE ATLANTIS COMMUNICATIONS INC.
CONSOLIDATED BALANCE SHEETS
(In thousands of Canadian dollars)

	As at March 31, 1998	As at March 31, 1999	As at June 30, 1999 (Unaudited)
ASSETS			
Cash and cash equivalents	2,430	56,883	71,381
Accounts receivable	250,111	470,058	551,890
Loans receivable	40,697	39,934	38,292
Income taxes (note 12)	—	32,020	17,853
Investment in film and television programs (note 3) . . .	215,485	542,722	668,288
Development costs	19,902	23,407	25,995
Property and equipment (note 4)	14,121	38,662	40,991
Broadcasting licences	10,200	78,297	77,865
Goodwill and other assets (note 5)	12,046	103,371	106,846
	<u>564,992</u>	<u>1,385,354</u>	<u>1,599,401</u>
LIABILITIES			
Revolving term loans (note 6)	111,572	437,030	472,056
Accounts payable and accrued liabilities	120,142	277,956	351,914
Income taxes (note 12)	1,135	—	—
Deferred revenue	61,366	149,337	258,527
Other term loans (note 7)	33,751	48,439	42,969
Convertible debentures (note 8)	17,589	8,794	8,794
Minority interest	—	8,941	9,017
	<u>345,555</u>	<u>930,497</u>	<u>1,143,277</u>
SHAREHOLDERS' EQUITY			
Capital stock (note 9)	140,108	438,354	439,773
Retained earnings	78,845	13,133	19,178
Cumulative translation adjustments	484	3,370	(2,827)
	<u>219,437</u>	<u>454,857</u>	<u>456,124</u>
	<u>564,992</u>	<u>1,385,354</u>	<u>1,599,401</u>

Approved by the Board of Directors

(Signed) HAROLD P. GORDON

Director

(Signed) THOMAS J. VOLPE

Director

The accompanying notes form an integral part of these financial statements.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
(In thousands of Canadian dollars—except per share amounts)

	For the three months ended June 30		For the year ended March 31		
	1998	1999	1997	1998	1999
	(Unaudited)				
Revenues	80,652	163,309	282,599	385,171	633,399
Direct operating expenses (note 10)	58,205	129,261	214,916	304,669	515,701
Gross profit	22,447	34,048	67,683	80,502	117,698
Other expenses					
Operating	13,923	18,041	42,443	51,258	71,431
Amortization	1,744	4,546	4,530	5,118	12,258
Interest (note 10)	694	3,352	1,296	1,461	9,029
	16,361	25,939	48,269	57,837	92,718
Operating earnings before undernoted	6,086	8,109	19,414	22,665	24,980
Merger and restructuring expenses (note 2)	—	—	—	—	81,391
Gain on sale of investments (note 11)	—	2,450	7,544	5,202	717
Minority Interest	(118)	(159)	142	63	609
Earnings (loss) before income taxes	5,968	10,400	27,100	27,930	(55,085)
Provision for (recovery of) income taxes (note 12) . . .	1,835	3,308	9,619	8,036	(27,770)
Net earnings (loss) for the period	4,133	7,092	17,481	19,894	(27,315)
Retained earnings—beginning of period (note 14) . . .	78,845	13,133	41,470	58,951	78,845
Redemption of common shares (note 9)	—	—	—	—	(36,272)
Dividends on preferred shares	—	(258)	—	—	(547)
Accretion of conversion feature of preferred shares . .	—	(789)	—	—	(1,578)
Retained earnings—end of period	82,978	19,178	58,951	78,845	13,133
Basic earnings (loss) per common share (note 13) . . .	0.26	0.24	1.47	1.38	(1.44)
Fully diluted earnings (loss) per common share	0.24	0.23	1.39	1.28	(1.44)

The accompanying notes form an integral part of these financial statements.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of Canadian dollars)

	For the three months ended June 30		For the year ended March 31		
	1998	1999	1997	1998	1999
	(Unaudited)				
CASH PROVIDED BY (USED IN)					
Operating cash flows					
Net earnings (loss) for the period	4,133	7,092	17,481	19,894	(27,315)
Items not affecting cash					
Amortization of film and television programs . . .	57,513	120,553	199,589	294,027	509,770
Amortization of development costs	475	1,045	2,351	1,900	3,385
Amortization of property and equipment	1,097	1,989	1,771	2,506	6,559
Amortization of broadcasting licences	56	432	30	174	1,047
Amortization of goodwill	116	1,080	378	538	1,267
Gain on sale of investments	—	(2,450)	(7,544)	(5,202)	(717)
Non-cash interest	—	—	—	1,089	—
Minority interest	118	159	(142)	(63)	(609)
	63,508	129,900	213,914	314,863	493,387
Net changes in other non-cash balances related to operations (note 15)	(15,425)	105,313	27,205	(97,279)	(133,738)
	48,083	235,213	241,119	217,584	359,649
Investing cash flows					
Loans receivable	5,216	1,642	(9,283)	(31,414)	763
Film and television programs	(129,447)	(246,119)	(239,973)	(367,929)	(703,792)
Development costs	(3,151)	(3,633)	(7,692)	(8,130)	(4,504)
Property and equipment	(1,417)	(4,318)	(5,237)	(6,313)	(16,797)
Business acquisitions (note 2)	(2,625)	—	(6,373)	(9,331)	(3,668)
Minority interest in acquired businesses	875	—	—	—	7,493
Cash in acquired businesses	—	—	—	—	6,597
Long-term investments	—	2,645	(2,219)	(246)	(1,736)
Proceeds from sale of investments	—	—	7,684	5,269	825
	(130,549)	(249,783)	(263,093)	(418,094)	(714,819)
Financing cash flows					
Revolving term loans	83,485	35,026	(2,256)	141,962	325,458
Other term loans	417	(5,470)	(2,083)	—	(48)
Issue of common shares	431	—	31,887	50,088	84,715
Dividends paid	—	(258)	—	—	(547)
	84,333	29,298	27,548	192,050	409,578
Increase (decrease) in cash and cash equivalents during the period	1,867	14,728	5,574	(8,460)	54,408
Cash and cash equivalents—beginning of period .	2,430	56,883	5,090	10,777	2,430
Effect of exchange rates on cash	6	(230)	113	113	45
Cash and cash equivalents—end of period	4,303	71,381	10,777	2,430	56,883

The accompanying notes form an integral part of these financial statements.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Canadian dollars—except per share amounts)

The Company is a leading international creator, producer, distributor and broadcaster of filmed entertainment with significant interests in seven Canadian speciality television networks (see note 21). The Company's principal business activities are carried out through three operating groups: Television, Motion Picture and Broadcasting.

1. Summary of Significant Accounting Principles

Generally accepted accounting principles

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). These principles conform in all material respects with the accounting principles generally accepted in the United States (United States GAAP) except as described in note 22.

The unaudited consolidated balance sheet as at June 30, 1999 and the unaudited consolidated statements of operations and retained earnings and cash flows for the three-month periods ended June 30, 1999 and 1998, in the opinion of management, have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair statement of the results of the interim periods. All adjustments reflected in the consolidated financial statements are of a normal recurring nature. The data disclosed in the notes to the consolidated financial statements for these periods are unaudited. Results for the three-month periods ended June 30, 1999 and 1998 are not necessarily indicative of the results to be expected for the full year.

Principles of consolidation

The consolidated financial statements include the accounts of Alliance Atlantis Communications Inc. and all of its subsidiaries.

Revenue recognition

Revenue is derived from the sale of distribution rights and equity in productions and theatrical or television exhibition.

Revenue is recognized as earned when the film or television program is completed and delivered, when amounts are due from the exhibitor or when a contract which irrevocably transfers distribution rights to a licensee or equity to an investor is duly executed, the licence period has begun and there is reasonable assurance of collectability of proceeds.

The Company recognizes as revenue only the net benefits from sales to limited partnerships when the investor has irrevocably committed to acquire the related equity.

Fees related to loan origination, including loan restructuring or renegotiating, are recognized as revenue over the expected term of the loan.

Cable service subscriber fee revenue is accrued as earned. Advertising revenue is recognized when advertisements are aired.

Amounts received and receivable and not yet recognized as revenue are included in deferred revenue.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

1. Summary of Significant Accounting Principles (Continued)

Cash equivalents

Cash equivalents consist of credit worthy, money market investments, which are carried at the lower of cost and fair market value.

Loans receivable

Loans receivable are stated net of unearned income and an allowance for credit losses. An allowance for credit losses is maintained in an amount considered adequate to absorb estimated credit-related losses. The allowance is increased by provisions for credit losses which are charged to income, and reduced by write-offs net of expected recoveries. The Company conducts ongoing credit assessments of its loan portfolio on an account-by-account basis and establishes specific allowances when doubtful accounts are identified.

Investment in film and television programs

Investment in film and television programs represents the unamortized costs of film and television programs which have been produced by the Company or for which the Company has acquired distribution rights, film and television programs in progress, acquired film and television program libraries and broadcast rights. Costs of produced or acquired film and television programs include all production, print and advertising costs and capitalized interest, which are expected to be recovered from future revenues, net of estimated future liabilities related to the product. Film and television programs in progress represent the accumulated costs of uncompleted film and television programs, which are being produced by the Company. In acquisitions, fair value is assigned to film and television program libraries acquired.

Amortization of film and television programs produced and acquired is determined based on the ratio that current revenues earned from the film and television programs bear to expected gross future revenues for periods not exceeding ten years from the date of production or acquisition. The cost of libraries is being amortized over the acquired titles' economic lives not to exceed twenty years. The Company expects that 98% of the costs related to completed film and television programs produced and 79% of the costs related to film and television programs acquired will be amortized during the three-year period ending March 31, 2002.

Costs of film and television programs, produced and acquired, and film and television program libraries are written down to the net recoverable amount if the investment is greater than the net recoverable amount. Net recoverable amount is defined as the total undiscounted future revenues expected to be earned from the film and television programs, net of future costs.

Broadcast rights

Broadcast rights included within investment in film and television programs represent long-term contracts acquired from third parties to broadcast film and television programs. Program exhibition rights and corresponding liabilities are recorded at the time the Company becomes committed under a licence agreement and the product is available for telecast.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

1. Summary of Significant Accounting Principles (Continued)

The cost of the broadcast rights is amortized over the contracted exhibition period beginning in the month the film or television program is premiered based on the estimated useful life of the program to the Company.

Development costs

Development costs represent expenditures made on projects prior to production including investment in scripts. Advances or contributions received from third parties to assist in development are deducted from these costs. Upon commencement of production, development costs are added to the investment in film and television programs. Development costs are amortized on a straight-line basis over three years commencing in the year following the year such costs are incurred when production has not commenced. Development costs are written off when determined not to be recoverable.

Property and equipment

Property and equipment is carried at cost less accumulated amortization. Amortization is provided, commencing in the year after acquisition, using the following rates and methods:

Building	5% by declining balance
Furniture and computer and other equipment	20 - 30% by declining balance
Leasehold improvements	Straight-line over the lease term
Broadcasting equipment	Straight-line over five years

Broadcasting licences

In acquisitions involving broadcasting undertakings, fair value is assigned to the broadcasting licences acquired. Broadcasting licences are carried at assigned value less accumulated amortization. Amortization is provided on a straight-line basis over a period of forty years. Broadcasting licences are written down to the net recoverable amount if there is an expectation that the net carrying amount of the licence will not be recovered. Accumulated amortization at March 31, 1999 was \$1,260 (1998—\$213).

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of tangible assets and liabilities acquired. Goodwill is amortized on a straight-line basis over periods up to forty years. Periodically, management reviews the carrying value of goodwill by considering the expected undiscounted future cash flows of the related businesses. Goodwill is written down to the net recoverable amount if there is an expectation that the net carrying amount of the goodwill will not be recovered. Accumulated amortization of goodwill at March 31, 1999 was \$2,967 (1998—\$1,700).

Other assets

Other assets include long-term investments which are accounted for at cost when the conditions for equity accounting are not present. Other assets also include deferred financing

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

1. Summary of Significant Accounting Principles (Continued)

charges which are being amortized on a straight-line basis over the life of the loan, beginning in the year subsequent to the year the loan is incurred.

Government financing and assistance

The Company has access to several government programs that are designed to assist film and television production and distribution in Canada. Amounts received in respect of production assistance are recorded as revenue in accordance with the Company's revenue recognition policy for completed film and television programs. Government assistance with respect to distribution rights is recorded as a reduction of investment in film and television programs. Government assistance towards current expenses is included in net earnings for the year.

Income taxes

Income taxes are accounted for using the provisions of the Canadian Institute of Chartered Accountants Handbook section 3465, Income Taxes, which requires recognition of future income tax assets and liabilities for the expected future income tax consequences of events that have been included in the financial statements or income tax returns. Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for certain carryforward items.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment.

Foreign currency

Assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average rates of exchange for the year. Translation gains or losses are included in the determination of earnings except for gains or losses arising on the translation of the accounts of the foreign subsidiaries considered to be self-sustaining, which are recorded as a separate component of shareholders' equity.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

1. Summary of Significant Accounting Principles (Continued)

Comparative amounts

Certain amounts presented in the prior period have been reclassified to conform with the presentation adopted in the current year.

2. Business Acquisitions

- (a) On September 21, 1998 Alliance Communications Corporation (Alliance) purchased 100% of the outstanding shares of Atlantis Communications Inc. (Atlantis), a leading international producer, distributor and broadcaster of television programming, for total consideration of \$160,490. The consideration was in the form of 2,118,749 Class A Voting Shares, 206,272 Class C Special Voting Shares, and the conversion of 1,410,039 Class A Voting Shares and 445,623 Class B Non-Voting Shares into an equal number of Preferred Shares. The acquisition was accounted for under the purchase method and the results of operations of the acquired company and its subsidiaries have been included in the consolidated statement of operations from the date of acquisition. Subsequent to the acquisition, the operating activities of Atlantis were merged with the operating activities of Alliance, resulting in the following merger and restructuring charges:

Cash expenses including employee severance, legal, professional fees and other merger and restructuring charges	30,461
Non-cash charges on development costs, investment in film and television programs, other assets and investments	50,930
	<u>81,391</u>

As at March 31, 1999, the Company had paid approximately \$25,080 of the \$30,461 of cash expenses. Included within these payments were severance costs related to the termination of 109 employees.

The non-cash charges are attributable to the streamlining and related termination and write-off of certain development projects and other investments as a result of the merger of the two companies.

- (b) On May 21, 1998, the Company purchased 75% of the outstanding shares of Odeon Films Inc. (Odeon) for cash consideration of \$2,625. The acquisition has been accounted for under the purchase method and the results of operations of the acquired company have been included in the consolidated statement of operations from the date of acquisition.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

2. Business Acquisitions (Continued)

The purchase consideration for each acquisition was allocated as follows:

	<u>Atlantis</u>	<u>Odeon</u>
Identifiable assets acquired		
Cash	6,597	—
Accounts receivable	234,521	3,154
Investment in film and television programs	130,496	2,719
Development costs	2,386	—
Property and equipment	14,303	—
Broadcasting licences	69,144	—
Goodwill and other assets	88,787	42
	<u>546,234</u>	<u>5,915</u>
Liabilities assumed	385,744	3,290
Net assets acquired	<u>160,490</u>	<u>2,625</u>

The Atlantis transaction resulted in goodwill of \$77,370.

- (c) The Company purchased the assets of Citadel Entertainment, LLC (Citadel) on December 5, 1997 and 100% of the outstanding shares of Norstar Entertainment Inc. (Norstar) on December 19, 1997 for cash consideration of \$3,080 and \$6,000 respectively. The acquisitions were accounted for under the purchase method and the results of operations have been included in the consolidated statement of operations from the respective dates of acquisition.

The purchase consideration for each acquisition was allocated as follows:

	<u>Citadel</u>	<u>Norstar</u>
Identifiable assets acquired:		
Accounts receivable	—	5,454
Income taxes	—	5,641
Investment in film and television programs	—	6,377
Development costs	284	285
Goodwill and other assets	3,076	378
	<u>3,360</u>	<u>18,135</u>
Liabilities assumed	280	12,135
Net assets acquired	<u>3,080</u>	<u>6,000</u>

The transactions resulted in goodwill of \$3,076 and \$372 respectively.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

3. Investment in Film and Television Programs

	March 31,	
	1998	1999
Produced	93,093	127,720
Acquired	83,012	193,396
Libraries	—	40,484
Programs in progress	22,093	140,525
Broadcast rights	17,287	40,597
	<u>215,485</u>	<u>542,722</u>

The Company expects that 98% of the costs related to completed film and television programs produced and 79% of the costs related to film and television programs acquired will be amortized during the three-year period ending March 31, 2002.

The Company earns revenues from film and television programs which are fully amortized and are not reflected on the balance sheet.

Previously the Company amortized broadcast rights over the lesser of two years or the contracted exhibition period. Effective January 1, 1999, the Company changed its accounting policy to amortize broadcast rights over the contracted exhibition period, based on the estimated useful life of the program to the Company.

The effect of the change in accounting policy has been reflected retroactively and the results of comparative prior periods presented have been restated accordingly. As a result of the restatement of prior periods, opening retained earnings has been reduced by \$1,270 (1998—\$609; 1997—\$nil), direct operating expenses increased (1998—\$1,193; 1997—\$1,100) and provision for income taxes decreased (1998—\$532; 1997—\$491).

4. Property and Equipment

	March 31, 1998		March 31, 1999	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	—	—	829	—
Building	—	—	3,510	1,389
Furniture and other equipment	12,729	5,864	34,554	15,432
Leasehold improvements	6,456	1,420	15,055	3,353
Broadcasting equipment	2,925	705	8,690	3,802
	<u>22,110</u>	7,989	<u>62,638</u>	23,976
Net book value		<u>14,121</u>		<u>38,662</u>

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

5. Other Assets

	March 31,	
	1998	1999
Goodwill	3,876	81,482
Prepaid and other charges	4,295	16,386
Long-term investments	3,875	5,503
	<u>12,046</u>	<u>103,371</u>

Previously, pre-operating costs related to the period before commencement of commercial operations of Showcase Television Inc. and History Television Inc. were deferred as other assets and amortized on a straight-line basis over five years. Effective January 1, 1999 the Company changed its accounting policy to expense pre-operating costs as incurred.

The effect of this change in policy has been reflected retroactively and the results of comparative prior periods presented restated accordingly. As a result of the restatement of prior periods, opening retained earnings has been reduced by \$2,862 (1998—\$1,111; 1997—\$1,235), other operating expenses increased (1998—\$3,756; 1997—\$406), amortization decreased (1998—\$595; 1997—\$630) and provision for income taxes decreased (increased) (1998—\$1,410; 1997—(\$100)).

6. Revolving Term Loans

	March 31,	
	1998	1999
\$400,000 maturing September 2003	—	378,918
\$35,000 maturing September 2003	—	32,300
\$40,000 maturing August 2003	—	25,812
\$250,000	111,572	—
	<u>111,572</u>	<u>437,030</u>

The Company's assets and the assets of certain of its subsidiaries have been pledged as collateral for the revolving term loans.

As at March 31, 1999, including the \$75,000 revolving term facility which was completed subsequent to year end, the Company had unused credit facilities aggregating \$112,970 (1998—\$138,428).

The availability of the revolving term loans are subject to the Company maintaining a specified tangible net worth and interest and consolidated indebtedness coverage ratios.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

6. Revolving Term Loans (Continued)

Repayments of the revolving term loans are scheduled as follows:

2000	4,038
2001	13,475
2002	109,605
2003	204,334
2004	105,578
	<u>437,030</u>

7. Other Term Loans

	March 31,	
	1998	1999
Term loans under revolving facilities totalling \$50,000 bearing interest at rates between the commercial prime rate plus 0.5% to 1.5%	31,019	30,445
Mortgages payable, bearing interest at commercial prime rates plus 3% and 9.99%, and repayable over terms extending to October 15, 2005	—	3,260
Other term loans which are unsecured and have no fixed terms of repayment, bearing interest at various rates	2,732	13,294
Obligation under capital lease	—	1,440
	<u>33,751</u>	<u>48,439</u>

Principal repayments are scheduled to be as follows:

2000	41,771
2001	3,702
2002	524
2003	549
2004	577
Due subsequent	1,316
	<u>48,439</u>

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

8. Convertible Debentures

On October 28, 1994, the Company issued convertible, unsecured, subordinated debentures for \$16,500 cash bearing interest at 6.5% per year and maturing on April 5, 2002. The debentures are convertible at the option of the holder into Class A Voting Shares of the Company at any time after October 28, 1995 at a conversion price of \$19 per share. Interest is payable in cash or additional convertible debentures at the Company's option.

On October 15, 1997 and March 31, 1998, the Company issued additional convertible debentures in respect of interest payable for \$536 and \$553 respectively. These debentures carry the same terms and conditions as the debentures issued on October 28, 1994.

Commencing October 28, 1999, the debentures will be redeemable at the option of the Company, provided certain conditions are met, at the issue price, together with accrued and unpaid interest to the date of redemption. The Company has the option to pay for the redemption of the debentures by issuing its own common shares to the debenture holder at a price equal to 90% of the weighted average trading price of the common shares for the last 20 consecutive trading days prior to redemption or the maturity date.

In September 1998, 462,842 Class A Voting Shares were issued in respect of the conversion of \$8,795 of the outstanding debentures at the conversion price of \$19 per share.

9. Capital Stock

- (a) The authorized capital stock of the Company consists of Common Shares and Preferred Shares as follows:

Common Shares

Class A Voting Shares—unlimited

Class B Non-Voting Shares—unlimited

Class C Special Voting Shares—275,000

The Class A Voting Shares and the Class B Non-Voting Shares have identical attributes except that the Class B Non-Voting Shares are non-voting and each of the Class A Voting Shares are convertible at any time at the holder's option into one fully paid and non-assessable, Class B Non-Voting Share. The Class B Non-Voting Shares may be converted into Class A Voting Shares only in certain circumstances. Each of the Class C Special Voting Shares are convertible at any time, at the holder's option, and automatically on the third anniversary of their issuance, into 20 fully paid and non-assessable Class B Non-Voting Shares.

Preferred Shares—1,855,662

The Preferred Shares are non-voting, convertible, retractable, redeemable and have a cumulative dividend rate of 2% per annum. Conversion may occur at any time at the holder's option, or on the third anniversary of the original date of issue at the Company's option, into fully paid and non-assessable Class B Non-Voting Shares. The conversion rate is to be determined by dividing the aggregate redemption price of the Preferred Shares being converted by an amount equal to 115% of the redemption price. The Preferred

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

9. Capital Stock (Continued)

Shares are retractable at \$27.97 at the holder's option beginning on the first anniversary of the original date of issue.

(b) During fiscal 1999, the following transactions occurred:

On September 21, 1998, 2,118,749 Class A Voting Shares and 206,272 Class C Special Voting Shares were issued in connection with the acquisition of Atlantis Communications Inc. for proceeds of \$154,707, net of issue expenses and income tax benefits. In addition, 1,410,039 Class A Voting Shares and 445,623 Class B Non-Voting Shares were converted into Preferred Shares. As a result of the conversion of Class A Voting Shares and Class B Non-Voting Shares into Preferred Shares, \$36,272 was allocated from retained earnings to Preferred Shares, being the excess of the fair value of the Preferred Shares over the \$12,476 book value of the shares converted, net of a \$3,155 conversion feature. The value assigned to the conversion feature is being accreted from retained earnings to the Preferred Shares from the date of issue to the date the Preferred Shares are first convertible;

In September 1998, 462,842 Class A Voting Shares were issued in connection with the conversion of \$8,795 of convertible debentures;

In November 1998, 2,900,000 Class B Non-Voting Shares were issued pursuant to a public offering at a gross price of \$28.50 per share for proceeds of \$80,409, net of issue expenses and income tax benefits;

During fiscal 1999, 961,438 Class A Voting Shares were converted into Class B Non-Voting Shares and 141,096 Class C Special Voting Shares were converted into Class B Non-Voting Shares. In addition, 1,148,632 employee stock options for 269,510 Class A Voting Shares and 879,122 Class B Non-Voting Shares were exercised pursuant to the Company's stock option plans for proceeds of \$16,025; and

In February 1999, 18,188 Class B Non-Voting Shares were issued in connection with the cancellation of an outstanding option to purchase shares of a subsidiary of the Company at \$25.29 per share for proceeds of \$460.

(c) During fiscal 1998, the following transactions occurred:

In November 1997, 2,800,000 Class B Non-Voting Shares were issued pursuant to a public offering at a gross price of \$18.00 per share for proceeds of \$49,362 net of issue expenses and income tax benefits; and

During fiscal 1998, 379,381 Class A Voting Shares were converted into Class B Non-Voting Shares. In addition, 150,840 employee stock options for 36,133 Class A Voting Shares and 114,707 Class B Non-Voting Shares were exercised pursuant to the Company stock option plan for proceeds of \$1,910.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

9. Capital Stock (Continued)

(d) During fiscal 1997, the following transactions occurred:

In August 1996, 3,020,000 Class B Non-Voting Shares were issued pursuant to a public offering at a gross price of US\$8.50 per share for proceeds of \$32,920, net of issue expenses and income tax benefits;

In September 1996, 10,000 Class B Non-Voting Shares were issued in connection with the acquisition of film and television programs at \$13.62 per share for proceeds of \$136;

In January 1997, 95,421 Class B Non-Voting Shares were issued in connection with the purchase of a long-term investment at \$11.79 per share for proceeds of \$1,125;

In January and February 1997, 162,807 Class B Non-Voting Shares were issued in connection with the acquisition of an additional 44% ownership interest in Showcase Television Inc. at \$11.84 per share for proceeds of \$1,927; and

During fiscal 1997, 62,100 Class A Voting Shares were converted into Class B Non-Voting Shares. In addition, 37,020 employee stock options for 18,509 Class A Voting Shares and 18,511 Class B Non-Voting Shares were exercised pursuant to the Company stock option plan for proceeds of \$433.

(e) As a result, the issued capital stock is as follows:

	March 31,	
	1998	1999
Class A Voting Shares, 5,041,510 (1998—4,561,886)	24,465	70,448
Class B Non-Voting Shares, 18,724,827 (1998—11,607,970)	115,643	284,001
Class C Special Voting Shares, 65,176 (1998—nil)	—	33,579
Preferred Shares, 1,855,662 (1998—nil)	—	50,326
	<u>140,108</u>	<u>438,354</u>

(f) The Company has Employee Stock Option Plans which provide for the issuance of up to 2,908,205 Common Shares. These options generally vest in equal annual amounts over four to five years. No options are exercisable for periods of more than ten years after date of grant. Options granted under the plans may not have an option price less than the closing market price of the Class B Non-Voting Shares on the last trading date preceding the date of the grant.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

9. Capital Stock (Continued)

Stock option activity for 1997, 1998 and 1999 is as follows:

	Number of Shares		Weighted Average	
	Voting	Non-Voting	Total	Exercise Price
Outstanding at March 31, 1996	437,870	975,383	1,413,253	13.69
Granted	5,000	121,120	126,120	14.25
Exercised	(18,509)	(18,511)	(37,020)	11.71
Cancelled	(17,934)	(17,925)	(35,859)	12.85
Outstanding at March 31, 1997	406,427	1,060,067	1,466,494	13.81
Granted	—	180,000	180,000	13.87
Exercised	(36,133)	(114,707)	(150,840)	12.64
Cancelled	(10,640)	(95,640)	(106,280)	13.96
Outstanding at March 31, 1998	359,654	1,029,720	1,389,374	13.96
Granted	—	2,388,322	2,388,322	25.13
Exercised	(269,510)	(879,122)	(1,148,632)	14.46
Cancelled	—	(80,859)	(80,859)	19.55
Balance at March 31, 1999	90,144	2,458,061	2,548,205	23.90
Exercisable at March 31, 1999	90,144	1,209,460	1,299,604	20.68
Exercisable at March 31, 1998	292,361	704,248	996,609	13.77
Exercisable at March 31, 1997	291,628	503,604	795,232	13.20

At March 31, 1999, 2,548,205 options were outstanding with exercise prices ranging from \$11.70 to \$32.00 and with a weighted average remaining contractual life of 7.6 years.

10. Interest

	March 31,		
	1997	1998	1999
Revolving term loans	1,073	1,125	8,822
Other term loans	—	1,249	2,850
Convertible debentures	1,505	1,725	840
Interest expense capitalized in prior periods	—	883	10,552
	2,578	4,982	23,064
Interest expensed to direct operating expenses	—	(2,132)	(13,020)
	2,578	2,850	10,044
Interest income	(1,282)	(1,389)	(1,015)
	1,296	1,461	9,029

Interest in respect of the revolving term loans is net of \$17,011 capitalized to investment in film and television programs (1998—\$2,654; 1997—\$nil).

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

10. Interest (Continued)

The weighted average interest rate for the year ended March 31, 1999 was 8.08% (1998—6.29%).

11. Gain on Sale of Investments

During the year ended March 31, 1999, the Company sold the remainder of its investment in Mainframe Entertainment, Inc. for net proceeds of \$825 (1998—\$5,269; 1997—\$7,684) and realized a pre-tax gain on sale of \$717 (1998—\$5,202; 1997—\$7,544).

12. Income Taxes

The differences between the effective tax rate reflected in the provision for income taxes and the Canadian statutory income tax rate are as follows:

	March 31,		
	1997 %	1998 %	1999 %
Corporate statutory rate of income tax (recovery)	44.6	44.6	(44.6)
Adjusted for the effect of:			
Foreign operations subject to different income tax rates	(11.9)	(16.9)	(14.1)
Expenses not deductible for income tax purposes	2.8	1.6	0.2
Restructuring provision	—	—	7.0
Utilization of previously unrecognized tax losses	—	(4.4)	—
Other	—	3.9	1.1
	<u>35.5</u>	<u>28.8</u>	<u>(50.4)</u>

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

12. Income Taxes (Continued)

The temporary differences which give rise to future tax assets and liabilities at March 31 consist of the following:

	<u>March 31,</u>	
	<u>1998</u>	<u>1999</u>
Future income tax assets:		
Property and equipment	443	15,672
Loss carryforwards	19,879	17,437
Merger and restructuring expenses	—	18,667
All other	2,456	3,049
	<u>22,778</u>	<u>54,825</u>
Future income tax liabilities:		
Broadcasting licences	3,147	24,214
Property and equipment	935	3,769
Investment in film and television programs	2,025	11,546
All other	1,622	2,564
	<u>7,729</u>	<u>42,093</u>
Net future income taxes	15,049	12,732
Current taxes recoverable (payable)	<u>(16,184)</u>	<u>19,288</u>
	<u>(1,135)</u>	<u>32,020</u>

Management believes that all future income tax assets will be realized and accordingly no valuation allowance has been made.

During the year ended March 31, 1999, the Company paid income taxes of \$24,302 (1998—\$12,425; 1997—\$8,537).

As a result of a change in accounting standards, the Company has changed its accounting policy with respect to income taxes. Previously, the Company followed the tax deferral method of accounting for income taxes whereby earnings were charged with income taxes relating to reported earnings with differences between the time certain items were reported in the consolidated financial statements and the time they were reported for income tax purposes being recorded as deferred income taxes.

The effects of this change in accounting policy have been reflected retroactively and the results of comparative periods restated accordingly. As a result of the restatement of prior periods, opening retained earnings has been reduced by \$2,208 (1998—\$222; 1997—\$nil), provision for income taxes increased (1998—\$1,995; 1997—\$222) and amortization reduced (1998—\$9; 1997—\$nil).

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

13. Earnings Per Share

Earnings (loss) per common share is calculated on the basis of 20,406,308 (1998—14,408,000; 1997—11,919,000) weighted average common shares outstanding. This assumes the Class C Special Voting Shares have been converted into Class B Non-Voting Shares.

The effect of the merger and restructuring charges is to reduce basic earnings per share by \$2.21 and pro forma basic earnings per share by \$2.09. Had the merger and restructuring charges not been incurred, basic earnings per share would have been \$0.77 and pro forma basic earnings per share would have been \$0.99.

For the year ended March 31, 1999, fully diluted earnings (loss) per share is equal to basic earnings (loss) per share as the effects of the employee stock options and convertible debentures are anti-dilutive. For the years ended March 31, 1998 and March 31, 1997, the fully diluted earnings per share were calculated on the basis of 16,728,000 and 14,275,000 respectively. The effects of the employee stock options and convertible debentures increased the earnings available to common shareholders by \$1,439 in 1998 and \$2,313 in 1997.

14. Retained Earnings

Opening retained earnings has been restated to reflect changes in accounting policies and the adoption of new accounting standards as described in notes 3, 5 and 12. Retained earnings as previously reported was \$85,185 (1998—\$60,893; 1997—\$42,705).

In addition, the Company changed its accounting policy for revenue recognition effective September 22, 1998. Revenue from the sale of film or television programs is recognized only when the licence period has begun. The change in accounting policy has been accounted for prospectively as the necessary financial data to account for this change retroactively is not reasonably determinable. The effect of the change in the current year is a reduction in revenue and an increase in deferred revenue of approximately \$20,000.

15. Statement of Cash Flows

	Year ended March 31,		
	1997	1998	1999
Cash provided by (used in)			
Accounts receivable and distribution contracts receivable	(40,427)	(86,201)	17,728
Accounts payable and accrued liabilities	35,813	(363)	(36,627)
Deferred revenue	30,274	(2,991)	(56,480)
Income taxes	(1,694)	(1,305)	(60,568)
Other	3,239	(6,419)	2,209
Net change in non-cash working capital balances related to operations	<u>27,205</u>	<u>(97,279)</u>	<u>(133,738)</u>

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

16. Government Financing and Assistance

Revenues include \$26,905 of production financing obtained from the government for the year ended March 31, 1999 (1998—\$24,144; 1997—\$9,283). This financing is related to equity participation by government agencies and is repayable from distribution revenues in respect of which the financing was made. As revenues from these productions are not currently known, the amounts ultimately repayable to government agencies are not determinable. In addition, revenues include \$23,325 of government grants relating to production activities (1998—\$14,866; 1997—\$7,108).

Investment in film and television programs includes a reduction of \$8,454 (1998—\$10,889; 1997—\$10,291) with respect to government assistance for distribution of certain programs. Government assistance may be repayable in whole or in part depending upon future revenues generated by certain individual film and television programs. The potential amounts repayable are not determinable. In addition, revenues include \$755 (1998—\$615; 1997—\$859) of government grants relating to distribution activities.

17. Commitments and Contingencies

- (a) The Company is committed with respect to operating leases for office premises and equipment expiring at various dates to May 2007. The future minimum payments under the terms of such leases are as follows:

2000	6,410
2001	6,907
2002	6,227
2003	5,873
2004	5,417
Due subsequent	9,027
	<u>39,861</u>

Rent expense for 1999 is \$3,749 (1998—\$2,845; 1997—\$2,053).

- (b) The Company is involved in various legal actions. In the opinion of management, any resulting liability is not expected to have a material adverse effect on the Company's financial position.
- (c) The Company has letters of credit aggregating \$62,911 outstanding at March 31, 1999 (1998—\$nil; 1997—US\$2,500). \$52,903 of cash and cash equivalents has been pledged as collateral for the letters of credit.
- (d) The Company has entered into various foreign exchange forward contracts to sell U.S. dollars at various rates and increments aggregating US\$7.5 million. The contracts mature at various dates up to August 15, 2000.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

18. Segmented Information

The Company's principal business activities are carried out through three operating groups: Television, Motion Picture, and Broadcasting. The Television and Motion Picture groups involve the development, production, acquisition, distribution and financing of live action dramatic television and animation, and motion pictures, respectively. The Broadcasting Group consists of the Company's cable networks which include lifestyle, drama and documentary programming.

(a) Information on the operating groups is as follows:

	<u>Television</u>	<u>Motion Picture</u>	<u>Broadcasting</u>	<u>Other</u>	<u>Total</u>
Year ended:					
March 31, 1997					
Revenues	122,417	113,931	19,884	26,367	282,599
Gross profit	21,853	23,169	8,666	13,995	67,683
Total assets	183,263	117,403	25,825	27,351	353,842
Capital expenditures . . .	670	—	363	4,204	5,237
March 31, 1998					
Revenues	196,466	149,500	23,028	16,177	385,171
Gross profit	29,410	32,959	11,330	6,803	80,502
Total assets	284,172	220,907	37,885	22,028	564,992
Capital expenditures . . .	711	84	4,148	1,370	6,313
March 31, 1999					
Revenues	382,474	180,387	59,595	10,943	633,399
Gross profit	48,193	30,299	32,915	6,291	117,698
Total assets	728,970	352,146	107,758	196,480	1,385,354
Capital expenditures . . .	6,624	6,348	441	3,384	16,797
Three months ended:					
June 30, 1998					
Revenues	32,946	38,011	8,976	719	80,652
Gross profit	8,153	8,737	5,377	180	22,447
Total assets	374,229	233,538	76,762	46,620	731,149
Capital expenditures . . .	623	238	380	176	1,417
June 30, 1999					
Revenues	68,212	61,376	22,071	11,650	163,309
Gross profit	6,583	10,327	11,554	5,584	34,048
Total assets	926,370	331,398	145,368	196,265	1,599,401
Capital expenditures . . .	1,428	1,124	—	1,766	4,318

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

18. Segmented Information (Continued)

(b) Geographic information is as follows:

	Revenues					Assets		
	Year ended March 31			Three months ended June 30		March 31		June 30
	1997	1998	1999	1998	1999	1998	1999	1999
Canadian	169,383	232,001	353,110	36,088	86,887	439,247	1,150,050	1,247,579
Foreign	113,216	153,170	280,289	44,564	76,422	125,745	235,304	351,822
Total	<u>282,599</u>	<u>385,171</u>	<u>633,399</u>	<u>80,652</u>	<u>163,309</u>	<u>564,992</u>	<u>1,385,354</u>	<u>1,599,401</u>

19. Financial Instruments

Fair values of financial instruments

The estimated fair values of financial instruments as at March 31, 1999 and March 31, 1998 are based on relevant market prices and information available at the time. The carrying values of cash and cash equivalents, accounts receivable, loans receivable, long-term investments, accounts payable and accrued liabilities, and other term loans, approximate the fair values of these financial statements.

	March 31, 1998		March 31, 1999	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Assets for which fair value approximates carrying value	47,002	47,002	102,320	102,320
Accounts receivable	250,111	245,878	470,058	465,222
Financial liabilities				
Liabilities for which fair value approximates carrying value	153,898	153,898	326,395	326,395
Revolving term loans	111,572	111,572	437,030	437,030
Convertible debentures	17,589	23,329	8,794	11,224

The fair value of accounts receivable is based on discounting future cash flows using rates currently available for similar instruments. The Company has not written these receivables down as it expects to recover their carrying amounts fully by holding them to maturity.

The fair value of the convertible debentures is based on the difference between the conversion price and the closing stock price of the Company on March 31, 1999.

Concentration of credit risk

Accounts receivable from the federal government and other government agencies in connection with production financing represents 14% (1998—10%) of total accounts receivable at March 31, 1999. The Company believes that there is minimal risk associated with the collection of

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

19. Financial Instruments (Continued)

these amounts. The balance of accounts receivable and distribution contracts receivable is widely distributed amongst customers. Loans receivable include amounts due from a relatively small number of customers. The Company maintains an allowance for credit losses in an amount considered adequate to absorb estimated credit-related losses.

20. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

21. Subsequent Events

Subsequent to March 31, 1999:

- (a) After receiving CRTC approval on October 21, 1999, the Company acquired a 47.85% interest in Sportscope Television Network Ltd. ("Sportscope"), which operates Headline Sports specialty television network. The Company paid approximately \$16,200 for the shares of Sportscope and approximately \$1,300 for the assumption of a loan payable by Sportscope.
- (b) The Company was awarded two new French-language specialty licences. The Company will use these licences to broadcast Canal Histoire and Canal Fiction, which are the equivalents of the Company's existing networks, History Television and Showcase.
- (c) The Company completed a \$75,000 credit facility. The facility was fully repaid and cancelled with the proceeds of the Kinowelt Private Placement.
- (d) The Company issued approximately 6,276,000 Class B Non-Voting Shares and one Class D specified Non-Voting Share to the principals of Kinowelt for approximately \$132,000, on August 20, 1999, the proceeds of which were used to repay indebtedness.
- (e) On September 23, 1999 the Company redeemed the 1,855,662 preferred shares for \$51,903 in cash.

22. Reconciliation to United States GAAP

The consolidated financial statements of the Company have been prepared in accordance with Canadian GAAP. The following adjustments and/or additional disclosures, would be required in

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

22. Reconciliation to United States GAAP (Continued)

order to present the financial statements in accordance with United States GAAP, as required by the United States Securities and Exchange Commission (SEC).

Under United States GAAP, the net earnings and earnings per common share figures for the years ended March 31, 1999, 1998 and 1997 and the shareholders' equity for the years ended March 31, 1999 and 1998 would be adjusted as follows:

	Net Earnings					Shareholders' Equity		
	Three months ended June 30,		Year ended March 31,			March 31,		June 30,
	1998	1999	1997	1998	1999	1998	1999	1999
Canadian GAAP	4,133	7,092	17,481	19,894	(27,315)	219,437	454,857	456,124
Adjustment to development costs and investment in scripts, net of income taxes of \$3,870 (1998—\$1,160; 1997—\$92) (a)	(2,118)	(773)	115	(1,440)	(4,803)	(1,841)	(6,644)	(7,417)
Adjustment to operating expenses with respect to stock option (b)	—	—	(77)	(75)	—	(874)	(874)	(874)
Adjustment to revenue with respect to television licence agreements, net of income taxes of \$807 (1998—\$654; 1997—\$662) (c)	(1,140)	513	(2,062)	134	(4,618)	(5,584)	(10,202)	(9,869)
Adjustment to operating expenses, net of income taxes of \$2,306 (1998—\$981; 1997—\$nil) (d)	(799)	—	(485)	(1,195)	(2,915)	(1,195)	(4,110)	(4,110)
Adjustment to shareholders' equity with respect to stock options (b)	—	—	—	—	—	874	874	874
Adjustment to restructuring provisions (e)	—	(997)	—	—	997	—	997	—
Adjustment to remove value of preferred shares (f)	—	—	—	—	—	—	(50,326)	(51,115)
United States GAAP excluding cumulative effect adjustment	76	5,835	14,972	17,318	(38,654)	210,817	384,572	383,793
Cumulative effect of income tax adjustment for years prior to April 1, 1993	—	—	—	—	—	(285)	(285)	(285)
United States GAAP	<u>76</u>	<u>5,835</u>	<u>14,972</u>	<u>17,318</u>	<u>(38,654)</u>	<u>210,532</u>	<u>384,287</u>	<u>383,508</u>
Earnings per common shared based on United States GAAP (g)								
Basic	<u>0</u>	<u>0.21</u>	<u>1.26</u>	<u>1.20</u>	<u>(1.89)</u>			
Diluted	<u>0</u>	<u>0.21</u>	<u>1.21</u>	<u>1.15</u>	<u>(1.89)</u>			

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

22. Reconciliation to United States GAAP (Continued)

(a) Accounting for development costs and investment in scripts

Under Statement of Financial Accounting Standards No. 53 “Financial Reporting by Producers and Distributors of Motion Picture Films” (SFAS 53), expenditures associated with the development of stories and scenarios are expended as incurred while expenditures for properties such as film rights to books, stage plays, original screenplays, etc. are expensed if the property has been held for three years and has not been set for production. Under Canadian GAAP, development costs and investment in scripts are amortized over three years commencing in the year following the year such costs are incurred. The net difference of the two adjustments is disclosed as a United States GAAP reconciling item.

(b) Accounting for stock options and share issuances

During fiscal 1997, the Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 “Accounting for Stock-Based Compensation” (SFAS 123), but, as permitted, continues to apply Accounting Principles Board Opinion No. 25 “Accounting for Stock Issued to Employees” (APB 25) in accounting for its employee stock option plan for United States GAAP reconciliation purposes.

For the years ended March 31, 1998 and 1997, no compensatory employee stock options were issued which resulted in a compensation expense, however, a compensation expense was recognized for options issued in prior years as they vested in 1998 and 1997. In accordance with APB 25, the difference between the quoted market price and the option price is recorded as compensation expense over the vesting period.

As the provisions of SFAS 123 have not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

For disclosure purposes the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for stock options granted; expected dividend yield of 0.0% (1998—0.0%; 1997—0.0%), expected volatility of 40% (1998—40.4%; 1997—41.4%), risk-free interest rate of 4.9% (1998—6.0%; 1997—5.9%) and expected life of 5.3 years (1998—3 years; 1997—3 years). The weighted average fair value of each stock option granted in 1999 was \$11.65 (1998—\$4.73; 1997—\$4.77). Therefore, the resulting compensation expense in 1999 would have been \$4,703 (1998—\$1,292; 1997—\$1,118).

(c) Revenue recognition from television licence agreements

Under Canadian GAAP, revenues from licence agreements for television programs are recognized as earned when the television program is completed and delivered, when amounts are due from exhibitor or when a contract is executed that irrevocably transfers distribution rights to a licensee, and there is reasonable assurance of collectability of proceeds. Under SFAS 53, revenues from licence agreements for television programs are

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

22. Reconciliation to United States GAAP (Continued)

recognized at the time the licence periods commence instead of at the time the licence agreements are executed.

- (d) The Company changed its accounting policy with respect to pre-operating costs which was accounted for retroactively resulting in a \$2,862 reduction in opening retained earnings. The Company's new accounting policy is consistent with Statement of Position 98-5 (SOP 98-5), "Reporting on the Cost of Start-Up Activities". SOP 98-5 requires costs of start-up activities to be expensed as incurred. The adoption of the SOP however is accounted for as an adjustment to earnings in the year of adoption and not presented on a retroactive basis.

The Company changed its accounting policy to amortize broadcast rights over the contracted exhibition period, based on the estimated useful life of the program to the Company, resulting in a \$1,270 reduction in opening retained earnings. Previously, the Company amortized broadcast rights over the lesser of two years or the contracted exhibition period.

- (e) Accounting for restructuring provisions

Included in accounts payable and accrued liabilities are restructuring charges which, under United States GAAP, would not meet the criteria for recognition as a liability.

- (f) Accounting for preferred shares

Under United States GAAP, convertible preferred shares are presented outside of Shareholders' Equity.

- (g) Under both United States and Canadian GAAP, basic earnings per share is computed by dividing the net earnings (loss) for the period available to common shareholders as measured by the respective accounting principles (numerator), by the weighted average number of common shares outstanding during that period (denominator). Basic earnings per share excludes the dilutive effect of potential common shares. Fully diluted earnings per share under Canadian GAAP and diluted earnings per share under United States GAAP give effect to all potential common shares outstanding during the period.

Under Canadian GAAP, fully diluted earnings per share is calculated assuming that the proceeds from the exercise of potential common shares are invested at an appropriate rate of return, and an imputed interest amount is added to net earnings for the period. The number of fully diluted shares outstanding represents the weighted average maximum number of potential common shares outstanding. Under United States GAAP, the weighted average number of diluted shares outstanding is calculated assuming that the proceeds from potential common shares are used to repurchase common shares at the average share price in the period. No adjustment is made to net earnings for imputed interest in calculating diluted earnings per share under United States GAAP. The options outstanding have an anti-dilutive effect on the calculation of diluted earnings per share for the period ended March 31, 1999 and, as a result, there is no difference between earnings (loss) per

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands of Canadian dollars—except per share amounts)

22. Reconciliation to United States GAAP (Continued)

share figures under Canadian and United States GAAP. Fully diluted earnings per share under United States GAAP for the years ended March 31, 1998 and March 31, 1997 has been calculated on the basis of 13,019,000 and 14,447,000 shares outstanding respectively.

(h) Consolidated statements of comprehensive earnings

The Company's comprehensive earnings determined in accordance with United States GAAP would be as follows:

	Year ended March 31,		
	1997	1998	1999
Net earnings for the year reported under United States GAAP	14,972	17,318	(38,654)
Other comprehensive earnings:			
Foreign currency translation adjustment, net of tax	315	(211)	2,886
Comprehensive earnings	<u>15,287</u>	<u>17,107</u>	<u>(35,768)</u>

Comprehensive earnings is measured in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). This standard defines comprehensive income as all changes in equity other than those resulting from investments by owners and distributions to owners. The Company has calculated "other comprehensive income" to consist of translation adjustments on foreign operations, which under Canadian GAAP is recorded as a separate component of shareholders' equity.

(i) Consolidated statements of cash flows

The Company's cash flows determined in accordance with United States GAAP would be as follows:

	Year ended March 31,		
	1997	1998	1999
Operating activities	238,883	214,244	351,461
Investing activities	(260,857)	(414,754)	(713,228)
Financing activities	27,548	192,050	409,578
Effect of exchange rates on cash	113	113	45
Decrease (increase) in cash and cash equivalents	<u>5,687</u>	<u>(8,347)</u>	<u>47,856</u>

ALLIANCE ATLANTIS COMMUNICATIONS INC.
PRO FORMA CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

The accompanying financial statements present the unaudited pro forma consolidated balance sheet of Alliance Atlantis Communications Inc. as at June 30, 1999 and the unaudited pro forma consolidated statements of operations for the year ended March 31, 1999 and twelve-month period ended June 30, 1999.

Preparation of the pro forma financial statements were based on assumptions determined to be appropriate by the management of Alliance Atlantis. The pro forma financial statements are unaudited and are not indicative of the results which actually would have occurred if the transactions had been consummated at the beginning of the periods presented, nor do they purport to represent the future financial position and results of operations for future periods. The pro forma financial statements should be read in conjunction with the historical financial statements of the Company and Atlantis.

COMPILATION REPORT

To the Directors of
Alliance Atlantis Communications Inc.

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of Alliance Atlantis Communications Inc. as at June 30, 1999 and the pro forma consolidated statements of operations for the year ended March 31, 1999 and the twelve-month period ended June 30, 1999. These pro forma consolidated financial statements have been prepared solely for inclusion in this prospectus. In our opinion, these pro forma consolidated financial statements have been properly compiled to give effect to the proposed and completed transactions, and the assumptions described in the notes thereto.

November 8, 1999
Toronto, Canada

(Signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

**COMMENTS FOR UNITED STATES READERS ON CANADIAN
AND UNITED STATES REPORTING DIFFERENCES**

The above report, provided solely pursuant to Canadian requirements, is expressed in accordance with standards of reporting generally accepted in Canada. Such standards contemplate the expression of an opinion with respect to the compilation of pro forma financial statements. United States standards do not provide for the expression of an opinion on the compilation of pro forma adjustments and their application to the pro forma financial statements requires an examination or review substantially greater in scope than the review we have conducted. Consequently, we are unable to express any opinion in accordance with standards of reporting generally accepted in the United States with respect to the compilation of the accompanying unaudited pro forma financial information.

November 8, 1999
Toronto, Canada

(Signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

ALLIANCE ATLANTIS COMMUNICATIONS INC.
PRO FORMA CONSOLIDATED BALANCE SHEET

As at June 30, 1999
(unaudited—see Compilation Report)
(In thousands of Canadian dollars)

	Actual	Pro forma Adjustments	Note Reference	Pro forma Consolidated
Assets				
Cash and cash equivalents	71,381	(51,903)	2(a)	19,478
Accounts receivable	551,890			551,890
Loans receivable	38,292	1,300	2(d)	39,592
Income taxes	17,853			17,853
Investment in film and television programs . . .	668,288			668,288
Development costs	25,995			25,995
Property and equipment	40,991			40,991
Broadcasting licences	77,865			77,865
Goodwill and other assets	106,846	26,031	2(b)(d)	132,877
	<u>1,599,401</u>	<u>(24,572)</u>		<u>1,574,829</u>
Liabilities				
Revolving term loans	472,056	(397,269)	2(b)(c)(d)	74,787
Accounts payable and accrued liabilities	351,914			351,914
Deferred revenue	258,527			258,527
Other term loans	42,969			42,969
Senior subordinated debentures	—	292,600	2(b)	292,600
Convertible debentures	8,794			8,794
Minority interest	9,017			9,017
	<u>1,143,277</u>	<u>(104,669)</u>		<u>1,038,608</u>
Shareholders' Equity				
Capital stock	439,773	80,097	2(a)(c)	519,870
Retained earnings	19,178			19,178
Cumulative translation adjustments	(2,827)			(2,827)
	<u>456,124</u>	<u>80,097</u>		<u>536,221</u>
	<u>1,599,401</u>	<u>(24,572)</u>		<u>1,574,829</u>

The accompanying notes and management's assumptions are an integral part of this statement.

This pro forma consolidated balance sheet is prepared on the basis set forth in the notes hereto and is not necessarily indicative of future financial performance of
Alliance Atlantis Communications Inc.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
For the year ended March 31, 1999
(unaudited—see Compilation Report)
(In thousands of Canadian dollars—except per share amounts)

	Alliance Atlantis Year ended March 31, 1999	Atlantis 174 day Period ended Sept. 21, 1998	Combined	Pro forma Adjustments	Note Ref.	Pro forma Year ended March 31, 1999
Revenues	633,399	74,267	707,666			707,666
Direct operating expenses	515,701	58,618	574,319			574,319
Gross profit	<u>117,698</u>	<u>15,649</u>	<u>133,347</u>			<u>133,347</u>
Other expenses						
Operating	71,431	7,792	79,223			79,223
Amortization	12,258	3,708	15,966	2,911	3(a)	18,877
Interest	9,029	1,289	10,318	(923)	3(b)2(d)	9,395
	<u>92,718</u>	<u>12,789</u>	<u>105,507</u>	<u>1,988</u>		<u>107,495</u>
Operating earnings before undernoted	24,980	2,860	27,840	(1,988)		25,852
Merger and restructuring expenses	(81,391)	—	(81,391)			(81,391)
Gain on sales of investments	717	—	717			717
Minority Interest	<u>609</u>	<u>(15)</u>	<u>594</u>			<u>594</u>
Earnings (loss) before income taxes	(55,085)	2,845	(52,240)	(1,988)		(54,228)
Provision for (recovery of) income taxes	<u>(27,770)</u>	<u>1,238</u>	<u>(26,532)</u>	<u>(696)</u>	3(c)2(d)	<u>(27,228)</u>
Net earnings (loss) for the year	<u>(27,315)</u>	<u>1,607</u>	<u>(25,708)</u>	<u>(1,292)</u>		<u>(27,000)</u>
Basic loss per common share . .	<u>(1.44)</u>				5	<u>(0.88)</u>
Fully diluted loss per common share	<u>(1.44)</u>				5	<u>(0.88)</u>

The accompanying notes and management's assumptions are an integral part of this statement.

This pro forma consolidated statement of operations is prepared on the basis set forth
in the notes hereto and is not necessarily indicative of future financial performance of
Alliance Atlantis Communications Inc.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
For the twelve-month period ended June 30, 1999
(unaudited—see Compilation Report)
(In thousands of Canadian dollars—except per share amounts)

	Twelve month period ended June 30, 1999	83 day period ended Sept. 21, 1998	Combined	Pro forma Adjustments	Note Ref.	Pro forma Twelve-month Period
Revenues	715,430	30,955	746,385			746,385
Direct operating expenses	586,759	22,376	609,135			609,135
Gross profit	<u>128,671</u>	<u>8,579</u>	<u>137,250</u>			<u>137,250</u>
Other expenses						
Operating	74,923	4,145	79,068			79,068
Amortization	15,060	1,978	17,038	1,995	4(a)	19,033
Interest	11,687	799	12,486	1,249	4(b)2(d)	13,735
	<u>101,670</u>	<u>6,922</u>	<u>108,592</u>	<u>3,244</u>		<u>111,836</u>
Operating earnings before undernoted	27,001	1,657	28,658	(3,244)		25,414
Merger and restructuring expenses	(81,391)	—	(81,391)			(81,391)
Gain on sales of investments	3,167	—	3,167			3,167
Minority Interest . . .	<u>569</u>	<u>(6)</u>	<u>563</u>			<u>563</u>
Earnings (loss) before income taxes	(50,654)	1,651	(49,003)	(3,244)		(52,247)
Provision for (recovery of) income taxes . . .	<u>(26,298)</u>	<u>702</u>	<u>(25,596)</u>	<u>(1,135)</u>	4(d)	<u>(26,731)</u>
Net earnings (loss) for the period . . .	<u>(24,356)</u>	<u>949</u>	<u>(23,407)</u>	<u>(2,109)</u>		<u>(25,516)</u>
Basic loss per common share . .	<u>(1.08)</u>				6	<u>(0.82)</u>
Fully diluted loss per common share	<u>(1.08)</u>				6	<u>(0.82)</u>

The accompanying notes and management's assumptions are an integral part of this statement.

This pro forma consolidated statement of operations is prepared on the basis set forth
in the notes hereto and is not necessarily indicative of future financial performance of
Alliance Atlantis Communications Inc.

ALLIANCE ATLANTIS COMMUNICATIONS INC.

**NOTES TO THE UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL STATEMENTS**

As at June 30, 1999 and for the year ended March 31, 1999

and for the twelve-month period ended June 30, 1999

(unaudited)

(in thousands of Canadian dollars, unless otherwise specified)

1. Basis of Presentation

The unaudited pro forma consolidated balance sheet as at June 30, 1999 reflects the private placement of 6,276,000 Non-Voting Class B Shares issued to Kinowelt Medien AG (the "Kinowelt Private Placement") for \$132,000, the redemption of the 1,855,662 Preferred Shares for \$51,903 (the "Preferred Share Redemption"), the contemplated issue of senior subordinated notes of U.S. \$200,000 (the "Notes Offering") and the purchase of 47.85% of the shares of Sportscope Television Network Ltd. (the "Sportscope Acquisition") for a gross purchase price of \$16,231 plus the assumption of a loan of \$1,300 as discussed in this prospectus.

The unaudited pro forma consolidated statement of operations for the year ended March 31, 1999 includes the results of Alliance Atlantis for the year ended March 31, 1999 and the unaudited results of Atlantis for the 174 day period ended September 21, 1998 (until the date of the Merger). The Atlantis 174 day period ended September 21, 1998 has been calculated by subtracting the unaudited three-month period ended March 31, 1998 from the unaudited 264 day period from January 1, 1998 to September 21, 1998. The March 31, 1999 pro forma statement of operations has been prepared assuming that the acquisition of Atlantis by Alliance (the Merger), the Kinowelt Private Placement, the Preferred Share Redemption, the Notes Offering, and the November 12, 1998 issue of 2,900,000 Non-Voting Class B Shares (the "November Offering") all occurred on April 1, 1998.

The unaudited pro forma consolidated statement of operations for the twelve-month period ended June 30, 1999 includes the results of Alliance Atlantis for the twelve-month period ended June 30, 1999 and the unaudited results of Atlantis for the 83 day period ended September 21, 1998 (until the date of the Merger). The Alliance Atlantis twelve-month period has been calculated by adding the unaudited Alliance Atlantis three-month period ended June 30, 1999 to the audited year ended March 31, 1999 less the unaudited three-month period ended June 30, 1998. The Atlantis 83 day period ended September 21, 1998 has been calculated by subtracting the unaudited six-month period ended June 30, 1998 from the unaudited 264 day period from January 1, 1998 to September 21, 1998. The June 30, 1999 pro forma statement of operations has been prepared assuming that the Merger, the Kinowelt Private Placement, the Preferred Share Redemption, the Notes Offering, and the November Offering all occurred on July 1, 1998.

These pro forma financial statements do not reflect the benefit of the expected additional cost savings related to the Merger. These additional cost savings have been estimated by management to be \$17,000 and \$16,000 for the year ended March 31, 1999 and the twelve-month period ended June 30, 1999 respectively.

These pro forma financial statements should be read in conjunction with the audited consolidated financial statements of Alliance Atlantis for the year ended March 31, 1999 and the audited consolidated financial statements of Atlantis for the year ended December 31, 1997, including the notes thereto.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO THE UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As at June 30, 1999 and for the year ended March 31, 1999
and for the twelve-month period ended June 30, 1999
(unaudited)
(in thousands of Canadian dollars, unless otherwise specified)

1. Basis of Presentation (Continued)

The pro forma consolidated financial statements may not necessarily be indicative of the results of operations and financial position which would have been achieved if the transactions had occurred on the dates noted above.

2. Adjustments to unaudited pro forma consolidated balance sheet at June 30, 1999

The unaudited pro forma consolidated balance sheet as at June 30, 1999 gives effect to the following:

- (a) The September 23, 1999 Preferred Share Redemption for \$51,903 in cash.
- (b) The issue of U.S. \$200,000 senior subordinated debentures and issue costs of \$10,800. The net proceeds of \$281,800 has been applied to reduce the revolving term loans.
- (c) The issue of 6,276,000 Non-Voting Class B shares and one Class D Special Non-Voting Share on August 20, 1999 to the principals of Kinowelt Medien AG. The proceeds of approximately \$132,000 has been applied to reduce the revolving term loans.
- (d) The purchase of 47.85% of the Common Shares of Sportscope Television Network Ltd. for a gross purchase price of \$16,231 plus the assumption of a loan of \$1,300, net of a \$1,000 deposit recorded in March of 1999.

3. Adjustments to unaudited pro forma consolidated statement of operations for the year ended March 31, 1999

The unaudited pro forma consolidated statement of operations for the year ended March 31, 1999 gives effect to the following:

- (a) Additional amortization of goodwill created on the Merger, the Atlantis broadcast licenses, and the deferred financing costs related to the Notes Offering.

Goodwill amortization	\$ 967
Broadcast licenses amortization	864
Deferred financing costs amortization	1,080
	<u>\$2,911</u>

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO THE UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As at June 30, 1999 and for the year ended March 31, 1999
and for the twelve-month period ended June 30, 1999
(unaudited)
(in thousands of Canadian dollars, unless otherwise specified)

3. Adjustments to unaudited pro forma consolidated statement of operations for the year ended March 31, 1999 (Continued)

(b) The net interest saved as a result of the transactions.

Interest saved through the proceeds being applied to reduce revolving term loans:	
Proceeds from Kinowelt Private Placement at 8%	\$10,560
Proceeds from November Offering at 8%	3,752
Proceeds from the Notes Offering at 8%	22,544
	<u>36,856</u>
Interest incurred/income lost (earned):	
Notes Offering at 11.5%	33,649
Cash used in Preferred Share Redemption at 4.5%	973
Increase in revolving term loans on the Sportscope Acquisition at 8%	1,402
Interest earned on Sportscope loan receivable at 7%	(91)
	<u>35,933</u>
Net interest saved	<u>\$ 923</u>

(c) Income taxes on the pro forma adjustments at an assumed tax rate of 35.0%.

4. Adjustments to unaudited pro forma consolidated statement of operations for the twelve-month period ended June 30, 1999

The unaudited pro forma consolidated statement of operations for the twelve month period ended June 30, 1999 gives effect to the following:

(a) Additional amortization of goodwill created on the Merger, the Atlantis broadcast licenses, and the deferred financing costs related to the Notes Offering.

Goodwill amortization	\$ 483
Broadcast licenses amortization	432
Deferred financing costs amortization	1,080
	<u>\$1,995</u>

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO THE UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As at June 30, 1999 and for the year ended March 31, 1999
and for the twelve-month period ended June 30, 1999
(unaudited)
(in thousands of Canadian dollars, unless otherwise specified)

4. Adjustments to unaudited pro forma consolidated statement of operations for the twelve-month period ended June 30, 1999 (Continued)

(b) The net interest incurred as a result of the transactions.

Interest saved through the proceeds being applied to reduce revolving term loans:	
Proceeds from Kinowelt Private Placement at 8%	\$10,560
Proceeds from November Offering at 8%	2,144
Proceeds from the Notes Offering at 8%	22,544
	<u>35,248</u>
Interest incurred/income lost (earned):	
Notes Offering at 11.5%	33,649
Cash used in Preferred Share Redemption at 4.5%	1,557
Increase in revolving term loans on the Sportscope Acquisition at 8%	1,382
Interest earned on Sportscope loan receivable at 7%	(91)
	<u>36,497</u>
Net interest incurred	<u>\$ 1,249</u>

(c) Income taxes on the pro forma adjustments at an assumed tax rate of 35.0%.

5. Earnings (Loss) Per Share for the year ended March 31, 1999

Basic earnings (loss) per share is calculated on the pro forma net earnings divided by the pro forma weighted average number of Alliance Atlantis shares outstanding during the year ended March 31, 1999. The pro forma weighted average number of shares outstanding during the year is equal to the Alliance Atlantis weighted average number of shares outstanding as at March 31, 1999 added to the pro forma share transactions in note 1 above which are assumed to have occurred on April 1, 1998.

Fully diluted earnings (loss) per share is calculated using the Alliance Atlantis weighted average fully diluted number of shares outstanding as at March 31, 1999. The pro forma fully diluted weighted average number of shares outstanding during the year is equal to the Alliance Atlantis fully diluted weighted average number of shares outstanding as at March 31, 1999 added to the pro forma share transactions in note 1 above which are assumed to have occurred on April 1, 1998.

6. Earnings (Loss) Per Share for the twelve month period ended June 30, 1999

Basic earnings (loss) per share is calculated on the pro forma net earnings divided by the pro forma weighted average number of Alliance Atlantis shares outstanding for the twelve month

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO THE UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As at June 30, 1999 and for the year ended March 31, 1999
and for the twelve-month period ended June 30, 1999
(unaudited)
(in thousands of Canadian dollars, unless otherwise specified)

6. Earnings (Loss) Per Share for the twelve month period ended June 30, 1999 (Continued)

period ended June 30, 1999. The pro forma weighted average number of shares outstanding during the period is equal to the Alliance Atlantis weighted average number of shares outstanding as at June 30, 1999 added to the pro forma share transactions in note 1 above which are assumed to have occurred on July 1, 1998.

Fully diluted earnings (loss) per share is calculated using the Alliance Atlantis weighted average fully diluted number of shares outstanding as at June 30, 1999. The pro forma fully diluted weighted average number of shares outstanding during the period is equal to the Alliance Atlantis fully diluted weighted average number of shares outstanding as at June 30, 1999 added to the pro forma share transactions in note 1 above which are assumed to have occurred on July 1, 1998.

7. Reconciliation to United States GAAP

	<u>Year ended March 31, 1999</u>	<u>Twelve months ended June 30, 1999</u>
Net loss, Canadian GAAP	(27,000)	(25,516)
Adjustment to development costs and investment In scripts, net of income taxes of (March 31— (\$3,870); June 30—(\$3,146))	(4,803)	(3,458)
Adjustment to revenue with respect to television licence agreements, net of income taxes of (March 31—(\$807); June 30—\$188)	(4,618)	810
Adjustment to operating expenses, net of income taxes of (March 31—(\$3,392); June 30— (\$2,748))	(4,263)	(3,464)
Adjustment to restructuring provisions, net of income taxes of (March 31—\$803; June 30— \$nil)	997	—
Net loss, United States GAAP	<u>(39,687)</u>	<u>(31,628)</u>
Basic (loss) per common share, United States GAAP	<u>(1.30)</u>	<u>(1.02)</u>
Fully diluted loss per common share, United States GAAP	<u>(1.30)</u>	<u>(1.02)</u>

Comments by Independent Auditor for United States Readers

We have audited and reported separately on the consolidated balance sheet of Atlantis Communications Inc. as at December 31, 1997 and the consolidated statements of earnings and retained earnings and of changes in financial position for the year then ended. Such financial statements and our report thereon are incorporated by reference in this prospectus.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Atlantis Communications Inc. taken as a whole. As required by Canadian corporate legislation, these basic financial statements were prepared for presentation to the shareholders in accordance with accounting principles generally accepted in Canada. The Reconciliation to United States GAAP included on pages F-40 to F-41 of this prospectus is presented as required by the United States Securities and Exchange Commission for purposes of additional analysis and is not a required part of the basic financial statements. The Reconciliation to United States GAAP has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Toronto, Ontario
October 20, 1999

(Signed) DELOITTE & TOUCHE LLP
Chartered Accountants

ATLANTIS COMMUNICATIONS INC.
SUPPLEMENTARY FINANCIAL INFORMATION FOR UNITED STATES READERS
Reconciliation to United States Generally Accepted Accounting Principles (GAAP)

This supplementary financial information should be read in conjunction with the Atlantis Financial Statements included in Exhibit 4.7 in this Registration Statement on Form F-10.

The consolidated financial statements of Atlantis Communications Inc. are expressed in Canadian dollars and are prepared in accordance with Canadian GAAP, which conform, in all material respects, with those generally accepted in the United States except as described below.

Under United States GAAP ("U.S. GAAP"), the net earnings and earnings per common share figures for the year ended December 31, 1997 and the shareholders' equity as at December 31, 1997 would be adjusted as follows:

	Net Earnings	Shareholders' Equity
	Year ended December 31, 1997	As at December 31, 1997
	(in thousands of Canadian dollars)	
In accordance with Canadian GAAP	\$ 5,565	\$97,087
Adjustments in respect of:		
Start up costs (i)	(2,265)	(3,784)
Restructuring and integration costs (ii)	—	(821)
Goodwill expense reduction related to restructuring and integration costs (ii)	20	40
Income tax effect on reconciling items	1,005	2,112
In accordance with U.S. GAAP	<u>\$ 4,325</u>	<u>\$94,634</u>
Basic earnings per share (U.S. GAAP) (iii)	<u>\$ 0.43</u>	
Weighted average number of common shares outstanding (millions) . .	<u>10.067</u>	
Diluted earnings per share (U.S. GAAP) (iii)	<u>\$ 0.42</u>	
Weighted average number of common shares outstanding (millions) . .	<u>10.271</u>	

(i) Start-up Costs

Under Canadian GAAP, certain start-up costs were deferred and amortized. Under U.S. GAAP, such costs would have been included in net earnings as incurred.

(ii) Restructuring and Integration Costs

Under Canadian GAAP, certain restructuring and integration costs related to the acquiring entity are included in the purchase price of the acquisition. Under U.S. GAAP, such costs would be expensed in the period incurred.

(iii) Earnings Per Share

In March 1998, the Company adopted SFAS 128 for computing and presenting earnings per share. SFAS 128 provides for the calculation of "Basic" and "Diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common shareholders by the weighted average number of Common Shares outstanding for the period. Fully

ATLANTIS COMMUNICATIONS INC.
SUPPLEMENTARY FINANCIAL INFORMATION FOR UNITED STATES READERS (Continued)
Reconciliation to United States Generally Accepted Accounting Principles (GAAP)

diluted earnings per share reflects the potential dilution of earnings available to common shareholders upon the exercise of stock options using the treasury method, which only considers outstanding options where the exercise price is less than current market values.

(iv) Investment in Joint Ventures

Under Canadian GAAP, investments in joint ventures are recognized in the financial statements of the venturer by applying the proportionate consolidation method of accounting. Under U.S. GAAP, equity accounting is applied to investments in joint ventures when preparing the consolidated financial statements of the venturer. However, in accordance with practices prescribed by the SEC, the Company has elected for the purpose of this reconciliation to account for incorporated joint ventures by the proportionate consolidation method.

(v) Consolidated Statement of Cash Flows

The Company's cash flows determined in accordance with U.S. GAAP would be as follows:

	Year ended December 31, 1997
Operating activities	\$ 130,532
Investing activities	\$(178,521)
Financing activities	\$ 63,559
Increase in cash and cash equivalents	<u>\$ 15,570</u>

UNDERWRITING

The Company and the underwriters for the offering (the “Underwriters”) named below have entered into an underwriting agreement with respect to the Notes. Subject to certain conditions, each Underwriter has severally agreed to purchase the principal amount of Notes indicated in the following table.

<u>Underwriter</u>	<u>Principal Amount of Notes</u>
Goldman, Sachs & Co.	US\$
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
RBC Dominion Securities Corporation	
TD Securities (USA) Inc.	
CIBC World Markets Corp.	
Chase Securities Inc.	
SG Cowen Securities Corporation	
Total	<u>US\$200,000,000</u>

Notes sold by the Underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any Notes sold by the Underwriters to securities dealers may be sold at a discount from the initial public offering price of up to % of the principal amount of Notes. Any such securities dealers may resell any Notes purchased from the Underwriters to certain other brokers or dealers at a discount from the initial public offering price of up to % of the principal amount of Notes. If all the Notes are not sold at the initial offering price, the representative may change the offering price and the other selling terms.

The Notes are a new issue of securities with no established trading market. The Company has been advised by the Underwriters that the Underwriters intend to make a market in the Notes but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes.

In connection with the offering, the Underwriters may purchase and sell the Notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Underwriters of a greater number of Notes than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress.

The Underwriters also may impose a penalty bid. This occurs when a particular Underwriter repays to the Underwriters a portion of the underwriting discount received by it because the representatives have repurchased Notes sold by or for the account of such Underwriter in stabilizing or short covering transactions.

These activities by the Underwriter may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

The Company estimates that its share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately US\$1.4 million.

In the ordinary course of their respective businesses, the Underwriters and their affiliates have engaged, and may in the future engage, in investment banking transactions with the Company or its affiliates. As described below, affiliates of RBC Dominion Securities Corporation, TD Securities (USA) Inc., Chase Securities Inc. and SG Cowen Securities Corporation will receive more than 10% of the proceeds from the sale of the Notes. Accordingly, this offering is being conducted pursuant to Rule 2710(c)(8) of the Rules of Conduct of the National Association of Securities Dealers, Inc. In accordance with this provision, Goldman, Sachs & Co. has acted as “qualified independent underwriter,” and the yield on the Notes is not lower than that recommended by Goldman, Sachs & Co. in compliance with the requirements of Rule 2720(c)(3) of the NASD Rules of Conduct. In connection with this offering, Goldman, Sachs & Co. has performed due diligence investigations and reviewed and participated in the preparation of this prospectus. Goldman, Sachs & Co. will receive US\$10,000 from the Company as compensation for such role.

Affiliates of RBC Dominion Securities Corporation, TD Securities (USA) Inc., Chase Securities Inc., and SG Cowen Securities Corporation are lenders under the Company’s Existing Credit Facility and will receive more than 10% of the net proceeds in this offering in repayment of amounts outstanding under the Existing Credit Facility.

The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the Notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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US\$200,000,000

Alliance Atlantis Communications Inc.

% Senior Subordinated Notes
due , 2009



Goldman, Sachs & Co.
Merrill Lynch & Co.
RBC Dominion Securities
 Corporation
TD Securities
CIBC World Markets
Chase Securities Inc.
SG Cowen

PART II
INFORMATION NOT REQUIRED TO BE
DELIVERED TO OFFEREEES OR PURCHASERS

Indemnification

Under the *Canada Business Corporations Act* (the “CBCA”), a corporation may indemnify a present or former director or officer of such corporation or a person who acts or acted at the corporation’s request as a director or officer of another corporation of which the corporation is or was a shareholder or creditor, and his heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of his being or having been a director or officer of such corporation and provided that the director or officer acted honestly and in good faith with a view to the best interests of the corporation, and, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, had reasonable grounds for believing that his conduct was lawful. Such indemnification may be made in connection with a derivative action only with court approval. A director or officer is entitled to indemnification from the corporation as a matter of right in respect of all costs, charges and expenses reasonably incurred by him in connection with the defence of a civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director or officer of the corporation if he was substantially successful on the merits and fulfilled the conditions set forth above.

In accordance with and subject to the CBCA, the by-laws of Alliance Atlantis Communications Inc. (“Alliance Atlantis” or the “Form F-10 Registrant”) provide that except in respect of any action by or on behalf of Alliance Atlantis to procure a judgment in its favor, Alliance Atlantis may indemnify a director or officer of Alliance Atlantis, a former director or officer of Alliance Atlantis, or a person who acts or acted at Alliance Atlantis’s request as a director or officer of a body corporate of which Alliance Atlantis is or was a shareholder or creditor, and his heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of his being or having been a director or officer of Alliance Atlantis or such body corporate, if the director or officer (a) acted honestly and in good faith with a view of the best interests of Alliance Atlantis, and (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, had reasonable grounds for believing that his conduct was lawful.

Alliance Atlantis maintains directors’ and officers’ liability insurance which insures the directors and officers of Alliance Atlantis and its subsidiaries against certain losses resulting from any wrongful act committed in their official capacities for which they become obligated to pay to the extent permitted by applicable law.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling Alliance Atlantis pursuant to the foregoing provisions, Alliance Atlantis has been informed that in the opinion of the U.S. Securities and Exchange Commission (the “Commission”) such indemnification is against public policy as expressed in the Securities Act of 1933, as amended (the “Act”), and is therefore unenforceable.

Exhibits

The following exhibits have been filed as part of the Registration Statement:

<u>Exhibit Number</u>	<u>Description</u>
3.1	Form of Underwriting Agreement.
4.1 *	Certified resolutions of the board of directors of the Registrant dated October 14, 1999.
4.2 *	Management Proxy Circular dated August 18, 1999, with respect to the annual and special meeting of shareholders of Alliance Atlantis held on September 23, 1999, other than the sections entitled "Report on Executive Compensation" and "Performance Graph".
4.3 *	Annual Information Form of Alliance Atlantis dated August 18, 1999 for the fiscal year ended March 31, 1999.
4.4 *	Management's Discussion and Analysis of Financial Condition and Results of Operations for Alliance Atlantis found on pages 33 to 39, inclusive, of the Registrant's 1999 annual report (the "Annual Report").
4.5 *	Audited consolidated balance sheets of Alliance Atlantis as at March 31, 1999, and 1998 and the consolidated statements of operations and retained earnings and cash flows for each of the years in the three year period ended March 31, 1999 together with the accompanying report of the auditor found on pages 40 to 59 of the Annual Report.
4.6 *	Interim unaudited consolidated balance sheet of Alliance Atlantis as at June 30, 1999 and consolidated statements of operations and retained earnings and cash flows for the three-month period ended June 30, 1999 and June 30, 1998.
4.7 *	Audited consolidated financial statements of Atlantis as at and for the period ended December 31, 1997, which includes a consolidated balance sheet, statements of earnings and retained earnings and changes in financial position together with the accompanying report of the auditor.
4.8 *	Unaudited financial statements of Atlantis from January 1, 1998 to September 21, 1998, which includes consolidated balance sheets of Atlantis as at September 21, 1998 and September 30, 1997, consolidated statements of earnings and retained earnings and changes in financial position for the three-month periods ended September 21, 1998 and September 30, 1997 and for the nine-month periods ended September 21, 1998 and September 30, 1997.
4.9 *	A material change report filed by Alliance Atlantis dated August 30, 1999 in respect of the closing of the Kinowelt Private Placement.
4.10*	A material change report filed by Alliance Atlantis dated October 6, 1999 in respect of the creation of the Class D Special Non-Voting Shares and the redemption of all outstanding preferred shares.
4.11*	Interest Calculation for the twelve-month period ended June 30, 1999.
5.1	Consent of PricewaterhouseCoopers LLP
5.2	Consent of Deloitte & Touche LLP.
5.3 *	Consent of Tory Tory.
6.1 *	Powers of Attorney (contained on the signature pages of the Registration Statement).
7.1	Form of Indenture
7.2	Form T-1 Statement of Eligibility of the Trustee (bound separately).

* Previously filed

PART III

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

Item 1. Undertaking

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities registered pursuant to Form F-10 or to transactions in said securities.

Item 2. Consent to Service of Process

Concurrently with the initial filing of this Registration Statement on Form F-10, the Registrant has filed with the Commission a written irrevocable consent and power of attorney on Form F-X.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-10 and has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Toronto, Province of Ontario, Canada, on the 8th day of November, 1999.

ALLIANCE ATLANTIS COMMUNICATIONS INC.

By: /s/ MICHAEL I. M. MACMILLAN
Michael I. M. MacMillan
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the Registration Statement has been signed below by or on behalf of the following persons in the capacities indicated on November 8, 1999.

<u>Signature</u>	<u>Title</u>
<u>/s/ MICHAEL I. M. MACMILLAN</u> Michael I. M. MacMillan	Chairman, Chief Executive Officer and Director (Principal Executive Officer)
<u>*</u> W. Judson Martin	Executive Vice-President and Chief Financial Officer (Principal Financial and Accounting Officer)
<u>*</u> Lewis N. Rose	Director
<u>*</u> Victor Loewy	Director
<u>*</u> Seaton S. McLean	Director
<u>Edward A. Riley</u>	Director
<u>*</u> Peter A. Sussman	Director

<u>Signature</u>	<u>Title</u>
* _____ Ellis Jacob	Director
* _____ Jeffrey Rayman	Director
* _____ Pierre DesRoches	Director
* _____ Pierre Y. Ducros	Director
* _____ Harold P. Gordon	Director
* _____ Anthony F. Griffiths	Director
* _____ Allen Karp	Director
* _____ David J. Kassie	Director
* _____ Rainer Kölmel	Director
* _____ Barry J. Reiter	Director
* _____ Donald R. Sobey	Director
* _____ Eduard Unzeitig	Director
* _____ Thomas J. Volpe	Director
* by: /s/ MICHAEL I. M. MACMILLAN _____ Michael I. M. MacMillan	Attorney-in-Fact

AUTHORIZED REPRESENTATIVE

Pursuant to the requirements of Section 6(a) of the Securities Act of 1933, the Authorized Representative has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, solely in its capacity as the duly authorized representative of Alliance Atlantis Communications Inc. in the United States, in the City of Toronto, Province of Ontario, on the 8th day of November, 1999.

ALLIANCE DISTRIBUTING CORPORATION
(Authorized Representative)

By: /s/ PETER SUSSMAN
 Peter Sussman
 Chief Executive Officer

By: /s/ DAVID GINSBURG
 David Ginsburg
 Chief Financial Officer

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* Previously filed



Selected Awards

1999 Television Critics Association Award

Outstanding Achievement in Movies, Miniseries & Specials • *Joan of Arc*

1999 Prime Time Emmy Awards

Outstanding Supporting Actor in a Miniseries or Movie • *Joan of Arc*

1998 Prime Time Emmy Awards

Outstanding Art Direction for a Variety or Music Program • *Rodgers & Hammerstein's Cinderella*

Outstanding Single-Camera Picture Editing for a Miniseries or a Movie • *Gia*

1999 Golden Globe Awards

Best Performance by an Actress in a Miniseries or Motion Picture • *Gia*

Best Supporting Actress in a Series, Miniseries or Motion Picture Made for TV • *Gia*

1998 Gemini Awards

10 awards including Best Dramatic Series and Best Direction, Writing, Picture Editing and Original Score in a Dramatic Series

1998 New York Festivals

Bronze Worldmedal: Television Entertainment, Drama • *Cold Squad*

1999 Toronto International Film Festival

Best Canadian Feature Film • *The Five Senses*

1999 Berlin International Film Festival

Silver Bear • *eXistenZ*

1997 Cannes Film Festival

Grand Prix • *The Sweet Hereafter*

52nd Edinburgh International Film Festival

The Standard Life Audience Award • *Get Real*

9th Edition of the Dinard British Film Festival

4 Awards including The Jury Prize (Golden Hitchcock Trophy) • *Get Real*

**ALLIANCE ATLANTIS HAS WON
MORE THAN 230 AWARDS INCLUDING:
AN ACADEMY AWARD
5 CANNES FILM FESTIVAL AWARDS
7 EMMY AWARDS AND
26 CABLE ACE AWARDS**