



ALLIANCE ATLANTIS COMMUNICATIONS INC.

2000 ANNUAL INFORMATION FORM

August 17, 2000

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DOCUMENTS INCORPORATED BY REFERENCE

- (a) Alliance Atlantis Communications Inc.'s fiscal 2000 annual report (the "Annual Report") which includes "Management's Decision and Analysis of Financial Condition and Results of Operations" (the "MD&A") and the audited consolidated balance sheets as at March 31, 2000 and March 31, 1999 and the audited consolidated statements of earnings and retained earnings and changes in financial position for each of the years in the three year period ended March 31, 2000 (the "Financial Statements"); and
- (b) Management Information Circular dated August 17, 2000 (the "Circular") prepared in connection with the September 26, 2000 annual and special meeting of the shareholders of Alliance Atlantis Communications Inc., other than the sections entitled "Composition of the Governance Committee", "Report on Executive Compensation" and "Performance Graph".

The MD&A and the Financial Statements, in their entirety, are incorporated by reference in, and form part of, this Annual Information Form. Specific portions of the Circular are incorporated by express reference in, and form part of, this Annual Information Form. Those portions of the Circular not so incorporated by express reference do not form part of this Annual Information Form.

Unless otherwise indicated, the information appearing herein is stated as at March 31, 2000 and all dollar amounts referred to in this document are references to Canadian dollars.

INCORPORATION

In July of 1998, Alliance Communications Corporation ("Alliance") and Atlantis Communications Inc. ("Atlantis") entered into an agreement which provided for the business combination of Alliance and Atlantis and the integration of their operations by way of a plan of arrangement (the "Arrangement"). The Arrangement was completed on September 21, 1998, at which time Atlantis became a wholly-owned subsidiary of Alliance and Alliance changed its name to Alliance Atlantis Communications Inc. ("Alliance Atlantis" or the "Corporation").

Alliance was formed by articles of incorporation on June 27, 1985 under the *Canada Business Corporations Act* (the "CBCA"). On May 5, 1995, the articles of Alliance were amended to create the Class A Voting Shares (the "Class A Shares") and the Class B Non-Voting Shares (the "Class B Shares"), to convert each of the outstanding common shares into one-half of one Class A Share and one-half of one Class B Share, to cancel the existing class of common shares and to provide to the board of directors of Alliance the authority to appoint additional directors.

On September 21, 1998, in addition to changing the name of the Corporation to "Alliance Atlantis Communications Inc.", our articles were amended to create the Class C Special Voting Shares (the "Class C Shares") and the Preferred Shares, and to provide that the board of directors must have a minimum of three and a maximum of 20 directors. The Preferred Shares were redeemed in September of 1999 in accordance with their terms and no Preferred Shares are authorized.

On September 23, 1999, our shareholders voted to amend our articles to amend the number of directors to a minimum of 10 and a maximum of 20, to empower the directors to determine their number and to create a new class of share, a Class D Special Non-Voting Share (the “Class D Share”), which entitles the holder, subject to maintaining certain equity requirements, to nominate and elect up to two directors of the Corporation. Kinowelt Medien AG (“Kinowelt”) holds the Class D Share, which it obtained in connection with its purchase of the Corporation’s Class B Non-Voting Shares in August of 1999.

On April 1, 2000, we completed a vertical short form amalgamation with two of our wholly-owned subsidiaries, Atlantis Communications Inc. and Atlantis Media Group Inc.

Our registered and principal office is located at 121 Bloor Street East, Suite 1500, Toronto, Ontario M4W 3M5. We also operate offices in Los Angeles, Montreal, London, Sydney and Shannon, Ireland.

Principal Subsidiaries

The following is a list of our principal subsidiaries as at March 31, 2000, the jurisdiction of incorporation of each subsidiary and the percentage of voting securities beneficially owned by us or over we exercise control or direction.

<u>Subsidiary</u>	<u>Jurisdiction</u>	<u>Percentage of Voting Securities Owned by the Corporation</u>
Alliance Atlantis Broadcasting Inc.	Federal	100%
Alliance Atlantis Equicap Corporation	Federal	100%
Alliance Atlantis International Television Distribution Ltd.....	Republic of Ireland	100%
Alliance Atlantis Productions, Inc.....	California	100%
Alliance Atlantis Productions Ltd.	Federal	100%
Alliance Atlantis Motion Picture Distribution Inc.	Federal	100%
Alliance Atlantis Vivafilm Inc.	Federal	100%
Alliance Atlantis Releasing B.V.	Netherlands	100%

Unless context indicates otherwise, references in this Annual Information Form to “Alliance Atlantis”, the “Corporation”, “we”, “us” and “our” mean Alliance Atlantis Communications Inc. together with its subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

General

We are a leading Canadian broadcaster, creator and international distributor of filmed entertainment content with significant ownership interests in eight specialty television networks. Our principal businesses are conducted through three operating groups:

- The Broadcast Group currently owns, either wholly or in part, eight Canadian specialty television networks and is the exclusive sponsor in Canada for the U.S.-based The Health Network;

- The Motion Picture Group acquires, creates and distributes theatrical motion pictures worldwide and exhibits motion pictures in Canada through Alliance Atlantis Cinemas; and
- The Television Group creates, acquires and distributes a balanced mix of drama and children's television programming.

We have increased and diversified from our core motion picture and television production businesses, respectively, into the following areas:

- television program development, production and distribution (commenced in 1980);
- Canadian theatrical distribution (commenced in 1987);
- international television and theatrical distribution (commenced in 1989);
- financing services for the television and motion picture industries (commenced in 1990);
- specialty television broadcasting (commenced in 1994); and
- film exhibition through the establishment of Alliance Atlantis Cinemas (commenced in 1998).

Recent Developments

Broadcast Group

In April 2000, in response to the call for applications for new digital specialty television channel licences by the Canadian Radio-television and Telecommunications Commission (the "CRTC"), we filed a number of channel applications. In Category One (mandatory carriage) we applied for five channels, including the Health Network Canada, the Independent Film and Documentary Channel, the Book Channel and Signature Television. In Category Two (optional carriage) we applied for 43 channels including six National Geographic channels in partnership with National Geographic Channels International, and two BBC channels in partnership with BBC Worldwide. We appeared before the CRTC with respect to these applications on August 14, 2000 and expect the CRTC's decision in the winter of 2000.

In July of 2000, we announced that the CRTC had approved an application by us (the majority shareholder of Food Network Canada), The E.W. Scripps Company and Corus Entertainment Inc. to replace the American version of the Food Network with Food Network Canada.

Motion Picture Group

In May of 2000, we formally announced the creation of our joint distribution venture with Kinowelt Medien AG in the United Kingdom, named Momentum Pictures.

In June of 2000, we announced a three-year output deal with Spain's Telecinco for our Le Monde Entertainment titles.

Television Group

On April 7, 2000, we announced a co-production and sub-distribution agreement with Germany's TV-Loonland. The agreement provides for production, distribution, merchandising and Internet

commitments of approximately \$110 million by TV-Loonland payable to us. Under the agreement, TV-Loonland will sub-distribute or co-produce up to nine children's and animated series with us over the next three years. TV-Loonland will also purchase additional children's programs from our library for approximately \$20 million.

In July of 2000, we announced that we had entered into an agreement to acquire all of the shares of Great North Communications Ltd., a Canadian producer of factual and documentary programming.

Corporate

On February 25, 2000, we announced the formation of a joint venture with Sentinel Hill Ventures Corporation, a marketer of media-related structured finance products in Canada. The joint venture, in which we hold a 30% limited partnership interest, carries on business as Sentinel Hill Alliance Atlantis Equicap Limited Partnership. The partnership carries on all of the structured finance activities previously undertaken by both Sentinel Hill and by certain subsidiaries of Alliance Atlantis.

In June of 2000, we announced that we had merged our wholly-owned subsidiary, Casablanca Sound & Picture Inc. with Tattersall Sound Inc. to create Tattersall/Casablanca, a full service sound design and post-production facility.

DESCRIPTION OF THE BUSINESS

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 the end of fiscal 2002. To achieve this objective, we are (i) growing the Broadcast Group, which was established in 1994 and which represented approximately 30% of our gross profit in fiscal 2000; (ii) increasing our library sales, which represented approximately 16% of our gross profit in fiscal 2000; (iii) expanding our third-party television and motion picture distribution businesses (including completing more long-term distribution agreements), which represented approximately 16% of our gross profit in fiscal 2000; and (iv) prudently growing Alliance Atlantis Cinemas.

Leverage Existing Broadcast Platform

We are capitalizing on our Broadcast Group's multi-network platform in order to continue to increase revenues and profitability. In April 2000, we applied to the CRTC for new digital specialty television network licences to augment our current network offering; we have applied for licences 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, in partnership with Astral Communications, we launched our recently-licensed French language networks, *Séries+* and *Historia*, which benefit from programming synergies with our existing English-language network equivalents, *Showcase* and *History Television*, respectively. In October 1999, we acquired a 47.85% interest (now 44.34%) in *Headline Sports*. In October 2000 we plan to 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 producing a balanced portfolio of drama 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. We have recently announced an intention to expand into the production and acquisition of documentary and fact-based programming. On July 13, 2000, we announced that we had entered into an agreement to acquire all of the outstanding shares of *Great North Communications Ltd.*, a leading Canadian documentary producer.

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. 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 United Kingdom through *Momentum Pictures*. We believe that the U.K. market is a significantly underserved, fragmented market with substantial growth opportunities. We are already experiencing growth in this market as evidenced by the three year U.K. distribution agreement *Momentum Pictures* commenced with *Artisan Entertainment* in November 1999 and a six picture distribution agreement entered into with *Studio Canal* in February 2000.

We are also seeking 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. In March 2000, we signed a co-production and sub-distribution agreement with Germany's *TV-Loonland* with total commitments from *TV-Loonland* to us valued at approximately \$110 million.

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 centres and plan to expand from our existing 24 screens to approximately 60 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 intend to 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 Studio Canal.

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.

Broadcast

Industry Overview

Canadian specialty television networks have experienced rapid growth since the first licences were issued by the CRTC in 1982. Specialty television networks are available to those Canadians who subscribe to a particular cable or DTH (direct-to-home) service package and provide special interest, news, sports, arts and entertainment programming. There are currently 58 Canadian specialty and premium services available to Canadian subscribers. The CRTC periodically issues requests for new network license applications and typically only licences new networks in genres that are not competitive with existing networks in order to limit network proliferation.

Specialty television networks derive substantially all of their revenues from subscription fees and advertising. The CRTC typically requires cable and DTH 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 or DTH 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 accounted for only 10% of advertising revenue, and we expect their advertising revenue share to grow significantly. CRTC broadcasting licences are granted for specified periods and are customarily renewed upon application to the CRTC.

Specialty Broadcast

Our Broadcast 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 1999, we and our partner, Astral Communications, were awarded licences for two new French-language networks, which were launched in January 2000.

In October 1999, we acquired a 47.85% interest in Headline Sports (now 44.34%). In October 2000, we plan to launch the Food Network Canada, replacing the U.S. Food Network which currently airs in Canada. 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.

Our current networks are:

- Showcase, a network featuring critically acclaimed movies and dramatic programs from around the world (wholly owned) (license expires February 2001);
- Life Network, a network focused on "lifestyle" programming (wholly owned) (license expires February 2001);
- History Television, a network specializing in documentaries, movies and original historical programming (88% interest) (license expires August 2003);
- HGTV Canada, a home and garden "do it yourself" network (67% interest) (license expires August 2003);
- Séries+, a French-language version of Showcase (50% interest) (license expires August 2005);
- Historia, a French-language version of History Television (50% interest) (license expires August 2005);
- Headline Sports, a network featuring 24-hour sports news and highlights (44% interest) (license expires August 2003); and

- Food Network Canada, a network focused on food related programming (51% interest) (license expires August 2006).

Motion Picture

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 2000, and through mid-May 2000, we led the Canadian market with approximately a 16% box office share. In fiscal 2000, distribution accounted for approximately 72% of the Motion Picture Group's gross profit. We primarily distribute films from leading independent production companies to theatres, television and video, and DVD. We have long-term exclusive Canadian motion picture distribution agreements with New Line Cinema, Miramax Films, USA Films, Artisan Entertainment and Destination Films. Recent films that we distributed from these producers include *Scary Movie*, *Cider House Rules*, *Scream 3*, *Austin Powers: The Spy Who Shagged Me*, *Magnolia*, *Being John Malkovich* and *The Blair Witch Project*. We believe that 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 United Kingdom through Momentum Pictures (50% owned) and to third-party distributors in continental Europe and the rest of the world through our established, global distribution network. In fiscal 2001 we expect to distribute approximately 25 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 Momentum Pictures and our 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 theatre 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 DVDs directly to retailers and indirectly to video rental outlets. In fiscal 2000 we released 145 films on video and 193 films 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 *Felicia's Journey* and *The Sweet Hereafter*, which was nominated for two Academy Awards, and Istvan Szabo's *Sunshine*, starring Ralph Fiennes and William Hurt. 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 produced 18 films. These films had an

average production budget of approximately \$6.9 million and we 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 relationships with up-and-coming and established directors including Robert Lepage, Ronny Yu, John Maybury, Lynne Ramsey, and Jeremy Podeswa.

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.

Arrangements with Mr. Robert Lantos

We have a production agreement for up to five years from the date of the Arrangement 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 Arrangement) 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 favour 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.

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 24 screens in Toronto, Vancouver and Victoria and plan to grow to approximately 65 screens in seven cities over the next three years.

Television

Industry Overview

The U.S. and Canadian television production and distribution industries serve the largest broadcast marketplace in the world.

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.

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.

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 licences. 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 34%, 28% and 38% of revenues in fiscal 2000 originating from Canada, the United States and the rest of the world, respectively. In fiscal 2001, we expect to produce 237 hours of programming, comprised of 16 drama, adventure and children's series (including eight series renewals) and 12 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, 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 approximately 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 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.

As part of our strategy to expand our children's programming, we 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. We have also recently announced our intention to expand into the production and acquisition of documentary and fact-based programming which, like children's programming, tends to have broader appeal, lower production costs and higher library value. In July 2000, we acquired Great North Communications Ltd., a Canadian independent producer of documentary and fact-based programming. We believe that this acquisition has laid the cornerstone for meaningful growth in this area over the next several years.

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 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.

In July 2000, our mini-series, *Nuremberg*, aired on TNT and is the highest rated mini-series ever broadcast on basic cable in the United States to date. *Nuremberg*, starring Alec Baldwin and Jill Hennessy, is a historical drama that prides itself on authenticity and focuses on the trials of 21 top Nazi war criminals and the town in which the proceedings took place.

Television Distribution

Our television distribution business is centred around our new productions and our growing, valuable library of approximately 16,000 hours of programming, including approximately 13,500 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, 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 11% and 13% of our programming license revenues in fiscal 2000 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 76% of our programming license revenues in fiscal 2000. 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, in March 2000, we signed a co-production and sub-distribution agreement with Germany's TV-Loonland with total commitments of approximately \$110 million by TV-Loonland.

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.

Other Operations

Post-Production Services

We operate two wholly-owned post-production businesses. Tattersall/Casablanca Sound and Picture Inc. provides sound and picture editing equipment and services for our own and third-party film and television productions. Calibre Digital Design Inc. also provides computer generated special effects services for our television series, 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.

Kinowelt Transaction

On August 20, 1999, we completed a private placement to the principal shareholders of Kinowelt for aggregate net proceeds of approximately \$131 million. Pursuant to the private placement, the principal shareholders of Kinowelt purchased 6,276,317 Class B Non-Voting Shares and one Class D Special Non-Voting Share at a price of \$21 each. The principal shareholders of Kinowelt transferred their interests in these securities to Kinowelt effective December 31, 1999. The Class D Special Non-Voting Share entitles the holder to nominate two directors to our board of directors, subject to certain conditions.

As part of the transaction, we agreed with Kinowelt to establish a US\$150 million fund to develop, produce and/or acquire motion pictures for international distribution. We also agreed to sell 50% of our United Kingdom motion picture distribution business and that we would jointly commit up to US\$25 million per annum for three years for the development, production and/or acquisition of motion pictures for exhibition in the United Kingdom.

Sentinel Hill Alliance Atlantis Equicap Limited Partnership

Sentinel Hill Alliance Atlantis Equicap Limited Partnership (in which we have a 30% limited partnership interest) originates and sells structured financing products related to the film and television industries. Sentinel Hill Alliance Atlantis Equicap Limited Partnership packages items related to production services into limited partnerships, which it sells to Canadian investors to encourage production in Canada. Sentinel Hill Alliance Atlantis Equicap Limited Partnership receives fees 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. The results of operations for Equicap Financial are included in the results of the Motion Picture Group.

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 which are substantially larger and have greater financial resources than we do and some of which 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, Sullivan Entertainment Inc., CanWest Entertainment, Salter Street Films Limited, Coscient Group Inc., and Lions Gate Entertainment Corp. Our Broadcast Group competes with other operators of television networks, including Global, CTV, CHUM Group, CBC, TV Ontario, Astral Communications, and Corus Entertainment.

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 increasing the competition among, programs marketed by independent production companies like us.

In addition, the television and motion picture industries and specialty television network broadcasting have always involved a substantial degree of risk. The success of a motion picture, television program or specialty television network depends, to a large extent, 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.

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 licences to eligible entities to operate specialty television networks.

In January 2000, the CRTC issued its Licensing Framework for New Digital and Pay Specialty Services which sets out the guidelines for licensing new Canadian specialty and pay television services for digital distribution by Canadian cable operators. Under this new framework, and following a call for applications issued in February 2000, the CRTC has indicated that it will license approximately 10 Category One services and an unlimited number of Category Two services by the end of 2000. Licences issued in each of these categories will have seven year terms. Category one licences will be “must carry” services for all Canadian cable operators utilizing digital distribution technology; will be issued pursuant to a competitive licensing process; will require 50% Canadian content by the last year of the initial license term; and may not compete directly in the same genre with each other or with existing specialty or pay services. Category Two licences will not be guaranteed carriage; will be issued on an open-entry basis as long as certain basic criteria are met; will require a minimum of 35% Canadian content in most cases by the end of the third year of the initial license term; and may not compete directly in the same genre with either Category one licensees or existing specialty or pay services.

The federal government has issued a direction (the “Direction”) to the CRTC not to issue broadcasting undertaking licences to, or renew broadcast undertaking licences 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:

- it is incorporated or continued under the laws of Canada or a province thereof;
- the chief executive officer is a resident Canadian;
- not less than 80% of the directors are resident Canadians;
- 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
- 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 $66\frac{2}{3}\%$ of the issued and outstanding shares and not less than $66\frac{2}{3}\%$ 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 licences. 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 p.m. 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 licences, 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 has a significant impact on 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 p.m. to 11 p.m. 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 Canada, Life Network, Food Network Canada, 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

Office Facilities

We lease offices in Toronto, Montreal, 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 129,128 square feet of space under leases expiring on various dates beginning March 2003 and through to November 2007. We believe that our properties are in good condition and sufficient for our purposes.

The Corporation also leases the following properties:

<u>Address</u>	<u>Square Feet</u>	<u>Expiration Date</u>
Calibre Digital Design Inc..... 4 Pardee Avenue Toronto, Ontario Canada M6K 3H5	10,392	March 2001
Tattersall/Casablanca Sound and Picture Inc. 22 Boston Avenue Toronto, Ontario Canada M4M 2T9	32,500	July 2004
5 Place Ville Marie Suite 1435 Montreal, Quebec Canada H3B 2G2	7,150	September 2003
808 Wilshire Blvd. Suite 400 Santa Monica, California U.S.A. 90401-1810	32,027	February 2006
Second Floor..... 184-192 Drummond Street London NW1 3HP England	6,820	January 2008
Block 1, Unit C Shannon Business Park Shannon, Co. Clare, Ireland	1,100	December 2000
401 Darling Street..... Suite 2 Balmain, Sydney NSW 2041 Australia	1,000	August 2004

Production Studio Facilities

In 1985, Atlantis entered into a partnership with P.S. Production Services Ltd. to develop and build a production studio in Toronto named Cinevillage, located at 65 Heward Avenue, Toronto, Ontario Canada M4M 2T5. The 50% investment in this facility was motivated in part to give greater control over the quality and efficiency of the production process. Cinevillage was the first studio located in the area of the City of Toronto, subsequently named the "Studio District." It contains two 9,800 square foot state-of-the-art studios and approximately 70,000 square feet of office and technical support space. Cinevillage is utilized extensively by both the Corporation and third party production companies.

Employees

As at July 31, 2000, we employed approximately 650 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 licences 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 favourably 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 board currently consists of 20 directors, each of whom holds office until the next annual meeting of shareholders of the Corporation or until a successor is elected or appointed. Particulars relating to each of the 20 directors and those directors who are also officers of the Corporation are contained in the Circular, portions of which are incorporated herein by reference.

The names of the officers of the Corporation (other than officers who are also directors) as at July 31, 2000, their municipality of residence, their current offices and other principal occupations during the last five years are set out below:

<u>Name and Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupations and Positions During the Last Five Years</u>
Susan Berger Toronto, Ontario	Treasurer	Formerly Treasurer, Atlantis Communications Inc.; Director, Cash and Treasury Management, Canadian chartered bank
Sean Carr Toronto, Ontario	Vice President, Corporate Finance	Formerly Vice President, Taxation of the Corporation; Director, Taxation, Atlantis Communications Inc.; Director, Taxation, Coca-Cola Canada Limited
Jeffrey Elliott Gormley, Ontario.....	Senior Vice President, Interactive	Formerly, Managing Director, Netstar Interactive
Paul Laberge Toronto, Ontario	Senior Vice President, Corporate Development, General Counsel and Corporate Secretary	Formerly Vice President, Corporate Development, of the Corporation; Vice President, General Counsel and Corporate Secretary, Alliance Communications Corporation, Associate, Heenan Blaikie

As of August 17, 2000, the directors and officers of the Corporation beneficially owned, directly or indirectly, or exercised control or direction over approximately 3,410,189 Class A Shares, representing approximately 70.47% of the outstanding Class A Shares, approximately 7,658,516 Class B Shares representing approximately 29.87% of the outstanding Class B Shares and approximately 48,046.5 Class C Shares representing approximately 79.92% of the outstanding Class C Shares and 1 Class D Share, representing 100% of the outstanding Class D Shares. The foregoing ownership figures have been provided to the Corporation by the individuals indicated and have not been independently verified by the Corporation.

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 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;
- reducing revolving term facilities of up to \$22.2 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 began to reduce in equal quarterly instalments in 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 Corporation 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:

- declare dividends, redeem or repurchase capital stock or make other distributions to our shareholders;
- prepay or redeem debt;
- grant liens;
- make loans, acquisitions and investments;
- incur more debt;

- amend or otherwise alter debt and other material agreements;
- make capital expenditures;
- engage in mergers, reorganizations and asset sales or licences out of the ordinary course of business;
- alter our lines of business;
- engage in transactions with related parties;
- enter into certain sale leaseback transactions;
- incur development costs and distribution and production expenses not supported by adequate “pre-sales”;
- issue shares redeemable at the option of the holder and issue stock of subsidiaries to third parties; or
- enter into productions without complying with certain completion bonding requirements.

Events of default under the Existing Credit Facility include:

- failure to pay principal, interest or other amounts when due;
- breach of any covenant or representation and warranty contained in the loan documents;
- cross-default provisions to other material indebtedness (including, without limitation, the Notes);
- customary events of bankruptcy, insolvency or dissolution of the Corporation or its subsidiaries;
- the enforcement of certain judgments against the Corporation, its subsidiaries or their assets or the seizing of material assets by other encumbrances;
- a change of control of the Corporation; and
- the removal or voluntary departure of any two of Michael MacMillan, 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 Corporation, has an aggregate of \$31 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 approximately \$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. 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 favourable interest rates and on favourable terms.

At the time of the Arrangement, we entered into a \$70 million credit facility with a Canadian chartered bank to finance restructuring costs related to the Arrangement and to secure our obligation to redeem preferred shares issued at the time of the Arrangement. The credit facility was fully repaid and the preferred shares redeemed with a portion of the proceeds of a 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 in August 1999.

Senior Subordinated Notes

On November 15, 1999, we issued US\$150 million aggregate principal amount of senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009 (the "November Notes"). On June 13, 2000, we issued US\$55 million aggregate principal amount of senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009 (the "June Notes"). The November Notes and the June Notes are referred to, collectively, as the "Notes".

The November Notes were issued under an indenture (the "Original Indenture") dated as of November 15, 1999, as amended by a first supplemental indenture dated as of April 1, 2000, between the Company and The Bank of Nova Scotia Trust Company of New York, as trustee (the "Trustee"), and the June Notes were issued under a second supplemental indenture, dated as of June 13, 2000, to the Original Indenture (as supplemented by the first and second supplements, the "Indenture"). The terms of the November Notes and the June Notes are identical in all material respects.

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 are senior subordinated obligations of the Company and will mature on December 15, 2009. The Notes bear interest at a rate of 13% per annum from the date of issue. The Notes rank behind substantially all of our other existing indebtedness (other than the Company's outstanding convertible debenture in the amount of approximately \$8.8 million) and all of our future borrowings, except any future indebtedness that expressly provides that it ranks equally with, or is subordinated in right of payment to, the Notes.

Optional Redemption

The Notes are subject to redemption, at the option of the Company, in whole or in part, at any time on or after December 15, 2004, on one or more occasions, at specified redemption prices which are set at a yearly decreasing percentage premium to the principal amount. In addition, the Notes may be redeemed by the Company, at 113% of their principal amount plus accrued interest prior to December 15, 2002, from proceeds of sales by the Company of its common equity, provided that Notes in an amount equal to at least 65% of the aggregate original principal amount of the Notes must remain outstanding after any such redemption.

The Company may redeem the Notes by paying the principal plus accrued interest if the Company is required to pay withholding or other taxes on interest payments on the Notes.

Certain Covenants

The Indenture contains customary incurrence covenants which restrict, among other things, our ability and the ability of our subsidiaries to:

- declare or pay dividends or make other distributions in respect of shares;
- purchase, redeem or otherwise acquire or retire for value shares or options, warrants or other rights to acquire shares;
- make certain investments in subsidiaries that are not controlled by the Company;
- redeem, repurchase or otherwise retire debt of the Company which is *pari passu* with or subordinate in right of payment to the Notes;
- create restrictions on the ability of subsidiaries to pay dividends or make other distributions, repay debt owed to the Company or any other subsidiary, make loans to the Company or any other subsidiary or transfer assets to the Company or any other subsidiary;
- in the case of the Company, incur any debt which is both subordinate in right of payment to any senior debt and senior in right of payment to the Notes;
- pledge assets to secure any debt of the Company that is *pari passu* with or subordinate to the Notes without making provision for securing the Notes;
- dispose of material assets;
- dispose of shares or other securities of certain subsidiaries if that subsidiary would cease to be majority owned or controlled by the Company;

- enter into transactions with affiliates or related persons; and
- in the case of the Company, amalgamate, consolidate or merge with another person or sell, or otherwise dispose of all or substantially all of its assets.

Change of Control

If there is a change of control (as defined in the Indenture) of the Company we 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.

Events of Default

Events of default under the Indenture include:

- failure to pay principal, interest or premium, if any, when due;
- failure to perform any covenant of the Company under the Indenture or the Notes;
- default under the terms of other material debt for money borrowed by the Company or its subsidiaries (including the Existing Credit Facility);
- the rendering of certain material judgments against the Company or its subsidiaries; and
- certain events of bankruptcy, insolvency or reorganization affecting the Company or its subsidiaries.

Upon the occurrence and during the continuance of an event of default under the Indenture, either the Trustee or the holders of not less than 25% in principal amount of the Notes may declare the principal of all Notes due and payable immediately.

FOREIGN REVENUE

A significant portion of the Corporation's revenues and expenses are in currencies other than Canadian dollars, and, therefore, subject to fluctuations in exchange rates. Approximately 42.6% of the Corporation's revenue for the year ended March 31, 2000 was derived from the Corporation's foreign operations. Exchange rates are determined by market factors beyond the Corporation's control and may vary substantially and have a material adverse effect on the Corporation's results of operations. For significant transactions, the Corporation has occasionally purchased future currency contracts in order to minimize the risk of currency fluctuation. At present, the Corporation is not aware of any existing currency or exchange control regulations in any country in which it currently contemplates exploiting its properties which would have an adverse effect on the Corporation's ability to repatriate such funds.

SEASONAL FLUCTUATIONS

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 program is delivered pursuant to a non-cancellable agreement, provided the applicable broadcast season has commenced. Minimum guaranteed revenues from license agreements typically are recognized when the license period begins and the program is delivered. Revenues from subsequent licensing of delivered product, 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 channels, broadcasters make most of their annual programming commitments between February and June so that new 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, the Corporation's revenues are not earned on an even basis throughout the year. In particular, 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.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data for the previous five fiscal years has been derived, in part, from, and should be read in conjunction with the Financial Statements and the consolidated financial statements for the fiscal years ended March 31, 2000 and 1999, including the notes thereto.

ANNUAL CONSOLIDATED FINANCIAL DATA (in millions of dollars, except per share information)

	Years Ended March 31				
	2000	1999	1998	1997	1996
Revenues	\$771.6	\$633.4	\$385.2	\$282.6	268.9
Net earnings (loss).....	39.1	(27.3)	19.9	17.5	10.7
Basic earnings per common share...	1.31	(1.44)	1.38	1.47	1.05
Fully diluted earnings common per share	1.25	(1.44)	1.28	1.39	0.99
Total Assets.....	1,410.1	1,385.4	565.0	350.6	236.7
Loans payable	243.6	485.4	145.3	—	2.0
Senior subordinated notes.....	217.5	—	—	—	—
Dividends per common share.....	—	—	—	—	—

QUARTERLY CONSOLIDATED FINANCIAL DATA
(in millions of dollars, except per share information)

	March 31, 2000	December 31, 1999	September 30, 1999	June 30, 1999	March 31, 1999	December 31, 1998	September 30, 1998	June 30, 1998
Revenues	\$208.4	\$209.6	\$190.3	\$163.3	\$231.7	\$190.0	\$131.0	\$80.7
Earnings (loss) before income taxes	12.9	21.8	13.2	10.4	6.7	3.8	(71.7)	6.0
Net earnings (loss) ...	8.4	14.3	9.2	7.1	5.7	5.3	(42.5)	4.1
Basic earnings (loss) per common share.....	0.26	0.46	0.33	0.24	0.19	0.23	(2.55)	0.26
Fully diluted earnings (loss) per common share	0.26	0.45	0.30	0.23	0.18	0.21	(2.55)	0.24

Dividends

The Corporation's current policy is to retain earnings for future growth. As a result, the Corporation does not intend to pay dividends in the foreseeable future. The Corporation's revolving bank credit facility and the indenture governing its senior subordinated debt restrict the payment of dividends without the consent of the lender or the debt holders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

See the MD&A.

MARKET FOR SECURITIES

The Corporation's publicly-traded securities are listed and posted for trading or quoted on the following exchanges under the symbols shown below:

Security	Symbol	Stock Exchange
Class A Shares	AAC.A	Toronto
Class B Shares	AAC.B	Toronto, NASDAQ National Market

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Alliance Atlantis' securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Circular.

Additional financial information is provided in the Financial Statements.

Copies of the Circular, the Annual Report, this 2000 Annual Information Form and, when the securities of Alliance Atlantis are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus, one copy of any other documents that are incorporated by reference into the short form prospectus or preliminary short form prospectus otherwise not referred to herein, may be obtained upon request from the Corporate Secretary of Alliance Atlantis, 121 Bloor Street East, Suite 1500, Toronto, Ontario, M4W 3M5. A reasonable fee may be charged if the request is made by a person who is not a security holder of the Corporation.