

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 Eighth 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:
Christopher W. Morgan, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP
Royal Bank Plaza, North Tower
Suite 1820, P.O. Box 189
Toronto, Ontario M5J 2J4
(416) 777-4700

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):
1. ☐ pursuant to Rule 467(b) on () at () (designate a time not sooner than 7 calendar days after filing).
 2. ☐ 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 ().
 3. ☒ 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.
 4. ☐ 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.

PART I

**INFORMATION REQUIRED TO BE
DELIVERED TO OFFEREEES OR PURCHASERS**



US\$95,000,000
Alliance Atlantis Communications Inc.
OFFER TO EXCHANGE
the outstanding
13% Senior Subordinated Notes Due December 15, 2009
(US\$95,000,000 principal amount outstanding)
for
13% Senior Subordinated Exchange Notes Due 2009
of
Alliance Atlantis Communications Inc.

Terms of Exchange Offer

- Expires 5:00 p.m., New York City time, April 20, 2001, unless extended.
- All outstanding notes that are validly tendered and not validly withdrawn will be exchanged.
- Tenders of outstanding notes may be withdrawn by you any time prior to 5:00 p.m., New York City time on the date of the expiration of the exchange offer.
- We will not receive any proceeds from the exchange offer.
- The terms of the Exchange Notes to be issued are substantially similar to the outstanding notes, except for transfer restrictions and registration rights relating to the outstanding notes. See "Description of the Notes".

See "Risk Factors" beginning on page 19 to read about factors that should be considered by prospective investors.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of the Exchange Notes to be distributed in the exchange offer 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 are subject to Canadian auditing and auditor independence standards. As a result, they may not be comparable to financial statements of United States companies.

The exchange of outstanding notes may have tax consequences both in the United States and in Canada. These consequences for investors who are resident in, or citizens of, the United States or Canada may not be described fully herein. See "Certain Income Tax Considerations."

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 are residents of Canada, some or all of the experts named in the registration statement are residents of Canada, and a substantial portion of the assets of the Company and said persons are located outside of the United States.

Prospectus dated March 16, 2001.

The exchange offer is not being made to, nor will we accept surrenders of or exchange from, holders of outstanding notes in any jurisdiction in which the exchange offer or the acceptance thereof would not be in compliance with the securities or blue sky laws of such jurisdiction.

No dealer, salesperson or other individual has been authorized to give any information or make any representation not contained in this prospectus in connection with the offering covered by this prospectus. If given or made, such information or representation must not be relied upon as having been authorized by us. This prospectus does not constitute an offer or a solicitation in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus, nor any distribution of securities made hereunder shall under any circumstances, create any implication that there has not been any change in the facts set forth in this prospectus or in the affairs of Alliance Atlantis since the date hereof.

THE EXCHANGE NOTES HAVE NOT BEEN AND WILL NOT BE QUALIFIED FOR PUBLIC DISTRIBUTION UNDER THE SECURITIES LAWS OF ANY PROVINCE OR TERRITORY OF CANADA. THE EXCHANGE NOTES ARE NOT BEING OFFERED FOR SALE AND MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN CANADA OR TO ANY RESIDENT THEREOF EXCEPT IN ACCORDANCE WITH THE SECURITIES LAWS OF THE PROVINCES AND TERRITORIES OF CANADA. NO SECURITIES REGULATORY AUTHORITY IN CANADA HAS EXPRESSED AN OPINION ABOUT THESE SECURITIES AND IT IS AN OFFENSE TO CLAIM OTHERWISE.

The Exchange Notes will be issued pursuant to an exemption from the prospectus requirements of the applicable Canadian provincial and territorial securities laws and may be sold in Canada only pursuant to an exemption therefrom.

Certain of the initial purchasers are affiliates of Canadian chartered banks to whom we are indebted. See "Relationships between the Company and Certain of the Initial Purchasers" on page 111.

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,					Nine months ended Dec. 31,	
	1996	1997	1998	1999	2000	1999	2000
High	0.7527	0.7513	0.7317	0.7055	0.6925	0.6925	0.6889
Low	0.7144	0.7228	0.6832	0.6341	0.6607	0.6607	0.6410
Average	0.7346	0.7335	0.7112	0.6629	0.6810	0.6786	0.6686
Period End	0.7334	0.7228	0.7052	0.6626	0.6879	0.6925	0.6669

On January 25, 2001, the date of issuance of the outstanding notes, the inverse of the Noon Buying Rate was US\$0.6631 = \$1.00. On March 14, 2001, the inverse of the Noon Buying Rate was US\$0.6440 = \$1.00.

FINANCIAL STATEMENT PRESENTATION

Our audited consolidated balance sheets as at March 31, 2000 and March 31, 1999 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, 2000, 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 December 31, 2000 and December 31, 1999 and the unaudited interim consolidated statements of operations and retained earnings for each of the three and nine-month periods ended December 31, 2000 and December 31, 1999 and cash flows for each of the nine-month periods ended December 31, 2000 and December 31, 1999, 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 24 to the Consolidated Financial Statements and note 12 to the Unaudited Interim Consolidated Financial Statements included elsewhere in this prospectus.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains "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; 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; 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 in this prospectus. You should read the entire prospectus, including, in particular, the "Risk Factors" beginning on page 19 and the financial statements (and all notes) presented later 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 "fiscal" refer to the Company's results of operations for the twelve-month period ended March 31 of that year. All dollar references reflected in this prospectus are in Canadian dollars unless otherwise specifically indicated.

The Exchange Offer

The exchange offer relates to the exchange of up to US\$95,000,000 aggregate principal amount of the outstanding 13% Senior Subordinated Notes Due December 15, 2009 that were issued by the Company on January 25, 2001 in a private placement in the United States and outside the United States for an equal aggregate principal amount of Exchange Notes. The Exchange Notes will be our obligations and are entitled to the benefits of the indenture relating to the outstanding notes. The form and terms of the Exchange Notes are identical in all material respects to the form and terms of the outstanding notes, except that the Exchange Notes have been registered under the Securities Act, and therefore contain no restrictive legends thereon. Nor are the Exchange Notes entitled to the benefits of the registration rights granted under the registration rights agreement, executed as a part of the offering of the outstanding notes, dated as of January 25, 2001, among us and the initial purchasers.

Registration Rights On January 25, 2001, we and the initial purchasers agreed that you, as a holder of the outstanding notes, would be entitled to exchange your notes for registered notes with substantially identical terms. This exchange offer is intended to satisfy these rights. After the exchange offer is complete, you will no longer be entitled to any exchange or registration rights with respect to your notes.

The Exchange Offer We are offering to exchange US\$1,000 principal amount of 13% Senior Subordinated Exchange Notes Due December 15, 2009 which have been registered under the Securities Act for each US\$1,000 principal amount of our 13% Senior Subordinated Notes Due December 15, 2009, which were issued on January 25, 2001 in a private offering.

In order to be exchanged, an outstanding note must be properly tendered and accepted. All outstanding notes that are validly tendered and not validly withdrawn will be exchanged.

As of this date, there is US\$95 million aggregate principal amount of outstanding notes.

We will issue the Exchange Notes to you on or promptly after the expiration of the exchange offer.

Resale of the Exchange

Notes

Based on an interpretation by the staff of the Securities and Exchange Commission set forth in no-action letters issued to third parties, including “Exxon Capital Holdings Corporation” (available May 13, 1988), “Morgan Stanley & Co. Incorporated” (available June 5, 1991), “Mary Kay Cosmetics, Inc.” (available June 5, 1991) and “Warnaco, Inc.” (available October 11, 1991), we believe that the Exchange Notes issued in the exchange offer may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery provisions of the Securities Act provided that:

- you are acquiring the Exchange Notes issued in the exchange offer in the ordinary course of business;
- you are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate in the distribution of the Exchange Notes issued to you in the exchange offer;
- you are not a broker-dealer who purchased the outstanding notes directly from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act; and
- you are not an “affiliate” of ours.

If our belief is inaccurate and you transfer any Exchange Note issued to you in the exchange offer without delivering a prospectus meeting the requirements of the Securities Act or without an exemption from registration of your Exchange Notes from such requirements, you may incur liability under the Securities Act. We do not assume or indemnify you against such liability, but we do not believe that any such liability should exist.

Each broker-dealer that is issued Exchange Notes in the exchange offer for its own account in exchange for notes which were acquired by such broker-dealer as a result of market-making or other trading activities, must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the Exchange Notes issued in the exchange offer. The letter of transmittal states that by so acknowledging and by delivering a prospectus, such broker-dealer will not be deemed to admit that it is an “underwriter” within the meaning of the Securities Act. A broker-dealer may use this prospectus for an offer to resell or otherwise retransfer of the Exchange Notes issued to it in the exchange offer. We have agreed that, for a period of 180 days after the date of this prospectus, we will make this prospectus and any amendment or supplement to this prospectus available to any such broker-dealer for use in connection with any such resales. We do not believe that any registered holder of the outstanding notes is an affiliate (as such term is defined in Rule 405 of Securities Act) of ours.

The exchange offer is not being made to, nor will we accept surrenders for exchange from, holders of outstanding notes in any jurisdiction in which this exchange offer or the acceptance thereof would not be in compliance with the securities or blue sky laws of such jurisdiction.

Expiration of Exchange

Offer The exchange offer will expire at 5:00 p.m., New York City time, on April 20, 2001, unless we decide to extend the expiration date.

Accrued Interest on the
Exchange Notes and the
Outstanding Notes

The Exchange Notes will bear interest from December 15, 2000. Holders of outstanding notes whose notes are accepted for exchange will be deemed to have waived the right to receive any payment in respect of interest on such outstanding notes accrued from December 15, 2000 to the date of the issuance of the Exchange Notes.

Conditions of the
Exchange Offer

We may terminate the exchange offer if we determine that our ability to proceed with the exchange offer could be materially impaired due to any legal or governmental action, new law, statute, rule or regulation or any interpretation of the staff of the Securities and Exchange Commission of any existing law, statute, rule or regulation. We do not expect any of the foregoing conditions to occur, although there can be no assurance that such conditions will not occur. Holders of outstanding notes will have certain rights against our company under the registration rights agreement executed as part of the offering of the outstanding notes should we fail to consummate the exchange offer.

Procedures for Tendering

Outstanding Notes If you are a holder of an outstanding note and you wish to tender your note for exchange pursuant to the exchange offer, you must transmit to The Bank of Nova Scotia Trust Company of New York, as exchange agent for the notes, on or prior to the expiration date:

either

- a properly completed and duly executed letter of transmittal, which accompanies this prospectus, or a facsimile of the letter of transmittal, including all other documents required by the letter of transmittal, to the exchange agent at the address set forth on the cover page of the letter of transmittal; or
- a computer-generated message transmitted by means of the Depository Trust Company's Automated Tender Offer Program system and received by the exchange agent and forming a part of a confirmation of book-entry transfer in which you acknowledge and agree to be bound by the terms of the letter of transmittal;

and, either

- a timely confirmation of book-entry transfer of your outstanding notes into the exchange agent's account at The Depository Trust Company pursuant to the procedure for book-entry transfers described in this prospectus under the heading "The Exchange Offer—Procedures for Tendering Outstanding Notes," must be received by the exchange agent on or prior to the expiration date; or
- the documents necessary for compliance with the guaranteed delivery procedures described below.

By executing the letter of transmittal, or by agreeing to the terms of the letter of transmittal, each holder will represent to us that, among other things, (1) the Exchange Notes to be issued in the exchange offer are being obtained in the ordinary course of business of the person receiving such Exchange Notes whether or not such person is the holder, (2) neither the holder nor any such other person has an arrangement or understanding with any person to participate in the distribution of such Exchange Notes and (3) neither the holder nor any such other person is an "affiliate," as defined in Rule 405 under the Securities Act, of ours.

Special Procedures for

Beneficial Owners

If you are a beneficial owner of registered notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender such notes or registered notes in the exchange offer, you should contact such person in whose name your notes or registered notes are registered promptly and instruct such person to tender on your behalf. If you, as such beneficial holder, wish to tender on your own behalf you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either make appropriate arrangements to register ownership of the outstanding notes in your name or obtain a properly completed bond power from the registered holder. The transfer of record ownership may take considerable time.

Guaranteed Delivery

Procedures

If you wish to tender your outstanding notes and time will not permit your required documents to reach the exchange agent by the expiration date, or the procedure for book-entry transfer cannot be completed on time or certificates for registered notes cannot be delivered on time, you may tender your outstanding notes pursuant to the procedures described in this prospectus under the heading "The Exchange Offer—Guaranteed Delivery Procedure."

Withdrawal Rights

You may withdraw the tender of your outstanding notes at any time prior to 5:00 p.m., New York City time, on April 20, 2001.

Acceptance of Outstanding
Notes and Delivery of
Exchange Notes

Subject to certain conditions (as summarized above in “Conditions of the Exchange Offer” and described more fully under “The Exchange Offer—Certain Conditions to the Exchange Offer” beginning on page 45), we will accept for exchange any and all outstanding notes which are properly tendered in the exchange offer prior to 5:00 p.m., New York City time on the expiration date. The Exchange Notes issued pursuant to the exchange offer will be delivered promptly following the expiration date.

Income Tax Consequences .

The exchange of the outstanding notes will generally not be a taxable exchange for United States federal income tax purposes. We believe you will not recognize any taxable gain or loss or any interest income as a result of such exchange.

No taxes on income (including taxable capital gains) will be payable by a United States holder for Canadian federal income tax purposes solely as a consequence of the exchange of the outstanding notes.

Use of Proceeds

We will not receive any proceeds from the issuance of Exchange Notes pursuant to the exchange offer. We will pay all expenses incident to the exchange offer. For a description of the use of proceeds from the offering of the outstanding notes, see “Use of Proceeds” on page 28.

Exchange Agent
for Notes

The Bank of Nova Scotia Trust Company of New York is serving as exchange agent. For more information with respect to the exchange of outstanding notes, the telephone number for the exchange agent is (212) 225-5427 and the facsimile number is (212) 225-5436.

Ratings

The notes have been rated B2 by Moody’s and BB – by Standard & Poor’s. You are advised to consult these rating agencies with respect to the interpretation of the foregoing ratings. A rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn at any time by the applicable rating agency.

The Company

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 owns, either wholly or in part, eight Canadian specialty television networks, is the exclusive sponsor in Canada for the U.S.-based The Health Network and launched U8TV (majority controlled) on January 15, 2001, a 24-hour-a-day internet television station. The Broadcast Group accounted for 12% of our revenue and 30% of our gross profit in fiscal 2000;
- The Motion Picture Group acquires, creates and distributes theatrical motion pictures worldwide and exhibits motion pictures in Canada through Alliance Atlantis Cinemas. The Motion Picture Group accounted for 30% of our revenue and 26% of our gross profit in fiscal 2000; and

- The Television Group acquires, creates and distributes a balanced mix of drama, children's and fact-based television programming. The Television Group accounted for 53% of our revenue and 36% of our gross profit in fiscal 2000.

Our Broadcast Group is a leading owner and operator of specialty television networks in Canada. We currently operate five national, English-language networks which are "must carry" services on every major English-language cable system in Canada, and are partners in two French-language networks which were launched in January 2000. On October 26, 1999 we purchased an interest in The Score, which is the principal operating asset of Headline Media Group Inc., a publicly traded company of which we own a 40% voting interest. See "Our Business—Recent Developments." On January 15, 2001, we launched U8TV (majority controlled), an internet television station that will have worldwide reach from its downtown Toronto broadcast center. To augment our existing networks, we applied to the Canadian Radio-television Telecommunications Commission (the "CRTC") and were awarded new specialty digital television network licenses on November 24, 2000. See "Our Business—Recent Developments." Our existing specialty television networks are:

- 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);
- Food Network Canada, a network focused on food related programming (51% interest);
- Series+, a French-language version of Showcase (50% interest);
- Historia, a French-language version of History Television (50% interest); and
- The Score, a network featuring 24-hour sports news and highlights (40% voting interest).

Canadian specialty television networks are licensed by the CRTC. Cable, direct-to-home satellite and wireless broadband system operators ("cable operators") that carry these networks 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 2000, our subscription fees, which accounted for approximately 60% of the Broadcasting Group's revenues, grew by 51% and our advertising revenues grew by 67%.

Our Motion Picture Group is a leading distributor of films in Canada, with over 100 motion pictures released in calendar 2000 and approximately a 14% 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 theaters, television, 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 *Traffic*, *Chocolat*, *State and Main*, *Thirteen Days*, *Scary Movie*, *The Cell* and *Cider House Rules*. 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.

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, which recently received three Golden Globe nominations including best picture. We typically cover, prior to commencing productions, approximately 70% of our production budgets through "pre-sales" (as defined below), 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".

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 approximately 240 hours of programming, comprised of 16 drama, adventure and children's series (including nine series renewals) and approximately 22 hours of television movies and mini-series; in addition, we expect to produce approximately 85 hours of documentary and fact-based programming. 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".

Our television distribution business is centered around our new productions and our growing, valuable library of approximately 16,000 hours of programming, including approximately 13,000 hours of Canadian programming rights and approximately 3,000 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 6,500 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.

Recent Developments

Broadcast Group

In April 2000, in response to the call for applications for new digital specialty television channel licenses by the CRTC, we filed a number of applications. On November 24, 2000, we were awarded licenses for 34 new digital specialty television networks. In Category 1 (mandatory carriage), we received licenses for the Health Network Canada, a digital network in which we have a controlling interest, and for a second digital network in which we have a minority interest. In Category 2 (optional carriage), we, or in partnership with others, received licenses for 32 channels including four National Geographic channels in partnership with National Geographic Channels International, two BBC channels in partnership with BBC Worldwide, a number of channels in partnership with The E.W. Scripps Company (including DIY—Do It Yourself and Fine Living) and a suite of five movie-based services.

On January 15, 2001, we launched U8TV (majority controlled), an internet television station which broadcasts live, original entertainment, information and lifestyle shows from a broadcast center in a downtown Toronto loft. The CRTC has issued an order exempting from regulation broadcasting services delivered and accessed over the Internet. A daily half-hour television show featuring highlights from U8TV airs on Life Network.

In November 2000, we completed a transaction pursuant to which Sportscope Television Network Ltd. ("Sportscope"), the company that holds the broadcast license for The Score, was acquired by a company listed on the Toronto Stock Exchange, Old Canada Investment Corporation Limited ("Old Canada"), through a reverse takeover. Old Canada issued treasury shares to John Levy and us, the former shareholders of Sportscope. In addition, John Levy, other investors and we invested, in aggregate, approximately \$27.5 million by way of a private placement in Old Canada, which was renamed Headline Media Group Inc. As a result of these transactions, John Levy has voting control of the company listed on the Toronto Stock Exchange, which is owned approximately 49% by John Levy, 40% by us and the balance by other investors.

In October 2000, we launched Food Network Canada, owned by us (as majority shareholder), The E.W. Scripps Company and Corus Entertainment Inc. Food Network Canada replaced the U.S. version of the Food Network.

Motion Picture Group

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

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

In August 2000, we acquired the 25% of Odeon Films Inc. we did not already own.

In December 2000, we renewed our output agreement with Artisan Entertainment for an additional three year period (through 2004) and the right to distribute Artisan's library in Canada for an additional five years (through 2006).

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

In July 2000, we announced that we had acquired for cash all of the shares, that we did not already own, of Great North Communications Ltd., a Canadian producer of factual and documentary programming. In August and October of 2000, we made investments in certain other leading Canadian documentary and fact-based programming producers. See "Business Strategy—Continue to Improve Profitability and Balance of Television Productions".

Other

On February 12, 2001, we announced that we had entered into an agreement under which we would acquire all of the issued and outstanding shares of Salter Street Films Limited ("Salter Street"), an integrated entertainment company that develops, produces and distributes original filmed entertainment. The acquisition agreement provides that shareholders of Salter Street may elect to receive either (i) preferred shares redeemable for \$3.33 in cash and 0.310 Class B Non-Voting Shares or (ii) 0.465 Class B Non-Voting Shares, in exchange for each Salter Street multiple voting share or subordinate voting share held by them. The transaction is subject to shareholder and regulatory approval and is expected to close by the end of April 2001.

Pursuant to arrangements made in a support agreement in connection with the acquisition, we have obtained the right to acquire all of the multiple voting shares and subordinate voting shares held by certain principals of Salter Street and their respective affiliated companies. Such right is exercisable for a period of 20 days only in circumstances where the acquisition does not proceed and is subject to certain conditions. The shares represent, in aggregate, approximately 25% of the outstanding common equity of Salter Street.

In November 1999, June 2000 and January 2001, we sold an aggregate of US\$300 million in high yield notes. See "Description of Certain Indebtedness".

On January 9, 2001, we entered into an amended and restated credit agreement with a syndicate of Canadian chartered banks, which amended our existing credit facility. The new credit facility provides up to \$525 million in borrowings on a revolving basis. See "Description of Certain Indebtedness". In addition, we have entered into a commitment letter with an investment dealer in respect of the securitization of between \$150 million and \$200 million of our production tax credits and trade receivables. This transaction is subject to acceptable documentation and the satisfaction of other conditions.

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 Broadcast 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 36% of our gross profit in fiscal 2000. 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 a leading distributor of films in Canada, with approximately a 14% box office market share in calendar 2000. 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 in 1999, we renewed our exclusive distribution contract through 2002. In addition, we have long-term television production output agreements with TV-Loonland (Germany), Telecinco (Spain), Eagle Pictures (Italy) and TV3 (New Zealand). In 1999, we entered into a four-year agreement with Studio Canal, a leading French entertainment company, to serve as the exclusive Canadian distributor for 1,250 titles from its library and, under a separate agreement, to distribute six motion pictures in the UK through Momentum Pictures. 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 extended again in 1999 through 2001 and 2005, respectively. In addition, we have exclusive Canadian distribution agreements with Artisan Entertainment through 2004, USA Films through March 2002 and Destination Films through 2002. In November 1999, Momentum Pictures commenced a three year UK distribution agreement with Artisan Entertainment. We also have a long term video and DVD distribution and marketing joint venture with Universal Studios.

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 2000 accounted for approximately \$145 million (19%) of revenue, which we expect to increase in the future. We have an extensive library of movies and television programming, including a growing amount of children's, documentary and fact-based programming. It consists of approximately 3,000 hours of worldwide programming rights and approximately 13,000 hours of Canadian rights, including over 6,500 motion pictures. Our distribution relationships with CBS, New Line Cinema, Miramax Films, USA Films, Artisan Entertainment, Destination Films and Studio Canal, as well as our own productions, enhance the growth, quality and value of our library.

Favorable Canadian Business Environment

We believe that 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;
- 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 Communications Inc. (“Atlantis”) in 1978 and a predecessor to Alliance Communications Corporation (“Alliance”) in 1973 and developed each business, primarily through internal growth, into diversified media and entertainment companies. On September 21, 1998 we were formed through the merger of these two companies (the “Merger”). At the end of fiscal 2000, we had won over 230 prestigious awards, including an Academy Award, seven Emmy Awards, five awards from the Cannes Film Festival and 26 Cable Ace Awards.

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:

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 November 2000, we were awarded licenses from the CRTC for 34 new digital specialty television licenses to augment our current network offerings, some of which we anticipate launching as early as this fall. See “Our Business—Regulation”. These licenses are for thematic networks that target specific audiences and thus are more attractive to advertisers interested in these demographic segments. 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 French language networks, Series+ and Historia, which we believe benefit from programming synergies with our existing English-language network equivalents, Showcase and History Television, respectively. In October 1999, we acquired our interest in The Score. In November 2000 we rolled our interest in the company that controls The Score into a publicly traded company, Headline Media Group Inc. In October 2000 we launched Food Network Canada, replacing the U.S. Food Network which had previously aired in Canada. See “Recent Developments”.

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. 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; and (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.

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. We expect to leverage our distribution success 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 centers and plan to expand from our existing 24 screens to approximately 50 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. From fiscal 1998 to fiscal 2000,

our aggregate budget overruns were less than 0.5% of our total television and motion picture production costs.

Continue to Improve Profitability and Balance of Television Productions

We are leveraging our leadership position in television production and distribution and our critical mass 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 16 series is being distributed outside of Canada, including eight which have been licensed in the United States. Examples include:

- *CSI*, which is the highest-rated new dramatic U.S. series this fall and which was nominated for a Golden Globe award for best dramatic television series, is a co-production between us and CBS Productions. It airs on CBS in the United States and has been licensed to CTV in Canada;
- *Beastmaster*, which premiered as a top-rated new show in U.S. syndication last year and which is in its second season in syndication with Tribune Entertainment (CBS) in the United States and WIC in Canada; and
- *Gene Roddenberry's Earth: Final Conflict*®, currently in its 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. For example, we are producing a third season of *The Famous Jett Jackson* for the Disney Channel in the United States, a second season of *I Was a Sixth Grade Alien* for Fox Family in the United States and several animated series.

We have recently expanded into the production and acquisition of documentary and fact based programming under the banner "AAC Fact". In July 2000, we announced that we acquired all of the outstanding shares, which we did not already own, of Great North Communications Ltd., a Canadian documentary producer and distributor. In August 2000, we acquired a 19.9% interest in Barna-Alper Productions Ltd. and in October 2000, we acquired a 10% interest in Associated Producers Inc. In addition to our investment in these two Canadian documentary and fact-based producers, we entered into distribution and first-look arrangements with both companies, pursuant to which we acquired rights to distribute certain programming from their libraries and certain rights of first refusal to distribute future productions. Both children's and fact-based programming tend to have broader appeal, lower production costs and often have higher library value than dramatic programming.

It should be noted that the term "network" is frequently used in this document as an informal term to describe specialty television programming services or channels; however, such services are not licensed as "networks" under the *Broadcasting Act* (Canada), but as programming undertakings.

Description of the Exchange Notes

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

Issuer	Alliance Atlantis Communications Inc.
Notes Offered	US\$95,000,000 principal amount of 13% Senior Subordinated Notes.
Maturity	December 15, 2009.
Issue Price	99% plus accrued interest from December 15, 2000
Interest	Annual rate: 13%. Payment frequency: every six months on June 15 and December 15, commencing June 15, 2001.
Additional Amounts	All payments made by us with respect to the Exchange 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 Exchange Notes will be senior subordinated debt. The Exchange 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 Exchange Notes. The Exchange Notes will effectively rank junior to all debt and liabilities of the Company’s subsidiaries, including trade payables. Assuming we had completed the exchange offering of the Exchange Notes as of December 31, 2000, the Exchange Notes: • would have been subordinated to \$185.1 million of senior debt of the Company; and • would have been effectively subordinated to \$426.1 million of debt and other liabilities of the Company’s subsidiaries, including their trade payables and excluding intercompany liabilities. The Exchange Notes would have ranked equally with the US\$205 million aggregate principal amount of our outstanding 13% senior subordinated notes due December 15, 2009.
Optional Redemption	At any time on or after December 15, 2004 we may redeem all or a portion of the Exchange 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 December 15, 2002 we may redeem up to 35% of the Exchange Notes with the net cash proceeds of certain sales of our common shares at 113% 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 Exchange 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 Exchange Notes as a result of changes affecting Canadian withholding taxes, we may redeem all, but not less than all, of the Exchange 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 Exchange 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.”

Exchange Offer, Registration
Rights

The Company agreed to file, by March 11, 2001, an Exchange Offer Registration Statement relating to an exchange offer (the “Exchange Offer”) pursuant to which Exchange Notes substantially identical to the 13% senior subordinated notes issued by the Company on January 25, 2001 in a private placement in the United States and outside the United States will be offered in exchange for the then outstanding notes tendered at the option of the holders thereof and to use its best efforts to cause such registration statement to become effective by March 26, 2001. This prospectus is a part of the registration statement. In the event that the applicable law or interpretations of the staff of the Securities and Exchange Commission do not permit the Company to effect the Exchange Offer, the Company will use its best efforts to cause to become effective a shelf registration statement with respect to the resale of the outstanding notes and to keep such resale registration statement effective for a period of up to two years.

In the event that (i) such Exchange Offer Registration Statement has not been filed on or before March 11, 2001 or does not become effective by March 26, 2001 or (ii) the Exchange Offer has not been completed within 45 days after the effective date of the Exchange Offer Registration Statement or (iii) certain other specified events relating to the effectiveness of such registration statements occur, then special interest, in addition to the interest set forth on the cover page of this prospectus, shall accrue on the outstanding notes at a per annum rate of 0.5% for the first 60 days from the occurrence of such default and at an additional 0.5% thereafter (to a maximum of 1.0%).

Withholding Tax Unless required by law, all our payments with respect to the Exchange Notes will be made without withholding or deduction for any present or future taxes or governmental charges of whatever nature imposed or levied by any tax authority within Canada or any other relevant taxing jurisdiction. We will pay any additional amounts so that the net amounts receivable by the holders after any payment, withholding or deduction in respect of such tax or liability shall equal the respective amounts which would have been receivable in respect of the exchange notes in the absence of such payments, withholding or deduction.

Consequences of Failure to Exchange Untendered outstanding notes will remain restricted securities and will continue to be subject to the following restrictions on transfer:

- outstanding notes may be resold only if registered pursuant to the Securities Act, if an exemption from registration is available thereunder, or if neither such registration nor such exemption is required by law.
- outstanding notes shall bear a legend restricting transfer in the absence of registration or an exemption therefrom, and
- a holder of outstanding notes who desires to sell or otherwise dispose of all or any part of its outstanding notes under an exemption from registration under the Securities Act, if requested by us, must deliver to us an opinion of independent counsel experienced in Securities Act matters, reasonably satisfactory in form and substance to us, that such exemption is available.

The Exchange 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 Exchange Notes are not being offered for sale and may not be offered or sold, directly or indirectly, in Canada, or to any resident thereof, except in accordance with the securities laws of the provinces and territories 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.

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 tendering your outstanding notes for Exchange 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 nine months ended December 31, 2000 and December 31, 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 24 to the audited Consolidated Financial Statements and note 12 to the Unaudited Interim Consolidated Financial Statements included elsewhere in this prospectus. Our fiscal year ended March 31, 1999 includes the results of Atlantis and its subsidiaries from the date of the Merger.

	Nine months ended December 31,		Year ended March 31,				
	2000	1999	2000	1999	1998	1997	1996
	(In millions of Canadian dollars)						
Statement of Operations Data:							
<i>Canadian GAAP</i>							
Revenues	\$546.9	\$563.2	\$771.6	\$633.4	\$385.2	\$282.6	\$268.9
Direct operating expenses	389.0	430.7	592.4	502.7	302.6	214.9	209.7
Gross profit	157.9	132.5	179.2	130.7	82.6	67.7	59.2
Other expenses	122.6	89.5	123.8	105.7	59.9	48.3	45.7
Operating earnings(1)	35.3	43.0	55.4	25.0	22.7	19.4	13.5
Net earnings (loss)	26.8	30.7	39.1	(27.3)(2)	19.9	17.5	10.7
<i>U.S. GAAP</i>							
Net earnings (loss)	20.2	34.4	36.7	(38.7)(2)	17.3	15.0	9.1
Other Financial Data:							
<i>Canadian GAAP</i>							
Amortization	22.4	13.1	\$17.7	\$12.3	\$5.1	\$4.5	\$4.4
Interest expense	35.6	22.4	33.1	22.0	3.6	1.3	0.9
EBITDA(3)	93.3	78.5	106.2	59.3	31.3	25.2	18.8
Capital expenditures	15.3	13.9	19.8	16.8	6.3	5.2	3.0
Actual interest(4)	44.1	29.8	39.4	28.5	5.4	1.3	0.9
<i>U.S. GAAP</i>							
EBITDA(3)	88.2	81.9	97.7	50.3	29.9	22.0	16.9
Balance Sheet Data							
(at period end):							
<i>Canadian GAAP</i>							
Cash and cash equivalents	\$0.8	\$4.1	\$1.0	\$56.9	\$2.4	\$10.8	\$5.1
Total assets	1,909.7	1,473.6	1,410.1	1,385.4	565.0	350.6	236.7
Total debt	692.4	466.7	469.9	494.3	162.9	19.9	24.2
Total shareholders' equity	594.7	556.4	571.5	454.9	219.4	148.5	94.1
<i>U.S. GAAP</i>							
Total shareholders' equity	566.5	542.1	547.3	384.4	210.5	142.3	89.9

(Footnotes on following page)

- (1) Operating earnings is gross profit less operating expenses, amortization and interest expense. Operating earnings is not a measure of performance under Canadian or U.S. GAAP. Operating earnings are presented here as an indicator of the company's ability to service and/or incur debt. However, Operating earnings should not be construed as an alternative to net earnings or to cash flows from operating, investing and financing activities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of other measures of liquidity and operations.
- (2) Includes the effect of \$49.0 million (\$81.4 million pre-tax) of merger and restructuring expenses related to the Merger.
- (3) EBITDA is defined as operating earnings before interest expense, 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 Condition and Results of Operations" for a discussion of other measures of liquidity and operations.
- (4) Actual interest in the current period represents interest expense plus interest capitalized to investment in film and television programs during the current period less the amount of interest charged in the current period through the amortization of investment in film and television programs.

RISK FACTORS

You should carefully consider the risk factors set forth below as well as the other information contained in this prospectus before tendering your outstanding notes for Exchange Notes offered hereby. Certain statements under this caption constitute forward-looking statements. See “Special Note Regarding Forward-Looking Statements.”

Risks Related to the Notes

Consequences of Failure to Exchange—If you do not exchange your outstanding notes for Exchange Notes, your ability to transfer them will be limited by the transfer restrictions on the existing notes.

We issued the outstanding notes pursuant to exemptions from the registration requirements of the Securities Act and applicable state securities laws. If you do not exchange your outstanding notes for Exchange Notes pursuant to this exchange offer, your ability to transfer your outstanding notes will remain restricted and will continue to be limited by the transfer restrictions described below:

- the outstanding notes shall bear a legend on their face restricting transfer in the absence of registration of an exemption therefrom;
- the outstanding notes may not be offered or sold, unless they are registered under the Securities Act and applicable state securities laws or they are offered or sold pursuant to an exemption therefrom; and
- if a holder desires to sell or otherwise dispose of all or a part of its outstanding notes under an exemption from registration under the Securities Act, if requested by us, it must deliver to us an opinion of independent counsel experienced in Securities Act matters, reasonably satisfactory in form and substance to us, that such an exemption is available.

You should understand that:

- Even if you tender your outstanding notes in this exchange offer, the Exchange Notes you receive may be deemed to be restricted securities if you tendered for the purpose of participating in a distribution of Exchange Notes. If this is your purpose, you will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.
- To the extent outstanding notes are tendered and accepted in this exchange offer, the trading market, if any, for the remaining outstanding notes could be adversely affected because investors prefer unrestricted securities over restricted securities.

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

We have now and, after this exchange offering, will continue to have a significant amount of indebtedness. The following table shows certain important credit statistics and is presented assuming that the exchange offering of the Exchange Notes 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:

	At December 31, 2000
Total debt, as adjusted	\$700.0 million
Shareholders' equity	\$594.7 million
Debt to total capitalization ratio	54%

Ratio of earnings to fixed charges(1) 1.6

(1) Earnings consist of earnings (loss) before income taxes for the twelve-month period ended December 31, 2000 plus minority interest and 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 Exchange 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 Exchange Notes do not fully prohibit us or our subsidiaries from doing so. Our existing credit facility dated January 2001 with a syndicate of lenders (the “Credit Facility”) permits total borrowings of up to \$525 million and all of those borrowings would be senior to the Exchange 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 Exchange 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 Credit Facility or otherwise in an amount sufficient to enable us to pay our indebtedness, including the Exchange Notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the Exchange Notes, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including our Credit Facility and the Exchange Notes, on commercially reasonable terms, or at all. The source of funds for any purchase or refinancing of the Exchange 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 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 Exchange Notes will rank equally with our outstanding US\$205 million aggregate principal amount of 13% senior subordinated notes due December 15, 2009. The Exchange Notes will rank behind substantially all of our other existing indebtedness 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 Exchange 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 Exchange Notes.

In addition, all payments on the Exchange 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 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 Exchange 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 Exchange 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 Exchange Notes may receive less, ratably, than the holders of senior indebtedness.

Assuming we had completed the exchange offer of the Exchange Notes on December 31, 2000 and applied the net proceeds as intended, the Exchange Notes would have been subordinated to \$185.1 million of senior debt of Alliance Atlantis Communications Inc. If the Credit Facility had been in place on December 31, 2000, our borrowing availability would have been \$314.6 million. We will be permitted to incur 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 Exchange 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 Exchange 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 Exchange 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 December 31, 2000, after giving effect to the exchange offer of the Exchange Notes, the Exchange Notes would have been effectively subordinated to \$426.1 million of indebtedness and other liabilities of the Company's subsidiaries (including their trade payables and excluding intercompany liabilities), and \$12.6 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 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 Credit Facility and the Indenture, impose certain operating and financial restrictions on us. The Credit Facility requires us to maintain specified financial ratios and tests, among other obligations. In addition, the 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"; or (xiii) 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 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 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 Exchange 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 may be some 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 Exchange Notes, and the US\$205 million of outstanding senior subordinated 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 such securities or restrictions in our 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.”

You cannot be sure that an active trading market will develop for the Exchange Notes.

The Exchange Notes are a new issue of securities with no established trading market and we do not intend to apply for the listing of the Exchange Notes on any securities exchange. In addition, the liquidity of the trading market in the Exchange Notes, and the market price quoted for the Exchange 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 Exchange Notes and if an active trading market for the Exchange Notes does not develop, it could have an adverse effect on the market price and liquidity of the Exchange 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 Exchange Notes will not be subject to similar disruptions. Any such disruptions may have an adverse effect on the value of the Exchange Notes and on your ability to resell your Exchange 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 networks.

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. 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.

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 or negatively impact certain of our material agreements. Further, certain of our key executives directly and indirectly control approximately 73.3% of the votes attached to our voting 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”) 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. In addition, certain 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 approximately 73.3% 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 Credit Facility could be triggered in the event that any person other than the Alliance Atlantis Principals (or entities which they control) acquires control of Alliance Atlantis.

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 license period 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 recoverable amount. 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.

Furthermore, in June 2000, the United States Financial Accounting Standards Board issued statement of position 00-2, which provides guidance on generally accepted accounting principles to all producers or distributors that own or hold rights to distribute or exploit films. The new standard is effective for financial statements for fiscal years beginning after December 15, 2000. The Company has not yet determined the impact the adoption of SOP-002 will have on its financial statements.

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 \$57 million to us in fiscal 2000. 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 the Sentinel Hill Alliance Atlantis Equicap Limited Partnership (in which we hold a 30% limited partnership interest) 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 the Sentinel Hill Alliance Atlantis Equicap Limited Partnership 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 43% of our revenues for fiscal 2000 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 guilds or 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.

USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the Exchange Notes offered hereby. In consideration for issuing the Exchange Notes contemplated herein, we will receive in exchange outstanding notes in like principal amount. The outstanding notes surrendered in exchange for the Exchange Notes will be retired and canceled and cannot be reissued. Accordingly, issuance of the Exchange Notes will not result in any change in our indebtedness.

On January 25, 2001, we sold outstanding notes for net proceeds of approximately US\$90.0 million (\$135.7 million based on the inverse of the Noon Buying Rate on January 25, 2001), after deducting underwriting fees and expenses of the offering. We used all of such net proceeds to repay indebtedness under the Credit Facility.

Seven of the initial purchasers, TD Securities (USA) Inc., RBC Dominion Securities Corporation, BMO Nesbitt Burns Corp., CIBC World Market Corp., Scotia Capital (USA) Inc., ING Barings Limited, acting as agent for ING Bank N.V. and NBC International (USA) Inc., are affiliates of Canadian chartered banks which are lenders under the Credit Facility. The net proceeds of the offering were used to repay outstanding indebtedness owed to such affiliates. See "Relationships between the Company and Certain of the Initial Purchasers."

CONSOLIDATED CAPITALIZATION

The following table sets forth our unaudited consolidated cash and cash equivalents and capitalization as of December 31, 2000 (i) on an actual basis and (ii) as adjusted to give effect to the sale of the Notes, assuming that the proceeds are applied to repay indebtedness under the Credit Facility. The information in this table should be read in conjunction with the information contained in “Use of Proceeds,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the audited and unaudited consolidated financial statements and accompanying notes thereto appearing elsewhere in this prospectus.

	As of December 31, 2000	
	Actual	As Adjusted
	(In millions of Canadian dollars)	
Cash and cash equivalents	\$ 0.8	\$ 0.8
Debt (including current portion):		
Credit Facility(1)	\$ 320.8	\$ 185.1
Other term loans	55.3	55.3
Notes offered hereby(2)	—	143.3
Senior Subordinated Notes	307.5	307.5
Convertible Debentures	8.8	8.8
Total debt	692.4	700.0
Total shareholders’ equity	594.7	594.7
Total capitalization	<u>\$1,287.1</u>	<u>\$1,294.7</u>

(1) On an as adjusted basis, if the Credit Facility had been in place on December 31, 2000, our borrowing availability would have been \$314.6 million.

(2) Based on the inverse of the Noon Buying Rate on January 25, 2001.

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 nine months ended December 31, 2000 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 24 to the audited Consolidated Financial Statements and note 12 to the Unaudited Interim Consolidated Financial Statements included elsewhere in this prospectus. Our fiscal year ended March 31, 1999 includes the results of Atlantis Communications Inc. ("Atlantis") and its subsidiaries from the date of the merger (the "Merger") between Alliance Communications Corporation and Atlantis.

	Nine months ended December 31,		Year ended March 31,				
	2000	1999	2000	1999	1998	1997	1996
(In millions of Canadian dollars)							
Statement of Operations Data:							
<i>Canadian GAAP</i>							
Revenues	\$546.9	\$563.2	\$771.6	\$633.4	\$385.2	\$282.6	\$268.9
Direct operating expenses	389.0	430.7	592.4	502.7	302.6	214.9	209.7
Gross profit	157.9	132.5	179.2	130.7	82.6	67.7	59.2
Other expenses	122.6	89.5	123.8	105.7	59.9	48.3	45.7
Operating earnings(1)	35.3	43.0	55.4	25.0	22.7	19.4	13.5
Net earnings (loss)	26.8	30.7	39.1	(27.3)(2)	19.9	17.5	10.7
<i>U.S. GAAP</i>							
Net earnings (loss)	20.2	34.4	36.7	(38.7)(2)	17.3	15.0	9.1
Other Financial Data:							
<i>Canadian GAAP</i>							
Amortization	\$22.4	\$13.1	\$17.7	\$12.3	\$5.1	\$4.5	\$4.4
Interest expense	35.6	22.4	33.1	22.0	3.6	1.3	0.9
EBITDA(3)	93.3	78.5	106.2	59.3	31.3	25.2	18.8
Capital expenditures	15.3	13.9	19.8	16.8	6.3	5.2	3.0
Actual interest(4)	44.1	29.8	39.4	28.5	5.4	1.3	0.9
<i>U.S. GAAP</i>							
EBITDA(3)	88.2	81.9	97.7	50.3	29.9	22.0	16.9
Balance Sheet Data							
(at period end):							
<i>Canadian GAAP</i>							
Cash and cash equivalents	\$0.8	\$4.1	\$1.0	\$56.9	\$2.4	\$10.8	\$5.1
Total assets	1,909.7	1,473.6	1,410.1	1,385.4	565.0	350.6	236.7
Total debt	692.4	466.7	469.9	494.3	162.9	19.9	24.2
Total shareholders' equity	594.7	556.4	571.5	454.9	219.4	148.5	94.1
<i>U.S. GAAP</i>							
Total shareholders' equity	566.5	542.1	547.3	384.4	210.5	142.3	89.9

(Footnotes on following page)

- (1) Operating earnings is gross profit less operating expenses, amortization and interest expense. Operating earnings is not a measure of performance under Canadian or U.S. GAAP. Operating earnings are presented here as an indicator of the company's ability to service and/or incur debt. However, Operating earnings should not be construed as an alternative to net earnings or to cash flows from operating, investing and financing activities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of other measures of liquidity and operations.
- (2) Includes the effect of \$49.0 million (\$81.4 million pre-tax) of merger and restructuring expenses related to the Merger.
- (3) EBITDA is defined as operating earnings before interest expense 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 Condition and Results of Operations" for a discussion of other measures of liquidity and operations.
- (4) Actual interest in the current period represents interest expense plus interest capitalized to investment in film and television programs during the current period less the amount of interest charged in the current period 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 audited Consolidated Financial Statements and Unaudited Interim Consolidated Financial Statements, and the accompanying notes included elsewhere in this Circular.

The following table presents, in millions of Canadian dollars for the period indicated, the results of operations and the percentage relationships which the various items bear to the consolidated revenues.

	Nine months ended December 31				Year ended March 31,					
	2000 (unaudited)	%	1999 (unaudited)	%	2000	%	1999	%	1998	%
Revenue										
Broadcast	\$ 85.0	15.5	\$ 67.6	12.0	\$ 93.4	12.1	\$ 59.6	9.4	\$ 23.0	6.0
Motion Picture . . .	164.2	30.0	180.9	32.1	229.1	29.7	180.4	28.5	149.5	38.8
Television	276.0	50.5	286.6	50.9	412.0	53.4	382.5	60.4	196.5	51.0
Other	21.7	4.0	28.1	5.0	37.1	4.8	10.9	1.7	16.2	4.2
	<u>\$546.9</u>	<u>100.0</u>	<u>\$563.2</u>	<u>100.0</u>	<u>\$771.6</u>	<u>100.0</u>	<u>\$633.4</u>	<u>100.0</u>	<u>\$385.2</u>	<u>100.0</u>
Direct Operating Expenses										
Broadcast	\$ 37.6	44.2	\$ 29.3	43.3	\$ 39.9	42.7	\$ 26.7	44.8	\$ 11.7	50.9
Motion Picture . . .	132.4	80.6	145.7	80.5	183.0	79.9	147.6	81.8	115.3	77.1
Television	218.2	79.1	238.7	83.3	347.1	84.2	323.7	84.6	166.2	84.6
Other	0.8	3.7	17.0	60.5	22.4	60.4	4.7	43.1	9.4	58.0
	<u>\$389.0</u>	<u>71.1</u>	<u>\$430.7</u>	<u>76.5</u>	<u>\$592.4</u>	<u>76.8</u>	<u>\$502.7</u>	<u>79.4</u>	<u>\$302.6</u>	<u>78.6</u>
Gross Profit										
Broadcast	\$ 47.4	55.8	\$ 38.3	56.7	\$ 53.5	57.3	\$ 32.9	55.2	\$ 11.3	49.1
Motion Picture . . .	31.8	19.4	35.2	19.5	46.1	20.1	32.8	18.2	34.2	22.9
Television	57.8	20.9	47.9	16.7	64.9	15.8	58.8	15.4	30.3	15.4
Other	20.9	96.3	11.1	39.5	14.7	39.6	6.2	56.9	6.8	42.0
	<u>\$157.9</u>	<u>28.9</u>	<u>\$132.5</u>	<u>23.5</u>	<u>\$179.2</u>	<u>23.2</u>	<u>\$130.7</u>	<u>20.6</u>	<u>\$ 82.6</u>	<u>21.4</u>
Operating Expenses	\$ 64.6	11.8	\$ 54.0	9.6	\$ 73.0	9.5	\$ 71.4	11.3	\$ 51.3	13.3
EBITDA*	<u>\$ 93.3</u>	<u>17.1</u>	<u>\$ 78.5</u>	<u>13.9</u>	<u>\$106.2</u>	<u>13.8</u>	<u>\$ 59.3</u>	<u>9.4</u>	<u>\$ 31.3</u>	<u>8.2</u>

* EBITDA is defined as Earnings before interest, income taxes, amortization, minority interests, investment gains and merger and restructuring expenses.

Nine Months Ended December 31, 2000 Compared to Nine Months Ended December 31, 1999

Revenue

Revenue was \$546.9 million for the nine months ended December 31, 2000 (the "2000 nine months") compared to \$563.2 million for the nine months ended December 31, 1999 (the "1999 nine months"), representing a decrease of \$16.3 million or 2.9%.

Revenue for the Broadcast Group was \$85.0 million in the 2000 nine months compared to \$67.6 million in the 1999 nine months, representing an increase of \$17.4 million or 25.7%. This mainly resulted from Series+, Historia, and Food Network Canada, which were not launched in the prior year period and the remaining increase is a direct result of subscriber revenue and advertising

revenues from Showcase, Life Network, HGTV, and History Television. On average, subscriber revenue increased 21% and advertising revenue increased 34%. Paid subscriber penetration for all of Alliance Atlantis' specialty network interests has increased 41.3% to 29.4 million subscribers compared to 20.8 million subscribers at December, 31, 1999.

The Motion Picture Group's revenue was \$164.2 million in the 2000 nine months compared to \$180.9 million in the 1999 nine months, representing a decrease of \$16.7 million or 9.2%. This is a direct result of the planned delivery of only three motion picture productions (*Marine Life*, *Possible Worlds* and *Second Skin*) compared to delivery of five productions in the 1999 nine months (*Felicia's Journey*, *The Five Senses*, *A Room for Romeo Brass*, *Sunshine*, and *The Last Witness*). Additionally, we experienced strong performance from domestic motion picture distribution operations during the 1999 nine months on the strength of the theatrical and video release of *Austin Powers: The Spy Who Shagged Me*.

The Television Group's revenue was \$276.0 million in the 2000 nine months compared to \$286.6 million in the 1999 nine months, representing a decrease of \$10.6 million or 3.7%. This is a direct result of a planned reduction in television slate production hours delivered (169 hours in the 2000 nine months compared to 222 hours in the 1999 nine months) and a decrease in library sales. The decrease in revenue was offset by the AAC Fact production slate. In the 2000 nine months 37 hours of fact-based documentary programming was delivered compared to none in the 1999 nine months.

We remain on schedule, as previously disclosed, to deliver approximately 241 television hours in fiscal 2001 comprised of series, movies-of-the-week ("MOWs"), mini-series and children's programs. We also forecast deliveries of 76 hours of fact-based documentary programming during the year.

The Corporate and Other Group reported revenue of \$21.7 million in the 2000 nine months compared to \$28.1 million in the 1999 nine months, representing a decrease of \$6.4 million or 22.8%.

Gross Profit

The company's consolidated gross profit was \$157.9 million in the 2000 nine months compared to \$132.5 million in the 1999 nine months, representing an increase of \$25.4 million or 19.2%. As a percentage of revenue, gross profit increased to 28.9% in the 2000 nine months compared to 23.5% in the 1999 nine months. This strong increase is attributed to improved margins in the Television group as well as a substantial margin increase resulting from our new joint venture interest in Sentinel Hill Alliance Atlantis Equicap Limited Partnership.

The Broadcast Group's gross profit as a percentage of revenue was 55.8% for the 2000 nine months, a decrease from the 56.7% achieved during the 1999 nine months. This decrease was the result of the current development channels—Series+ and Historia—continuing to operate at lower margins as they build subscriber penetration, ratings growth, and gain advertising revenue.

The Motion Picture Group's gross profit as a percentage of revenues was 19.4% in the 2000 nine months, consistent to the 1999 nine months gross margin of 19.5%.

The Television Group's gross profit as a percentage of revenue continued to improve to 20.9% in the 2000 nine months, compared to 16.7% in the 1999 nine months. This increase is a direct result of our focus on higher margin productions.

Corporate and Other gross profit as a percentage of revenue continued to improve to 96.3% in the 2000 nine months, compared to 39.5% in the 1999 nine months. This increase is a direct result of joint venture interest in Sentinel Hill Alliance Atlantis Equicap Limited Partnership.

Operating Expenses

Operating expenses of \$64.6 million in the 2000 nine months increased compared to the \$54.0 million recorded in the 1999 nine months, as a result of the acquisition of Great North Communications Ltd. by our Television Group and the result of growth initiatives undertaken in the Broadcast Group—the development channels Series+ and Historia—and the Motion Picture Group—the ramp up of the Momentum Pictures label in the U.K. 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, communications costs and professional fees.

Amortization

Amortization was \$22.4 million in the 2000 nine months compared to \$13.1 million in the 1999 nine months, representing an increase of \$9.3 million or 71.0%. Amortization includes amortization of property and equipment, deferred financing fees, development costs, goodwill and broadcasting licenses. This increase in amortization resulted primarily from the amortization of additional capital equipment purchased during the period, increased amortization of development costs and increased amortization of deferred financing fee on the Company's senior subordinated notes.

Interest

Interest was \$35.6 million in the 2000 nine months compared to \$22.4 million in the 1999 nine months, representing an increase of \$13.2 million or 58.9%. This increase resulted from sustained higher borrowing levels and a higher weighted average interest rate. Total debt as at December 31, 2000 was \$692.4 million versus \$466.7 million as at December 31, 1999. The weighted average interest rate in the 2000 nine months was 10.2% and in the 1999 nine months was 8.7%.

Total interest expense is net of amounts capitalized to investment film and television programs of \$16.0 million in the 2000 nine months compared to \$14.7 million in the 1999 nine months, and included \$7.5 million in the 2000 nine months compared to \$7.3 million in the 1999 nine months of amortization of interest previously capitalized to investment in film and television programs. Interest which has been capitalized and not expensed during the period will be charged to interest in future periods as the related film and television programs are delivered.

During the 2000 nine months we completed the sale of an additional US\$55.0 million aggregate principal amount of our 13% senior subordinated notes due December 15, 2009. The additional notes are the same series as the US\$150.0 million notes issued in November 1999. On January 25, 2001 subsequent to the quarter end, the Company issued an additional US\$95.0 million aggregate principal amount of our 13% senior subordinated notes (at an offering price of 99%) due December 15, 2009.

Income Taxes

Our effective income tax rate in the 2000 nine months was approximately 31.1% compared to 32.5% in the 1999 nine months. The consistency is due to a similar mix of taxable income from the various income tax jurisdictions.

Net Earnings

As a result of the foregoing, net earnings were \$26.8 million as compared to \$30.7 million in the 1999 nine months. Included in other earnings in the 2000 nine months and the 1999 nine months were after tax gains of \$2.6 million and \$1.6 million, respectively, from the sale of long term investments.

Earnings per share for the 2000 nine months were \$0.85 versus \$1.06 for the 1999 nine months. Fully diluted earnings per share for the 2000 nine months were \$0.84 compared to \$0.99 for the 1999 nine months.

Fiscal 2000 Compared to Fiscal 1999

Revenue

Revenue was \$771.6 million for fiscal 2000 compared to \$633.4 million for fiscal 1999, representing an increase of \$138.2 million or 21.8%.

The Broadcast Group's revenue was \$93.4 million in fiscal 2000 compared to \$59.6 million in fiscal 1999, representing an increase of \$33.8 million or 56.7%. This increase resulted primarily from the September 21, 1998 merger with Atlantis which contributed broadcasting revenue for all twelve months in fiscal 2000 as compared to only six months in fiscal 1999. To illustrate, broadcasting revenue for the channels contributed by Atlantis was \$21.7 million for the six months ended December 31, 1999 as compared to nil in the comparable period as it pre-dated the Merger. The remaining \$12.1 million in revenue growth resulted from the continued maturation of all networks, which has resulted in overall higher subscription and advertising revenues.

The Motion Picture Group's revenue was \$229.1 million in fiscal 2000 compared to \$180.4 million in fiscal 1999, representing an increase of \$48.7 million or 27.0%. This increase resulted primarily from a \$19.8 million increase in motion picture distribution revenue related to the expansion of the group's distribution activities which included the distribution of 99 films in fiscal 2000 as compared to 63 films in fiscal 1999 and a \$23.0 million increase in motion picture production revenue related to the delivery of *The Five Senses*, *Felicia's Journey*, *A Room for Romeo Brass*, *Stardom*, *Sunshine* and *The Last Witness* in fiscal 2000. The Motion Picture Group also recorded revenue growth of \$4.6 million from Alliance Atlantis Cinemas which commenced operations during the third quarter of fiscal 1999.

The Television Group's revenue was \$412.0 million for fiscal 2000 compared to \$382.5 million in fiscal 1999, representing an increase of \$29.5 million or 7.7%. The revenue growth was primarily attributable to a \$20.2 million increase in distribution revenue. This significant television distribution growth has been achieved both domestically and internationally as the Company continues to grow its program library and broaden its international customer base through long-term distribution output agreements with such companies as Telecinco (Spain), Eagle Pictures (Italy) and TV3 (New Zealand). Television production revenue has remained consistent year-over-year at approximately \$285 million as the Company continues to selectively pursue projects with a focus on profitability and reduce overall hours produced. In fiscal 2000 total television hours were 277.0 as compared to 303.5 in fiscal 1999.

Other revenue, which includes revenue from Alliance Atlantis Equicap Corporation ("Alliance Atlantis Equicap") and other corporate investments, was \$37.1 million in fiscal 2000 compared to \$10.9 million in fiscal 1999, representing an increase of \$26.2 million. This increase resulted primarily from an increase in revenue from Alliance Atlantis Equicap which completed approximately \$625 million of structured financings related to motion picture and television productions during fiscal 2000.

Gross Profit

Gross profit was \$179.2 million in fiscal 2000 compared to \$130.7 million in fiscal 1999, representing an increase of \$48.5 million or 37.1%. As a percentage of revenue, gross profit increased to 23.2% in fiscal 2000 compared to 20.6% in 1999. This increase was primarily related to

an increased contribution from Alliance Atlantis Equicap (Other), in relation to Broadcasting, Motion Picture and Television, which generated gross profit margin of approximately 40%.

The Broadcast Group's gross margin increased to 57.3% in fiscal 2000 compared to 55.2% in fiscal 1999. This increase resulted from revenue growth without a corresponding increase in direct operating expenses as the group's direct operating expenses relate primarily to broadcast rights, the amortization of which does not vary directly with revenue.

The Motion Picture Group's gross margin increased to 20.1% in fiscal 2000 compared to 18.2% in fiscal 1999. This increase in gross margin has resulted primarily from an increase in revenue base on a title-by-title basis. The increase in revenue base has been achieved from an expansion of the Company's customer reach obtained through new international distribution agreements with Destination Films, Momentum Pictures, Studio Canal and Artisan and the extension of existing distribution agreements with Miramax Films, New Line Cinemas and USA Films. Additionally the Company has been successful in exploiting its existing library of over 6,500 titles in the new and expanding DVD market.

The Television Group's gross margin increased to 15.8% in fiscal 2000 compared to 15.4% in fiscal 1999. This increase resulted primarily from the increased scale of production activities resulting from the Company's merger with Atlantis which has allowed the Company to selectively pursue projects with a focus on profitability. Specifically, children's programming was introduced in fiscal 2000 under the "AAC Kids" banner to provide balance to the Company's production portfolio which has previously only included dramatic and adventure programming.

Other gross margin was 39.6% in fiscal 2000 and contributed 8.2% of total gross profit in fiscal 2000 compared to only 4.7% in fiscal 1999. This increase was directly related to the increase in Alliance Atlantis Equicap revenue.

Operating Expenses

Operating expenses were \$73.0 million in fiscal 2000 compared to \$71.4 million in fiscal 1999, representing an increase of \$1.6 million or 2.2%. On a quarterly basis, operating expenses have been reduced to \$19.0 million during the three months ended March 31, 2000 from \$23.3 million during the three months ended December 31, 1998 (the first operating quarter subsequent to the Merger). This represents a \$5 million reduction in operating costs on a quarterly basis, after giving effect to over \$1.0 million pre-operating costs associated with the launch of two new broadcasting channels, or \$20 million on an annualized basis. As a percentage of revenues, operating expenses declined to 9.5% in fiscal 2000 compared to 11.3% in 1999. 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.

Amortization

Amortization was \$17.7 million in fiscal 2000 compared to \$12.3 million in fiscal 1999, representing an increase of \$5.4 million or 43.9%. Amortization includes amortization of development costs, property, plant and equipment, deferred financing fees, goodwill and broadcasting licenses. This increase in amortization resulted primarily from the amortization of goodwill and broadcasting licenses which arose on the merger and deferred financing fees which arose on the completion of our revolving term facility and senior subordinated notes.

Interest

Interest was \$33.1 million in fiscal 2000 compared to \$22.0 million in fiscal 1999, representing an increase of \$11.1 million or 50.5%. This increase resulted from sustained higher borrowing levels. Total debt at March 31, 2000 was \$469.9 million as compared to \$162.9 million at the start of fiscal 1999.

Total interest expense is net of amounts capitalized to investment in film and television programs of \$22.0 million in fiscal 2000 compared to \$17.0 million in fiscal 1999 and includes \$15.7 million in fiscal 2000 compared to \$10.6 million in fiscal 1999 of amortization of interest previously capitalized to investment in film and television programs. Interest which has been capitalized and not expensed during the year will be charged to interest in future periods as the related film and television programs are delivered.

Income Taxes

Our effective income tax rate for fiscal 2000 was approximately 33.1% compared to an income tax recovery rate of 50.4% in fiscal 1999. The difference in rates was generated from the incurrence of taxable income in low tax rate jurisdictions and incurrence of losses in higher tax rate jurisdictions.

Net Earnings

As a result of the foregoing, net earnings were \$39.1 million as compared to a net loss of \$27.3 million in fiscal 1999. Excluding the effect of \$49.0 million (\$81.4 million pre-tax) of Merger and restructuring expenses, net earnings for fiscal 1999 were \$21.7 million. On a per share fully diluted basis net earnings was \$1.25 as compared to (\$1.44) or \$0.89 (pre-Merger and restructuring expenses) in fiscal 1999 representing growth of \$0.36 or 40.4%, included in net earnings for fiscal 2000 and fiscal 1999 were after-tax gains of \$1.4 and \$0.5 million respectively, from the sale of long-term investments.

Fiscal 1999 Compared to Fiscal 1998

Revenue

Revenue was \$633.4 million in fiscal 1999 compared to \$385.2 million in fiscal 1998, representing an increase of \$248.2 million or 64.4%.

The Broadcast Group's revenue was \$59.6 million in fiscal 1999 compared to \$23.0 million in fiscal 1998, representing an increase of \$36.6 million or 159.1%. This increase resulted from the Merger, which contributed broadcasting revenue of \$21.7 million from the date of the Merger. Additionally History Television was in operation for the entire fiscal year compared to three months in fiscal 1998. The remainder of the revenue growth was attributable to the further maturation of Showcase.

The Motion Picture Group's revenue was \$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 revenue 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 revenue 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 revenue which would have otherwise been recorded in fiscal 1999 (see note 14 to the Consolidated Financial Statements). The Motion Picture Group also recorded revenue of \$4.7 million related to Alliance

Atlantis Cinemas which began to record the results of its operations in the fourth quarter of fiscal 1999.

The Television Group's revenue was \$382.5 million in fiscal 1999 compared to \$196.5 million in fiscal 1998, representing an increase of \$186.0 million or 94.7%. This increase resulted from the Merger which increased the number of hours of television productions delivered in fiscal 1999 to 303.5 from 135.0 in fiscal 1998.

Corporate and Other revenue was \$10.9 million for fiscal 1999 compared to \$16.2 million in fiscal 1998, representing a decrease of \$5.3 million or 32.7%. This decrease resulted primarily from a decrease in revenue from Alliance Atlantis Equicap as a result of changes in federal income tax legislation affecting certain of its products.

Gross Profit

Gross profit was \$130.7 million in fiscal 1999 compared to \$82.6 million in fiscal 1998, representing an increase of \$48.1 million or 58.2%. As a percentage of revenue, gross profit declined to 20.6% in fiscal 1999 compared to 21.4% in fiscal 1998.

The Broadcast Group's gross margin increased to 55.2% in fiscal 1999 compared to 49.1% in fiscal 1998. This increase resulted from rising revenues and the primarily fixed cost nature of the group's direct operating expenses.

The Motion Picture Group's gross margin declined to 18.2% in fiscal 1999 compared to 22.9% in fiscal 1998. This decline resulted primarily from a greater percentage of the group's revenue 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 Television Group's gross margin was 15.4% in fiscal 1999 consistent with fiscal 1998.

Operating Expenses

Operating expenses were \$71.4 million in fiscal 1999 compared to \$51.3 million in fiscal 1998, representing an increase of \$20.1 million or 39.2%. 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 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.

Amortization

Amortization was \$12.3 million in fiscal 1999, compared to \$5.1 million in fiscal 1998, representing an increase of \$7.2 million or 141.2%. This increase resulted from the acquisition of Atlantis which produced goodwill of \$77.4 million and broadcasting licenses of \$69.1 million.

Interest

Interest was \$22.0 million in fiscal 1999 compared to \$3.6 million in fiscal 1998, representing an increase of \$18.4 million.

This increase resulted from our revolving term loans 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 and includes \$10.6 million in fiscal 1999 compared to \$0.9 million in fiscal 1998 of interest previously capitalized to investment in film and television programs. Interest which has been capitalized and not expensed during the year will be charged to interest 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 50.4% in fiscal 1999 compared to an effective income tax rate of 28.8% 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 \$27.3 million in fiscal 1999. Excluding the effect of \$49.0 million (\$81.4 million pre-tax) of merger and restructuring expenses, net earnings were \$21.7 million in fiscal 1999 as compared to \$19.9 million in fiscal 1998, representing an increase of \$1.8 million or 9.0%. 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.

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, accounts payable and accrued liabilities, deferred revenues and investment in film and television programs net of revolving term loans was \$569.3 million at December 31, 2000 compared to \$522.5 million at March 31, 2000, representing an increase of \$46.8 million or 9.0%.

The Company's operating activities are principally financed by cash flow generated from such operating activities which is defined as earnings before interest, taxes, depreciation and amortization (EBITDA), net of interest expense, capital expenditures and net additions to investment in film. For fiscal 2000, these activities generated positive cash flow of \$2.3 million as compared to negative \$173.5 million in fiscal 1999. This \$175.8 million improvement in cash flow from operations has been achieved through significant growth in EBITDA (\$106.2 million in fiscal 2000 compared to \$59.3 million in fiscal 1999) as well as an overall reduction in production hours and related investment as the Company focuses on a more balanced and profitable production portfolio.

The Company's investing activities and shortfalls in cash flow from operations are typically funded by the Company's \$525 million revolving credit facility debt or equity issuances. As at December 31, 2000 the Company had committed undrawn credit facilities of \$178.9 million.

Senior Subordinated Notes

On November 15, 1999, the Company issued US\$150.0 million aggregate principal amount of senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009. On June 13, 2000, the Company issued US\$55.0 million aggregate principal amount of senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009. On January 25, 2001, the Company issued US\$95.0 million aggregate principal amount of senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009.

Term Loans

Included within other term loans are \$27.4 million of loans owing by our wholly owned subsidiary, Equicap Financial Corporation, under a revolving term facility which is non-recourse to Alliance Atlantis Communications Inc.

Credit Facility

On January 9, 2001, we entered into the Credit Facility, which consists of a total of \$525.0 million of revolving loans which do not require repayment until maturity, in January of 2006, other than an overdraft line of \$25.0 million which is repayable on demand.

Investment Commitments

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

Risk and Uncertainties

The Company capitalizes production and distribution costs as incurred to investment in film and television programs, and such costs are amortized to direct operating expenses. All costs incurred in connection with an individual film and television program, including production costs, release prints and advertising costs, are capitalized as investment, in film and television programs. These costs are stated at the lower of unamortized cost, and estimated net recoverable amount. Estimated total production costs for an individual film or television program are amortized in the proportion that revenues relate to management's estimate of the total revenues in the forecast period expected to be received from such film or television program. As a result, if revenue estimates change with respect to a film or television program, the Company may be required to write down all or a portion of the unamortized costs of such film or television program. No assurance can be given that a write down will not have a significant impact on the Company's results of operations and financial condition.

Results of operations for any period are significantly dependent on the number and timing of television programs and films delivered or made available to various media and exhibitors. Consequently, the Company's results of operations may fluctuate materially from period to period and the results for any one period are not necessarily indicative of results for future periods. Ultimately, profitability depends not only on revenues but on the amount paid to acquire or produce the film or television program and the amount spent on the prints and advertising campaign used to promote it.

The Company currently finances a portion of its production budgets from Canadian governmental agencies and incentive programs, such as Telefilm Canada and federal and provincial tax credits, as well as international sources in the case of the Company's co-productions. There can be no assurance that local cultural incentive programs, which the Company may access in Canada and internationally, will not be reduced, amended or eliminated. Any change in these incentive programs may have an adverse impact on the Company.

THE EXCHANGE OFFER

Terms of the Exchange Offer; Period for Tendering Outstanding Notes

Upon the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal, we will accept for exchange outstanding notes which are properly tendered on or prior to the Expiration Date and not withdrawn as permitted below. As used herein, the term "Expiration Date" means 5:00 p.m., New York City time, on April 20, 2001, *provided, however*, that if we, in our sole discretion, have extended the period of time for which the Exchange Offer is open, the term "Expiration Date" means the latest time and date to which the Exchange Offer is extended.

As of the date of this prospectus, US\$95,000,000 principal amount of notes that we issued on January 25, 2001 in a private placement in the United States and outside the United States are outstanding. This prospectus, together with the letter of transmittal, is first being sent on or about March 16, 2001, to all holders of outstanding notes known to us. Our obligation to accept outstanding notes for exchange pursuant to the Exchange Offer is subject to certain conditions as set forth below under "—Certain Conditions to the Exchange Offer."

Outstanding notes tendered in the Exchange Offer must be in denominations of principal amount of US\$1,000 and any integral multiple thereof.

We expressly reserve the right, at any time or from time to time, to extend the period of time during which the Exchange Offer is open, and thereby delay acceptance for exchange of any outstanding notes, by giving oral or written notice of such extension to the holders thereof as described below. During any such extension, all outstanding notes previously tendered will remain subject to the Exchange Offer and may be accepted for exchange by Alliance Atlantis. Any outstanding notes not accepted for exchange for any reason will be returned without expense to the tendering holder thereof as promptly as practicable after the expiration or termination of the Exchange Offer.

We expressly reserve the right to amend or terminate the Exchange Offer, and not to accept for exchange any outstanding notes not therefore accepted for exchange, upon the occurrence of any of the events specified below under "—Certain Conditions to the Exchange Offer." We will give oral or written notice of any extension, amendment, non-acceptance or termination to the holders of the outstanding notes as promptly as practicable, such notice in the case of any extension to be issued by means of a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously schedule Expiration Date.

Procedures for Tendering Outstanding Notes

The tender to us of outstanding notes by a holder thereof as set forth below and the acceptance thereof by us will constitute a binding agreement between the tendering holder and Alliance Atlantis upon the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal. Except as set forth below, a holder who wishes to tender outstanding notes for exchange pursuant to the Exchange Offer must transmit a properly completed and duly executed Letter of Transmittal, including all other documents required by such letter of transmittal, to The Bank of Nova Scotia Trust Company of New York, as exchange agent (the "Exchange Agent") at the address set forth below under "—Exchange Agent" on or prior to the Expiration Date. In addition, either (1) certificates for such outstanding notes must be received by the Exchange Agent along with the letter of transmittal, or (2) a timely confirmation of a book-entry transfer (a "Book-Entry Confirmation") of such outstanding notes, if such procedure is available, into the Exchange Agent's account at The Depository Trust Company (the "Book-Entry Transfer Facility") pursuant to the procedure for book-entry transfer described below, must be received by the Exchange Agent prior to the Expiration Date, or (3) the holder must comply with the guaranteed

delivery procedures described below. **THE METHOD OF DELIVERY OF OUTSTANDING NOTES, LETTERS OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS IS AT THE ELECTION AND RISK OF THE HOLDERS. IF SUCH DELIVERY IS BY MAIL, IT IS RECOMMENDED THAT REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED BE USED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE TIMELY DELIVERY. NO LETTERS OF TRANSMITTAL OR OUTSTANDING NOTES SHOULD BE SENT TO ALLIANCE ATLANTIS.**

Signatures on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed unless the outstanding notes surrendered for exchange pursuant thereto are tendered (1) by a registered holder of the outstanding notes who has not completed the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on the letter of transmittal or (2) for the account of an Eligible Institution (as defined herein). In the event that signatures on a letter of transmittal or a notice of withdrawal, as the case may be, are required to be guaranteed, such guarantees may be by a firm which is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc. or by a commercial bank or trust company having an office or correspondent in the United States (collectively, "Eligible Institutions"). If outstanding notes are registered in the name of a person other than a signer of the letter of transmittal, the outstanding notes surrendered for exchange must be endorsed by, or be accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as determined by Alliance Atlantis in its sole discretion, duly executed by, the registered holder with the signature thereon guaranteed by an Eligible Institution.

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of outstanding notes tendered for exchange will be determined by Alliance Atlantis in its sole discretion, which determination shall be final and binding. We reserve the absolute right to reject any and all tenders of any particular outstanding notes not properly tendered or to not accept any particular outstanding notes which acceptance might, in the judgement of Alliance Atlantis or its counsel, be unlawful. We also reserve the absolute right to waive any defects or irregularities or conditions of the Exchange Offer as to any particular outstanding notes either before or after the Expiration Date (including the right to waive the ineligibility of any holder who seeks to tender outstanding notes in the Exchange Offer). The interpretation of the terms and conditions of the Exchange Offer as to any particular outstanding notes either before or after the Expiration Date (including the letter of transmittal and the instructions thereto) by us shall be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of outstanding notes for exchange must be cured within such reasonable period of time as we shall determine. Neither Alliance Atlantis, the Exchange Agent nor any other person shall be under any duty to give notification of any defect or irregularity with respect to any tender of outstanding notes for exchange, nor shall any of them incur any liability for failure to give such notification.

If the letter of transmittal is signed by a person or persons other than the registered holder or holders of outstanding notes, such outstanding notes must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names of the registered holder or holders that appear on the outstanding notes.

If the letter of transmittal or any outstanding notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and, unless waived by Alliance Atlantis, proper evidence satisfactory to us of the authority to so act must be submitted.

By tendering, each holder will represent to Alliance Atlantis that, among other things, the Exchange Notes acquired pursuant to the Exchange Offer are being obtained in the ordinary course of business of the person receiving such Exchange Notes, whether or not such person is the

holder, and that neither the holder nor such other person has any arrangement or understanding with any person to participate in the distribution of the Exchange Notes. In the case of a holder that is not a broker-dealer, each such holder, by tendering, will also represent to Alliance Atlantis that such holder is not engaged in, or intends to engage in, a distribution of the Exchange Notes. If any holder or any such other person is an “affiliate,” as defined under Rule 405 of the Securities Act, of Alliance Atlantis, or is engaged in or intends to engage in or has an arrangement or understanding with any person to participate in a distribution of such Exchange Notes to be acquired pursuant to the Exchange Offer, such holder or any such other person (i) may not rely on the applicable interpretations of the staff of the Commission and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. Each broker-dealer that receives Exchange Notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes. See “Plan of Distribution.” The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an “underwriter” within the meaning of the Securities Act.

Acceptance of Outstanding Notes for Exchange; Delivery of Exchange Notes

Upon satisfaction or waiver of all of the conditions to the Exchange Offer, we will accept, promptly after the Expiration Date, all outstanding notes properly tendered and will issue the Exchange Notes promptly, after acceptance of the outstanding notes. See “—Certain Conditions to the Exchange Offer.”

For purposes of the Exchange Offer, we shall be deemed to have accepted properly tendered outstanding notes for exchange when, as and if we have given oral or written notice thereof to the Exchange Agent, with written confirmation of any oral notice to be given promptly thereafter.

For each outstanding note accepted for exchange, the holder of such outstanding note will receive an Exchange Note having a principal amount equal to that of the surrendered outstanding note. Interest on the Exchange Notes will accrue from the last interest payment date on which interest was paid on the outstanding notes surrendered in exchange therefor or, if no interest has been paid on the outstanding notes from the date of original issue of the outstanding notes. Holders of outstanding notes whose outstanding notes are accepted for exchange will not receive any payment in respect of accrued interest on such outstanding notes otherwise payable on any interest payment date the record date for which occurs on or after consummation of the Exchange Offer. In certain circumstances the rate per annum at which the outstanding notes bear interest will be increased temporarily. See “Description of the Notes—Registration Covenant; Exchange Offer.”

In all cases, issuance of Exchange Notes for outstanding notes that are accepted for exchange pursuant to the Exchange Offer, will be made only after timely receipt by the Exchange Agent of certificates for such outstanding notes or a timely Book-Entry Confirmation of such outstanding notes into the Exchange Agent’s account at the Book-Entry Transfer Facility, a properly completed and duly executed letter of transmittal and all other required documents. If any tendered outstanding notes are not accepted for any reason set forth in the terms and conditions of the Exchange Offer or if outstanding notes are submitted for a greater principal amount than the holder desired to exchange, such unaccepted or non-exchanged outstanding notes will be returned without expense to the tendering holder thereof (or, in the case of outstanding notes tendered by book-entry transfer into the Exchange Agent’s account at the Book-Entry Transfer Facility pursuant to the book-entry procedures described below, such non-exchanged outstanding notes will be credited to an account maintained with such Book-Entry Transfer Facility) as promptly as practicable after the expiration or termination of the Exchange Offer.

Book-Entry Transfer

The Exchange Agent will make a request to establish an account with respect to the outstanding notes at the Book-Entry Transfer Facility for purposes of the Exchange Offer within two business days after the date of this prospectus, and any financial institution that is a participant in the Book-Entry Transfer Facility's systems may make book-entry delivery of outstanding notes by causing the Book-Entry Transfer Facility to transfer such outstanding notes into the Exchange Agent's account at the Book-Entry Transfer Facility in accordance with such Book-Entry Transfer Facility's procedures for transfer. However, although delivery of outstanding notes may be effected through book-entry transfer at the Book-Entry Transfer Facility, the letter of transmittal or facsimile thereof, with any required signature guarantees and any other required documents, must, in any case, be transmitted to and received by the Exchange Agent at one of the addresses set forth below, under "—Exchange Agent" on or prior to the Expiration Date or the guaranteed delivery procedures described below must be complied with.

Guaranteed Delivery Procedures

If a registered holder of the outstanding notes desires to tender such outstanding notes and the outstanding notes are not immediately available, or time will not permit such holder's outstanding notes or other required documents to reach the Exchange Agent before the Expiration Date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if (i) the tender is made through an Eligible Institution, (ii) prior to the Expiration Date, the Exchange Agent received from such Eligible Institution a properly completed and duly executed letter of transmittal (or a facsimile thereof) and Notice of Guaranteed Delivery, substantially in the form provided by Alliance Atlantis (by telegram, telex, facsimile transmission, mail or hand delivery), setting forth the name and address of the holder of outstanding notes and the amount of outstanding notes tendered, stating that the tender is being made thereby and guaranteeing that within five New York Stock Exchange ("NYSE") trading days after the date of execution of the Notice of Guaranteed Delivery, the certificates for all physically tendered outstanding notes, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and any other documents required by the letter of transmittal will be deposited by the Eligible Institution with the Exchange Agent and (iii) the certificates for all physically tendered outstanding notes, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and all other documents required by the letter of transmittal, are received by the Exchange Agent within five NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

Withdrawal Rights

Tenders of outstanding notes may be withdrawn at any time prior to the Expiration Date.

For a withdrawal to be effective, a written notice of withdrawal must be received by the Exchange Agent at one of the addresses set forth below under "—Exchange Agent." Any such notice of withdrawal must specify the name of the persons having tendered the outstanding notes to be withdrawn, identify the outstanding notes to be withdrawn (including the principal amount of such outstanding notes), and (where certificates for outstanding notes have been transmitted) specify the name in which such outstanding notes are registered, if different from that of the withdrawing holder. If certificates for outstanding notes have been delivered or otherwise identified to the Exchange Agent, then, prior to the release of such certificates the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an Eligible Institution unless such holder is an Eligible Institution. If outstanding notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn outstanding notes and

otherwise comply with the procedures of such facility. All questions as to the validity, form and eligibility (including time of receipt) of such notices will be determined by Alliance Atlantis, whose determination shall be final and binding on all parties. Any outstanding notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the Exchange Offer. Any outstanding notes which have been tendered for exchange but which are not exchanged for any reason will be returned to the holder thereof without cost to such holder (or, in the case of outstanding notes tendered by book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility pursuant to the book-entry transfer procedures described above, such outstanding notes will be credited to an account maintained with such Book-Entry Transfer Facility for the outstanding notes) as soon as practicable after withdrawal, rejection of tender or termination of the Exchange Offer. Properly withdrawn outstanding notes may be retendered by following one of the procedures described under “—Procedures for Tendering Outstanding Notes” above at any time on or prior to the Expiration Date.

Certain Conditions to the Exchange Offer

The Exchange Offer shall be subject to the following conditions: (1) neither the Exchange Offer, nor the making of any exchange by a Holder, violates applicable law or any applicable interpretation of the staff of the Commission, (2) the due tendering of Registrable Notes (as defined in the Registration Rights Agreement) in accordance with the Exchange Offer, (3) no action or proceeding shall have been instituted or threatened in any court or by or before any governmental agency with respect to the Exchange Offer which, in Alliance Atlantis's judgment, would reasonably be expected to impair the ability of Alliance Atlantis to proceed with the Exchange Offer, (4) there shall not have been adopted or enacted any law, statute, rule or regulation which, in Alliance Atlantis's judgment, would reasonably be expected to impair the ability of Alliance Atlantis to proceed with the Exchange Offer, (5) there shall not have been declared by U.S. federal, New York State or Canadian federal authorities a banking moratorium which in Alliance Atlantis's judgment, would reasonably be expected to impair the ability of Alliance Atlantis to proceed with the Exchange Offer, (6) trading generally in the United States or Canadian over-the-counter market shall not have been suspended by order of the Commission, any securities commission or securities regulatory authority in Canada or any other governmental authority, which, in Alliance Atlantis's judgment, would reasonably be expected to impair the ability of Alliance Atlantis to proceed with the Exchange Offer and (7) each Holder of outstanding notes (other than participating broker-dealers) who wishes to exchange such outstanding notes for Exchange Notes in the Exchange Offer shall have represented that (A) it is not an affiliate of Alliance Atlantis, (B) any Exchange Notes to be received by it were acquired in the ordinary course of business and (C) at the time of the commencement of the Exchange Offer it has no arrangement with any person to participate in the distribution (within the meaning of the Securities Act) of the Exchange Notes and shall have made such other representations as may be reasonably necessary under applicable Commission rules, regulations or interpretations to render the use of Form F-10 or another appropriate form under the Securities Act available; *provided, however*, that none of the foregoing conditions shall relieve Alliance Atlantis of its obligations under the Registration Rights Agreement or effect any increase in the interest rate borne by the outstanding notes pursuant to the Registration Rights Agreement.

The foregoing conditions are for the sole benefit of Alliance Atlantis and may be asserted by Alliance Atlantis regardless of the circumstances giving rise to any such condition or may be waived by Alliance Atlantis in whole or in part at any time and from time to time. The failure by Alliance Atlantis at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such rights and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time.

Exchange Agent

The Bank of Nova Scotia Trust Company of New York has been appointed as the Exchange Agent for the Exchange Offer. All executed letters of transmittal should be directed to the Exchange Agent at the address set forth in the letter of transmittal. Questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery should be directed to the Exchange Agent addressed as follows:

By Mail, Hand or Overnight Delivery:

The Bank of Nova Scotia Trust Company of New York
One Liberty Plaza, 23rd Floor
New York, NY 10006
Attention: Pat Keane
Facsimile: (212) 225-5436
Confirm by Telephone: (212) 225-5427

DELIVERY TO AN ADDRESS OTHER THAN THE DEPOSITORY TRUST COMPANY (ATOP) OR AS SET FORTH IN THE LETTER OF TRANSMITTAL OR TRANSMISSION OR INSTRUCTIONS VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY.

Fees and Expenses

Alliance Atlantis will not make any payment to brokers, dealers, or others soliciting acceptances of the Exchange Offer.

The cash expenses to be incurred in connection with the Exchange Offer, including the fees and expenses of the Exchange Agent, accounting and certain legal fees, will be paid by Alliance Atlantis.

Transfer Taxes

Holders who tender their outstanding notes for exchange will not be obliged to pay any transfer taxes in connection therewith, except that holders who instruct Alliance Atlantis to register Exchange Notes in the name of, or request that outstanding notes not tendered or not accepted in the Exchange Offer be returned to, a person other than the registered tendering holder will be responsible for the payment of any applicable transfer tax thereon.

Consequences of Exchanging Outstanding Notes

Holders of outstanding notes who do not exchange their outstanding notes for Exchange Notes pursuant to the Exchange Offer will continue to be subject to the provisions in the Indenture regarding transfer and exchange of the outstanding notes and the restrictions on transfer of such outstanding notes as set forth in the legend thereon as a consequence of the issuance of the outstanding notes pursuant to exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Alliance Atlantis does not currently anticipate that it will register outstanding notes under the Securities Act. See “Description of the Notes—Registration Covenant; Exchange Offer.” Based on interpretations by the staff of the Commission, as set forth in no-action letters issued to third parties, Alliance Atlantis believes that Exchange Notes issued pursuant to the Exchange Offer in exchange for outstanding notes may be offered for resale, resold or otherwise transferred by holders thereof (other than any such holder which is an “affiliate” of Alliance Atlantis within the meaning of Rule 405 under the Securities Act) without compliance with the registration and

prospectus delivery provisions of the Securities Act, provided that such Exchange Notes are acquired in the ordinary course of such holders' business and such holders have no arrangement or understanding with any person to participate in the distribution of such Exchange Notes. However, Alliance Atlantis does not intend to request the Commission to consider, and the Commission has not considered, the Exchange Offer in the context of a no-action letter and there can be no assurance that the staff of the Commission would make a similar determination with respect to the Exchange Offer as in such other circumstances. Each holder, other than a broker-dealer, must acknowledge that (i) the Exchange Notes received by such holder will be acquired in the ordinary course of its business, (ii) at the time of the consummation of the Exchange Offer such holder will have not engaged in, and does not intend to engage in, a distribution of Exchange Notes and has no arrangement or understanding to participate in a distribution of Exchange Notes and (iii) such holder is not an affiliate of Alliance Atlantis within the meaning of Rule 405 of the Securities Act or if it is such an affiliate, that it will comply with the registration and prospectus delivery requirements of the Securities Act, to the extent applicable. If any holder is an affiliate of Alliance Atlantis, or is engaged in or intends to engage in or has any arrangement or understanding with respect to the distribution of the Exchange Notes to be acquired pursuant to the Exchange Offer, such holder (i) may not rely on the applicable interpretations of the staff of the Commission and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. Each broker-dealer that receives Exchange Notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes. See "Plan of Distribution" beginning on page 112. In addition, in order to comply with state securities laws, the Exchange Notes may not be offered or sold in any state unless they have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

The Exchange Notes have not been and will not be qualified for public distribution under the securities laws of any province or territory of Canada. The Exchange Notes are not being offered for sale and may not be offered or sold, directly or indirectly, in Canada, or to any resident thereof, except in accordance with the securities laws of the provinces and territories of Canada.

OUR BUSINESS

Corporate Organization

Our full corporate name is Alliance Atlantis Communications 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, Edmonton, London, Sydney and Shannon, Ireland.

Principal Subsidiaries

The following is a list of our principal subsidiaries as at February 28, 2001, the jurisdiction of incorporation of each subsidiary and the percentage of voting securities beneficially owned by us or over which we exercise control or direction.

Subsidiary	Jurisdiction	Percentage of Voting Securities Owned by the Corporation
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%

The Company

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 owns, either wholly or in part, eight Canadian specialty television networks, is the exclusive sponsor in Canada for the U.S.-based The Health Network and launched U8TV (majority controlled) on January 15, 2001, a 24-hour-a-day internet television station. The Broadcast Group accounted for 12% of our revenue and 30% of our gross profit in fiscal 2000;
- The Motion Picture Group acquires, creates and distributes theatrical motion pictures worldwide and exhibits motion pictures in Canada through Alliance Atlantis Cinemas. The Motion Picture Group accounted for 30% of our revenue and 26% of our gross profit in fiscal 2000; and
- The Television Group acquires, creates and distributes a balanced mix of drama, children's and fact-based television programming. The Television Group accounted for 53% of our revenue and 36% of our gross profit in fiscal 2000.

Recent Developments

Broadcast Group

In April 2000, in response to the call for applications for new digital specialty television channel licenses by the CRTC, we filed a number of channel applications. On November 24, 2000, we were awarded licenses for 34 new digital specialty television networks. In Category 1 (mandatory carriage), we received licenses for the Health Network Canada, a digital network in which we have a controlling interest, and for a second digital network in which we have a minority interest. In Category 2 (optional carriage), we, or in partnership with others, received licenses for 32 channels including four National Geographic channels in partnership with National Geographic Channels International, two BBC channels in partnership with BBC Worldwide, a number of channels in partnership with The E.W. Scripps Company (including DIY—Do It Yourself and Fine Living) and a suite of five movie-based services.

On January 15, 2001, we launched U8TV (majority controlled), an internet television station which broadcasts live, original entertainment, information and lifestyle shows from a broadcast center in a downtown Toronto loft. The CRTC has issued an order exempting from regulation broadcasting services delivered and accessed over the Internet. A daily half-hour television show featuring highlights from U8TV airs on Life Network.

In November 2000, we completed a transaction pursuant to which Sportscope Television Network Ltd. ("Sportscope"), the company that holds the broadcast license for The Score, was acquired by a company listed on the Toronto Stock Exchange, Old Canada Investment Corporation Limited ("Old Canada"), through a reverse takeover. Old Canada issued treasury shares to John Levy and us, the former shareholders of Sportscope. In addition, John Levy, other investors and we invested, in aggregate, approximately \$27.5 million by way of a private placement in Old Canada, which was renamed Headline Media Group Inc. As a result of these transactions, John Levy has voting control of the publicly-traded company listed on the Toronto Stock Exchange, which is owned approximately 49% by John Levy, 40% by us and the balance by other investors.

In October 2000, we launched Food Network Canada, owned by us (as majority shareholder), The E.W. Scripps Company and Corus Entertainment Inc. Food Network Canada replaced the U.S. version of the Food Network.

Motion Picture Group

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

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

In August 2000, we acquired the 25% of Odeon Films Inc. we did not already own.

In December 2000, we renewed our output agreement with Artisan Entertainment for an additional three year period (through 2004) and the right to distribute Artisan's library in Canada for an additional five years (through 2006).

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

In July 2000, we announced that we had acquired for cash all of the shares, that we did not already own, of Great North Communications Ltd., a Canadian producer of factual and documentary programming. In August and October 2000, we made investments in certain other leading Canadian documentary and fact-based programming producers. See "Business Strategy—Continue to Improve Profitability and Balance of Television Productions."

Other

On February 12, 2001, we announced that we had entered into an agreement under which we would acquire all of the issued and outstanding shares of Salter Street Films Limited ("Salter Street"), an integrated entertainment company that develops, produces and distributes original filmed entertainment. The acquisition agreement provides that shareholders of Salter Street may elect to receive either (i) preferred shares redeemable for \$3.33 in cash and 0.310 Class B Non-Voting Shares or (ii) 0.465 Class B Non-Voting Shares, in exchange for each Salter Street multiple voting share or subordinate voting share held by them. The transaction is subject to shareholder and regulatory approval and is expected to close by the end of April 2001.

Pursuant to arrangements made in a support agreement in connection with the acquisition, we have obtained the right to acquire all of the multiple voting shares and subordinate voting shares held by certain principals of Salter Street and their respective affiliated companies. Such right is exercisable for a period of 20 days only in circumstances where the acquisition does not proceed and is subject to certain conditions. The shares represent, in aggregate, approximately 25% of the outstanding common equity of Salter Street.

In November 1999, June 2000 and January 2001, we sold an aggregate of US\$300 million in high yield notes. See "Description of Certain Indebtedness."

On January 9, 2001, we entered into an amended and restated credit agreement with a syndicate of Canadian chartered banks, which amended our credit facility. The new Credit Facility provides up to \$525 million in borrowings on a revolving basis. See "Description of Certain Indebtedness." In addition, we have entered into a commitment letter with an investment dealer in respect of the securitization of between \$150 million and \$200 million of our production tax credits and trade receivables. This transaction is subject to acceptable documentation and the satisfaction of other conditions.

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 Broadcast 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 36% of our gross profit in fiscal 2000. 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 a leading distributor of films in Canada, with approximately a 14% box office market share in calendar 2000. 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 in 1999, we renewed our exclusive distribution contract through 2002. In addition, we have long-term television production output agreements with TV-Loonland (Germany), Telecinco (Spain), Eagle Pictures (Italy) and TV3 (New Zealand). In 1999, we entered into a four-year agreement with Studio Canal, a leading French entertainment company, to serve as the exclusive Canadian distributor for 1,250 titles from its library and, under a separate agreement, to distribute six motion pictures in the UK through Momentum Pictures. 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 extended again in 1999 through 2001 and 2005, respectively. In addition, we have exclusive Canadian distribution agreements with Artisan Entertainment through 2004, USA Films through March 2002 and Destination Films through 2002. In November 1999, Momentum Pictures commenced a three year UK distribution agreement with Artisan Entertainment. We also have a long term video and DVD distribution and marketing joint venture with Universal Studios.

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 2000 accounted for approximately \$145 million (19%) of revenue, which we expect to increase in the future. We have an extensive library of movies and television programming, including a growing amount of children's, documentary and fact-based programming. It consists of approximately 3,000 hours of worldwide programming rights and approximately 13,000 hours of Canadian rights, including over 6,500 motion pictures. Our distribution relationships with CBS, New Line Cinema, Miramax Films, USA Films, Artisan Entertainment, Destination Films and Studio Canal, as well as our own productions, enhance the growth, quality and value of our library.

Favorable Canadian Business Environment

We believe that 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;
- 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. On September 21, 1998 we were formed through the Merger. At the end of fiscal 2000, we had won over 230 prestigious awards, including an Academy Award, seven Emmy Awards, five awards from the Cannes Film Festival and 26 Cable Ace Awards.

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:

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 November 2000, we were awarded licenses from the CRTC for 34 new digital specialty television licenses to augment our current network offerings, some of which we anticipate launching as early as this fall. See “Our Business—Regulation”. These licenses are for thematic networks that target specific audiences and thus are more attractive to advertisers interested in these demographic segments. 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 French language networks, Series+ and Historia, which we believe benefit from programming synergies with our existing English-language network equivalents, Showcase and History Television, respectively. In October 1999, we acquired our interest in The Score. In November 2000 we rolled our interest in the company that controls The Score into a publicly-traded company, Headline Media Group Inc. In October 2000 we launched Food Network Canada, replacing the U.S. Food Network which had previously aired in Canada. See “Recent Developments”.

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. 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; and (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.

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. We expect to leverage our distribution success 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 centers and plan to expand from our existing 24 screens to approximately 50 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. From fiscal 1998 to fiscal 2000, our aggregate budget overruns were less than 0.5% of our total television and motion picture production costs.

Continue to Improve Profitability and Balance of Television Productions

We are leveraging our leadership position in television production and distribution and our critical mass 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 16 series is being distributed outside of Canada, including eight which have been licensed in the United States. Examples include:

- *CSI*, which is the highest-rated new dramatic U.S. series this fall and which was nominated for a Golden Globe award for best dramatic television series, is a co-production between us and CBS Productions. It airs on CBS in the United States and has been licensed to CTV in Canada;
- *Beastmaster*, which premiered as a top-rated new show in U.S. syndication last year and which is in its second season in syndication with Tribune Entertainment (CBS) in the United States and WIC in Canada; and
- *Gene Roddenberry's Earth: Final Conflict*®, currently in its 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. For example, we are producing a third season of *The Famous Jett Jackson* for the Disney Channel in the United States, a second season of *I Was a Sixth Grade Alien* for Fox Family in the United States and several animated series.

We have recently expanded into the production and acquisition of documentary and fact based programming under the banner, "AAC Fact". In July of 2000, we announced that we had entered into an agreement to acquire all of the outstanding shares, which we did not already own, of Great North Communications Ltd., a Canadian documentary producer and distributor. In August of 2000, we acquired a 19.9% interest in Barna-Alper Productions Ltd. and in October 2000, we acquired a 10% interest in Associated Producers Inc. In addition to our investment in these two Canadian documentary and fact-based producers, we entered into distribution and first-look arrangements with both companies, pursuant to which we acquired rights to distribute certain programming from their libraries and certain rights of first refusal to distribute future productions. Both children's and fact-based programming tend to have broader appeal, lower production costs and often have higher library value than dramatic programming.

Broadcast

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 (direct-to-home) service package and provide special interest, news, sports, arts and entertainment programming. As of October 2000, there were 49 Canadian specialty services and 13 Canadian pay-TV services available to Canadian subscribers. The CRTC periodically issues requests for new network license applications and typically only licenses new networks in genres that are not competitive with existing networks in order to limit network proliferation.

On November 24, 2000, the CRTC announced its license decisions for new digital specialty television networks. In total, 283 licenses were awarded, of which 21 were Category 1 and 262 were Category 2.

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 licensee. 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 licensee 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 45% in 1999. However, Canadian specialty television networks accounted for only 15% of advertising revenue in 1999, 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.

It should be noted that the term "network" is frequently used in this document as an informal term to describe specialty television programming services or channels; however such services are not licensed as networks under the *Broadcasting Act* (Canada), but as programming undertakings.

Specialty Broadcast

Our Broadcast Group is a leading owner and operator of specialty television networks in Canada. We currently operate five national, English-language networks which are "must carry" services on every major English-language cable system in Canada, and are partners in two French-language networks which were launched in January 2000. On October 26, 1999 we purchased an interest in The Score, which we rolled into a publicly-traded company now known as Headline Media Group Inc. See "Our Business—Recent Developments." On January 15, 2001, we launched U8TV, an internet television station that will have worldwide reach from its downtown Toronto broadcast center. The CRTC has issued an order exempting from regulation broadcasting services delivered and accessed over the Internet. To augment our existing networks, we applied to the CRTC and were awarded new specialty digital television network licenses on November 24, 2000. See "Our Business—Recent Developments." Our existing specialty television networks are:

- Showcase, a network featuring critically acclaimed movies and dramatic programs from around the world (wholly owned) (license expires August 2007);
- Life Network, a network focused on "lifestyle" programming (wholly owned) (license expires August 2007);
- 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);

- Food Network Canada, a network focused on food related programming (51% interest) (license expires August 2006);
- Series+, 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); and
- The Score, a network featuring 24-hour sports news and highlights (40% voting interest) (license expires August 2003).

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 2000, North American motion picture distributors earned approximately \$49 billion in revenues. This represents growth of 53% since 1995. 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 released in calendar 2000 and approximately a 14% 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 theaters, 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 *Traffic*, *Chocolat*, *State and Main*, *Thirteen Days*, *Scary Movie*, *The Cell* and *Cider House Rules*. 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 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 15 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.

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 instalments. 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 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 and which recently received three Golden Globe nominations. 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 September 21, 1998 with Robert Lantos, the former Chairman and Chief Executive Officer 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 after September 21, 1998) 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 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.

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 50 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 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 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 approximately 240 hours of programming, comprised of 16 drama, adventure and children’s series (including nine series renewals) and approximately 22 hours of television movies and mini-series; in addition, we expect to produce approximately 85 hours of documentary and fact-based programming. 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.

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

Program	Genre	Broadcaster/Syndicator	Season
<i>Outer Limits</i>	Sci-fi	Global	5 th
<i>Gene Roddenberry’s Earth: Final Conflict®</i>	Sci-Fi	Tribune (U.S.); CHUM Group (Canada)	4 th
<i>Beastmaster</i>	Sci-Fi	Tribune (U.S.); CHUM Group (Canada)	2 nd
<i>The Famous Jett Jackson</i>	Children’s	Disney Channel (U.S.); Family Channel (Canada)	3 rd
<i>Cold Squad</i>	Drama	CTV (Canada)	4 th
<i>Da Vinci’s Inquest</i>	Drama	CBC (Canada)	3 rd
<i>Drop the Beat</i>	Drama	CBC (Canada)	2 nd
<i>I Was a Sixth Grade Alien</i>	Children’s	Fox Family (U.S.); YTV (Canada)	2 nd
<i>Monster by Mistake</i>	Children’s	YTV (Canada)	3 rd

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 the remaining shares we did not already own of Great North Communications Inc., a Canadian independent producer of documentary and fact-based programming.

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, Brian Cox and Jill Hennessy, is a historical drama that prides itself on authenticity and focuses on the trials of 21 Nazi war criminals and the town in which the proceedings took place. *Nuremberg* received three Golden Globe nominations, including one for best mini-series or made-for-television movie.

Television Distribution

Our television distribution business is centered around our new productions and our growing, valuable library of approximately 16,000 hours of programming, including approximately 13,000 hours of Canadian programming rights and approximately 3,000 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 6,500 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 29% and 34% 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 37% of our programming license revenues in fiscal 2000. Long-term output agreements, such as our agreements with 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. ("Calibre") provides computer generated special effects services for our television series, as well as third-party productions. Calibre 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.

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 Corporation ("EFC") 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 a commercial bank which lend to EFC 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 EFC and over the shares and intercompany debt of EFC. The commercial bank loans permit advances by EFC to finance production companies specifically approved by the commercial lender; such advances are each secured by the individual third-party production for which the funds were advanced. EFC 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 lender. EFC has the advantage of drawing on our in-house expertise in assessing financial commitments to production companies. The results of operations for EFC 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, Dreamworks, 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 Corus Entertainment, Sullivan Entertainment Inc., CanWest Entertainment, Salter Street Films Limited 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.

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.

Regulation

Jurisdiction

The CRTC has broad jurisdiction over Canadian domestic communications. Since 1968, broadcasting undertakings, including specialty television networks, 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.

On November 24, 2000, the CRTC issued decisions licensing new Canadian specialty television networks for digital distribution by Canadian broadcasting distribution undertakings. The reasons for the decisions and the terms and conditions of the new licenses were subsequently issued in Public Notice CRTC 2000-171 and in Decisions CRTC 2000-449 to 2000-731, on December 14, 2000. The CRTC licensed 21 Category 1 services and 262 Category 2 services, all for terms expiring August 31, 2007. Category 1 services are deemed to make a strong contribution to the development, diversity and distribution of Canadian programs and are licensed for specific genres of programming. Category 2 services are not meant to be directly competitive with Category 1 services. Category 1 services are “must carry” services for Canadian cable operators with over 2000 subscribers utilizing digital distribution technology as well as for direct-to-home (DTH) satellite distribution undertakings. Category 1 services must broadcast varying minimum percentages of Canadian content as well as (beginning in the second year of operation) spend varying percentages of the previous year’s gross advertising, infomercial and subscription revenues on Canadian programs. In our case, Health Network Canada is required to broadcast, both from 6 a.m. to midnight, and from 6 p.m. to midnight, a minimum of 60% Canadian content in the first year of operation, 63% in years two, three and four, 65% in years five and six and 70% in year seven. Health Network Canada will also be required to expend, from year two onward, 51% of the previous year’s revenues on Canadian programs. No less than 25% of all Canadian programs broadcast by a Category 1 service licence (other than news, sports and current affairs) must be provided by non related production companies (defined as ones in which the licensee or any of its shareholders owns less than 30% of the equity). Category 2 services are not guaranteed carriage and must broadcast a minimum of 35% Canadian content by the third year of operation.

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:

- 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 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 network, 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.

Reference is made to our management proxy circular dated August 17, 2000 (incorporated herein by reference) for a description of our share capital and share conditions.

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 for a minimum of 60% of its entire schedule and 50% of its schedule between 6 p.m. and midnight. In addition, as of September 1, 2000, broadcasters that are part of the “largest multi-station ownership groups”, as defined by the CRTC, which includes CTV Network Ltd., TVA Group Inc. and Global Communications Ltd., are also required to broadcast an average of at least eight hours per week of “priority Canadian programs”, as defined by the CRTC, Monday through Sunday over the broadcast year during the 7 p.m. to 11 p.m. viewing period. Broadcasters who are subject to this additional requirement are entitled to credit either 150% or 125% of the running time of certain types of dramatic programs, depending on the level of Canadian and dramatic content in such programs, against the required eight hours per week of priority Canadian programs.

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. Effective September 1, 2000, this requirement was removed for broadcasters in the largest multi-station ownership groups, described above. 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.

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, AAC Fact, Alliance Atlantis Cinemas, Momentum Pictures, 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, Edmonton, 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.

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 us and third party production companies.

Employees

As at March 14, 2001, we employed approximately 725 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 . . .	44	Chairman, Chief Executive Officer and Director
W. Judson Martin	44	Executive Vice-President, Chief Financial Officer and Director
Seaton S. McLean	45	President, Alliance Atlantis Motion Picture Production and Director
Edward A. Riley	48	President, Alliance Atlantis Television Distribution and Director
Peter A. Sussman	42	President, Alliance Atlantis Entertainment
Victor Loewy	54	Chairman, Alliance Atlantis Motion Picture Group and Director
Patrice Theroux	38	President, Alliance Atlantis Motion Picture Distribution
Phyllis Yaffe	52	President, Alliance Atlantis Broadcasting and Director
Pierre DesRoches	69	Director
Pierre Y. Ducros	61	Director
Harold P. Gordon	63	Director
Anthony F. Griffiths	70	Director
Ellis Jacob	47	Director
Allen Karp	60	Director
David J. Kassie	45	Director
Rainer Kölmel	53	Director
Barry J. Reiter	52	Director
Donald R. Sobey	66	Director
Gary Solway	44	Director
Edward Unzeitig	46	Director
Thomas J. Volpe	65	Director
Edward Waitzer	46	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 Headline Media Group Inc., Telemedia Inc., ExtendMedia Inc. and the Canadian Stage Company.

Mr. Martin has been Executive Vice-President and Chief Financial Officer since May 1999 and a director since March 2000. 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 Motion Picture Production since January 2000 and prior to that time, was President, Alliance Atlantis Television Production since September 1998. 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 September 1998. 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 since September 1998. Prior to that time, Mr. Sussman served as an Executive Vice-President of Atlantis since 1989.

Mr. Loewy has been Chairman, Alliance Atlantis Motion Picture Group, and a director since September 1998. 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. Theroux has been President, Alliance Atlantis Motion Picture Distribution since September 1998. 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.

Ms. Yaffe has been a director since June 2000 and 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. DesRoches has been a director since September 1998 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 September 1998 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 board of BAE Systems Canada Inc. (formerly Canadian Marconi). 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 September 1998 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. Ltée and several other corporations and charitable organizations.

Mr. Griffiths has been a director since September 1998 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 a Consultant to the Company since September 1998. 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 September 1998 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, SMK Speed International Inc., Teknion Corporation and Videoflicks.com Inc.

Mr. Kassie has been a director since September 1998 and was elected a director of Alliance in 1992. Mr. Kassie is Vice-Chairman of CIBC, CEO 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 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 September 1998 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 the Torys law firm and a member of Torys' executive committee.

Mr. Sobey has been a director since September 1998 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, Sobeys Inc., Toronto-Dominion Bank, Wajax Limited and Trader.com.

Mr. Solway has been a director since March 2000. Mr. Solway initially joined the Torys law firm in 1983 and is currently Managing Partner of the Torys Technology Group.

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 September 1998 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, Paragon Trade Brands, Rent-a-Wreck and American Technical Ceramics.

Mr. Waitzer has been a director since March 2000. Mr. Waitzer is Chairman of the Stikeman Elliott law firm where his practice focuses on corporate transactions and public policy. From 1993 to 1996, Mr. Waitzer served as Chair of the Ontario Securities Commission and the Technical Committee of IOSCO from 1994 to 1996. Mr. Waitzer is a public director of the American Institute of Certified Public Accountants and a director of various corporations.

Principal Shareholders

As of March 14, 2001, Michael MacMillan, Seaton McLean, Peter Sussman and Edward Riley (the Alliance Atlantis Principals) held directly or indirectly, 2,789,749 Class A Voting Shares in the Company, representing approximately 73.3% of the issued and outstanding Class A Voting Shares on that date. In addition, the Alliance Atlantis Principals hold 27,782 Class B Non-Voting Shares.

In January of 2001 we were advised that Kinowelt Medien AG ("Kinowelt"), the holder of 479,842 Class A Voting Shares, and \$8,794,000 principal amount of 6.50% convertible unsecured subordinated debentures, sold the 6,275,617 Class B Non-Voting Shares held by it in the public market. The sale of the Class B Non-Voting Shares will result in the conversion of the Class D Special Non-Voting Share held by Kinowelt into one Class B Non-Voting Share, provided that it does not restore its percentage ownership of Alliance Atlantis shares. We do not expect that Kinowelt will restore its percentage ownership.

Alliance Atlantis has been advised that Fidelity Management & Research Company and Fidelity Management Trust Company hold, as investment manager, approximately 15.27% of the Class B Non-Voting Shares as at October 31, 2000.

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.

SHARE CAPITAL STRUCTURE

The following chart sets out our authorized share capital and our issued and outstanding shares as at March 14, 2001.

<u>Shares</u>	<u>Authorized</u>	<u>Issued and Outstanding</u>
Class A Voting Shares	Unlimited	3,806,452
Class B Non-Voting Shares	Unlimited	27,887,842
Class C Special Voting Shares	275,000	3,049,725
Class D Special Non-Voting Shares	1	1

For a description of the material changes in our share capital structure, see note 9 to the Notes to the Consolidated Financial Statements.

DESCRIPTION OF CERTAIN INDEBTEDNESS

Credit Facility

We have one committed credit facility, the Credit Facility dated as of January 2001 and entered into with a syndicate of lenders (the "Lenders"). The Credit Facility consists of the following:

- a. a revolving facility in the amount of \$500 million in favor of the Company. This facility is used to finance film and television production and distribution costs and for general

corporate purposes. It is available until January of 2006 and has no amortization requirements;

- b. an overdraft facility of \$25.0 million in favor of the Company with a Canadian chartered bank to meet day to day financing requirements, which is repayable on demand.

Borrowings under the Credit Facility are secured by a first ranking lien and security interest against substantially all of the assets of the Company. Our obligations under the 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 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 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 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"; or (xiii) enter into productions without complying with certain completion bonding requirements. See "Risk Factors—Restrictions Imposed by Debt Instruments."

Events of default under the 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 creditors; and (vi) a change of control of the Company. Upon the occurrence and continuance of an event of default under the Credit Facility, the Lenders are entitled to terminate their commitments to lend and declare the outstanding advances due and payable.

Equicap Financial Corporation Credit Facility

Equicap Financial Corporation ("EFC"), an indirect wholly owned subsidiary of the Company, has up to \$40.0 million in a revolving credit facility under arrangements with a Canadian chartered bank. This facility is used by EFC to provide interim financing to third party producers for their film or television production expenses. This facility is non-recourse to Alliance Atlantis Communications Inc. and is not guaranteed by Alliance Atlantis Communications Inc. The EFC credit facility is secured by charges over all of the assets of EFC and over the shares and inter-company debt of EFC.

The EFC credit facility permits advances to finance productions specifically approved by the lender. The facility is committed for a term of 364 days and is renewable after that term with the consent of the applicable lender. If the facility is not renewed, all outstanding amounts become

one-year reducing term loans. The facility contains 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. 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 December 31, 2000, total indebtedness of our subsidiaries in respect of such loans was \$20.4 million.

On November 15, 1999, we issued US\$150 million aggregate principal amount, and on June 13, 2000 we issued an additional US\$55 million aggregate principal amount, of senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009. The terms and conditions of these securities are substantially identical to the terms and conditions of the Notes as described in "Description of the Notes."

On January 25, 2001, we issued US\$95 million aggregate principal amount of senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009. The terms and conditions of these securities are substantially identical to the terms and conditions of the Notes as described in "Description of Notes." These securities were sold in a private placement in the United States and outside the United States. We have agreed to register these notes under the Securities Act according to a specified schedule. This prospectus is part of the registration statement to register the notes.

PRO FORMA INTEREST COVERAGE

Interest coverage has been included in this prospectus in accordance with Canadian disclosure requirements and has been calculated for the twelve month periods ended March 31, 2000 and December 31, 2000 after giving effect to the issuance of the outstanding notes and the payment of indebtedness referred to under the heading "Use of Proceeds."

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 paid on long-term debt. For purposes of calculating interest coverage, long-term debt includes the outstanding notes and other interest-bearing liabilities and excludes debt to be retired from the proceeds of the outstanding notes, and interest requirements include interest on the Notes and the amount of interest that has been capitalized during the period, less the amortization of interest previously capitalized.

The Company's interest requirements on long term liabilities, after giving effect to the issue of the Notes, amounted to \$45.3 million for the twelve month period ended March 31, 2000 and \$59.6 million for the twelve month period ended December 31, 2000. The consolidated net income of the Company, calculated on the basis set forth above, was equal to \$91.5 million for the twelve month period ended March 31, 2000 and \$98.1 million for the twelve month period ended December 31, 2000. The interest coverage is equal to 2.0 for the twelve months ended March 31, 2000 and 1.6 for the twelve months ended December 31, 2000.

DESCRIPTION OF THE NOTES

The outstanding notes were, and the Exchange Notes will be issued under a third supplemental indenture, dated as of January 25, 2001, to an indenture dated as of November 15, 1999 (the "Original Indenture"), as amended by a first supplemental indenture dated as of April 1, 2000 and a second supplemental indenture dated as of June 13, 2000, between the Company and The Bank of Nova Scotia Trust Company of New York, as trustee (the "Trustee") (as supplemented by the first, second and third supplements, the "Indenture"). The Original Indenture, as supplemented by the second supplement, relates to our outstanding US\$205 million aggregate principal amount of 13% senior subordinated notes due December 15, 2009 (the "Existing Notes"). In this section, the notes offered pursuant to this prospectus are referred to as the "Additional Notes". The Existing Notes, the Additional Notes and the Exchange Notes (as defined in "Registration Covenant; Exchange Offer") are collectively referred to as the "Notes". 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.

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 Exchange Notes will be senior subordinated obligations of the Company and will be limited to an aggregate principal amount of US\$95 million. The Exchange Notes will mature on December 15, 2009. The Exchange Notes will bear interest at the rate per annum shown on the front cover of this prospectus from December 15, 2000, or from the most recent Interest Payment Date to which interest has been paid or provided for, payable semi-annually on June 15 and December 15 of each year, commencing June 15, 2001, to the Person in whose name an Exchange Note (or any predecessor Exchange Note) is registered at the close of business on the preceding June 1 or December 1, as the case may be. The Exchange 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 Exchange 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 Exchange 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 Exchange Notes will be payable, and the Exchange 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 Exchange 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 Exchange 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 Exchange 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 Exchange Notes will not have the benefit of any sinking fund.

The Exchange Notes are identical in all material respects to the terms of the outstanding notes, except for certain transfer restrictions and registration rights relating to the outstanding notes and except that, in certain circumstances, the rate per annum at which the outstanding notes bear interest could be increased. For a description of those circumstances, see “—Registration Covenant; Exchange Offer” beginning on page 80.

Form Denomination, Book-Entry Procedures and Transfer

Global Notes

The Exchange Notes initially will be represented by one or more securities in registered, global form (collectively, the “Global Securities”). The Global Securities will be deposited upon issuance with the Trustee as custodian for The Depository Trust Company (“DTC”), in New York, New York, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC as described below.

Each Global Security will be held by DTC on behalf of its account holders (each a “DTC Participant”). Except as set forth below, the Global Securities may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Securities may not be exchanged for securities in certificated form except in the limited circumstances described below under “—Exchanges of Book-Entry Securities for Certificated Securities.”

Exchange of Book-Entry Securities for Certificated Securities

A beneficial interest in a Global Security may not be exchanged for a security in certificated form unless (i) DTC (x) notifies Alliance Atlantis that it is unwilling or unable to continue as Depository for such Global Security or (y) has ceased to be clearing agency registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in either case Alliance Atlantis thereupon fails to appoint a successor Depository, (ii) Alliance Atlantis, at its option, notifies the Trustee in writing that it elects to cause the issuance of the Exchange Notes in certificated form or (iii) there shall have occurred and be continuing an Event of Default with respect to the Exchange Notes. In all cases, certificated Exchange Notes delivered in exchange for any Global Security or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the Depository (in accordance with its customary procedures). Any such exchange will be effected through the DWAC System and an appropriate adjustment will be made in the records of the applicable security registrar to reflect a decrease in the principal amount of the relevant Global Security.

Certain Book-Entry Procedures

The descriptions of the operations and procedures of DTC, Euroclear Clearance System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream”) that follow are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them from time to time. Alliance

Atlantis takes no responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised Alliance Atlantis as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants (“participants”) and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly (“indirect participants”).

As long as DTC, or its nominee, is the registered holder of a Global Security, DTC or such nominee, as the case may be, will be considered the sole owner and holder of the Exchange Notes represented by such Global Security for all purposes under the Indenture. Except in the limited circumstances described above under “—Exchanges of Book-Entry Securities for Certificated Securities,” owners of beneficial interests in a Global Security will not be entitled to have any portions of such Global Security registered in their names, will not receive or be entitled to receive physical delivery of Exchange Notes in definitive form and will not be considered the owners or holders of the Global Security (or any security represented thereby) under the Indenture.

Investors may hold their interests in a Global Security directly through DTC, if they are participants in such system, or indirectly through organizations (including Euroclear and Clearstream) which are participants in such system. Some investors may hold their interests in a Global Security through organizations which are participants in such systems. Clearstream and Euroclear will hold interests in a Global Security on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories. The depositories, in turn, will hold such interests in such Global Securities in customers’ securities accounts in the depositories’ names on the books of DTC. Those interests held through Euroclear or Clearstream will also be subject to the procedures and requirements of such systems.

The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Security to such persons may be limited to that extent. Because DTC can act only on behalf of its participants, which in turn act on behalf of indirect participants and certain banks, the ability of a person having beneficial interest, in a Global Security to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate evidencing such interests.

Payments of the principal of, premium, if any, and interest on the Global Securities will be made to DTC or its nominee as the registered owner thereof. Neither Alliance Atlantis, the Trustee nor any of their respective agents will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Alliance Atlantis expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Security representing any Exchange Notes held by it or its nominee, will immediately credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Security for such Exchange

Notes as shown on the records of DTC or its nominee. Alliance Atlantis also expect that payments by participants to owners of beneficial interests in such Global Security held through such participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers registered in “street name”. Such payment will be the responsibility of such participants.

Except for trades involving only Euroclear and Clearstream participants, interest in the Global Securities will trade in DTC’s settlement system and secondary market trading activity in such interest will therefore settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its participants. Transfers between participants in DTC will be effected in accordance with DTC’s procedure, and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer and exchange requirements applicable to the Exchange Notes described elsewhere herein, cross-market transfers between DTC participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected by DTC in accordance with DTC’s rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Security in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Security from a DTC participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the DTC settlement date. Cash received in Euroclear or Clearstream as a result of sales of interests in a Global Security by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following the DTC settlement date.

DTC has advised Alliance Atlantis that it will take any action permitted to be taken by a holder of Exchange Notes only at the direction of one or more participants to whose account with DTC interests in the Global Securities are credited and only in respect of such portion of the aggregate principal amount of the Exchange Notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default (as defined in the “Description of the Notes”) under the Exchange Notes, the Global Securities will be exchanged for legended Exchange Notes in certificated form, and distributed to DTC’s participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of beneficial ownership interests in the Global Securities among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither Alliance Atlantis, the Trustee or Exchange Agent nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear and Clearstream, their participants or indirect participants of their respective obligations under the rules and procedures governing their operations, including

maintaining, supervising or reviewing the records relating to, or payments made on account of, beneficial ownership interests in Global Securities.

Optional Redemption

General

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 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 December 15 of the years indicated:

<u>Year</u>	<u>Redemption Price</u>
2004	106.500%
2005	104.333%
2006	102.167%
2007 and thereafter	100.000%

In addition, the Notes are subject to redemption, prior to December 15, 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 113% 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 are 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 November 9, 1999. See “—Additional Amounts.” (§ 1101)

Subordination

The indebtedness evidenced by the Notes is, to the extent set forth in the Indenture, 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 Original 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 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 Original 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 are effectively subordinated to all indebtedness and other liabilities of the Company’s subsidiaries. As of December 31, 2000, 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 \$426.1 million, excluding intercompany liabilities. The Indenture will permit the Company’s subsidiaries to incur additional indebtedness under certain circumstances.

Registration Covenant; Exchange Offer

The Company entered into an Exchange and Registration Rights Agreement (the “Registration Rights Agreement”) pursuant to which the Company agreed, for the benefit of the holders of the outstanding notes issued on January 25, 2001 in a private placement in the United States and outside the United States, (i) to file with the Commission, by March 11, 2001, a registration statement (the “Exchange Offer Registration Statement”) under the Securities Act relating to an exchange offer (the “Exchange Offer”) pursuant to which Exchange Notes substantially identical to the outstanding notes (except that such Exchange Notes will not contain terms with respect to transfer restrictions) will be offered in exchange for notes tendered at the option of the holders thereof and (ii) to use its best efforts to cause the Exchange Offer Registration Statement to become effective as soon as practicable thereafter, but no later than March 26, 2001. The Company has further agreed to commence the Exchange Offer promptly after the Exchange Offer Registration Statement has become effective, hold the offer open for at least 30 days, and exchange Exchange Notes for all outstanding notes validly tendered and not withdrawn before the expiration of the offer. The Exchange Notes and the Existing Notes will be identical in all respects (except for their date of issuance).

Under existing Commission interpretations, the Exchange Notes would in general be freely transferable in the United States after the Exchange Offer without further registration under the Securities Act, except that broker-dealers (“Participating Broker-Dealers”) receiving Exchange Notes in the Exchange Offer will be subject to a prospectus delivery requirement with respect to resales of those Exchange Notes. The Commission has taken the position that participating Broker-Dealers

may fulfill their prospectus delivery requirements with respect to the Exchange Notes (other than a resale of an unsold allotment from the original sale of the Additional Notes) by delivery of the prospectus contained in the Exchange Offer Registration Statement. Under the Registration Rights Agreement, the Company is required to allow Participating Broker-Dealers and other persons, if any, subject to similar prospectus delivery requirements to use the prospectus contained in the Exchange Offer Registration Statement in connection with the resale of such Exchange Notes. The Exchange Offer Registration Statement will be kept effective for a period of 180 days after the Exchange Offer has been consummated in order to permit resales of Exchange Notes acquired by broker-dealers in after-market transactions. Each holder of outstanding notes (other than certain specified holders) who wishes to exchange such outstanding notes for Exchange Notes in the Exchange Offer will be required to represent that any Exchange Notes to be received by it will be acquired in the ordinary course of its business, that at the time of the commencement of the Exchange Offer it has no arrangement with any person to participate in the distribution (within the meaning of the Securities Act) of the Exchange Notes and that it is not an Affiliate of the Company.

However, if (i) on or before the Exchange Offer is completed, the existing Commission interpretations are changed such that the Exchange Notes are not or would not in general be transferable in the United States without restriction under the Securities Act, (ii) the Exchange Offer has not been completed within 105 days following the Closing Date or (iii) the Exchange Offer is not available to any holder of the outstanding notes, the Company will, in lieu of (or, in the case of clause (iii), in addition to) effecting registration of the Exchange Notes, file as soon as possible, but not later than 30 days after such obligation arises, a registration statement under the Securities Act relating to a shelf registration of the outstanding notes for resale by holders or, in the case of clause (iii), of the outstanding notes held by the Purchaser for resale by the Purchaser (such filing, the "Shelf Registration" and such registration statement, the "Shelf Registration Statement"). The Company will use its best efforts to cause the Shelf Registration Statement to become or be declared effective no later than 120 days after such registration statement is filed and to remain effective until two years following the effective date of such registration statement or such shorter period that will terminate when all the securities covered by the Shelf Registration Statement have been sold pursuant to the Shelf Registration Statement. The Company will, in the event of the Shelf Registration Statement, provide to the holder or holders of the applicable outstanding notes copies of the prospectus that is a part of the Shelf Registration Statement, notify such holder or holders when the Shelf Registration Statement for the applicable outstanding notes has become effective and take certain other actions as are required to permit unrestricted resales of the outstanding notes. A holder of outstanding notes that sells such outstanding notes pursuant to the Shelf Registration Statement generally would be required to be named as a selling securityholder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the Registration Rights Agreement that are applicable to such a holder (including certain indemnification obligations).

Although the Company intends to file the registration statement previously described, there can be no assurance that the registration statement will be filed or, if filed, that it will become effective. In the event that (i) such registration statement is not filed by March 11, 2001 or has not become effective by March 26, 2001 or (ii) the Exchange Offer has not been consummated within 45 days after the effective date of the Exchange Offer Registration Statement or (iii) any registration statement required by the Registration Rights Agreement is filed and declared effective but shall thereafter cease to be effective (except as specifically permitted therein) without being succeeded immediately by an additional registration statement filed and declared effective (any such event referred to in clauses (i) through (iii), a "Registration Default"), then special interest, in addition to the interest set forth on the cover page of this prospectus, shall accrue on the outstanding notes at

a per annum rate of 0.5% for the first 60 days from the occurrence of such default and at additional 0.5% thereafter (to a maximum of 1.0%).

No prospectus will be filed in any province or territory of Canada to make the outstanding notes or Exchange Notes freely tradeable in Canada.

The summary herein of certain provisions of the Registration Rights Agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Registration Rights Agreement, a copy of which will be available upon request to the Company.

The outstanding notes, the Exchange Notes and the Existing Notes will be considered collectively to be a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and Offers to Purchase, and for purposes of this Description of the Notes all references herein to “Notes” shall be deemed to refer collectively to the outstanding notes, any Exchange Notes and the Existing Notes, unless the context otherwise requires.

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, both:

- (1) the Consolidated Leverage Ratio of the Company would be less than 7.0 to 1.0; and
- (2) 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 Original 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\$150 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 Original 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 Original 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 Original 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 Original 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 Original 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 Original 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 Original 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, make an Offer to 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(C) and(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 Leverage Ratio*” as of any date of determination means the ratio of (1) the aggregate consolidated principal amount of Debt of the Company and its Restricted Subsidiaries (other than intercompany Debt), outstanding at the end of the most recent fiscal quarter for which a consolidated balance sheet of the Company is available as disclosed in such balance sheet, after giving *pro forma* effect to any Debt Incurred or proposed to be Incurred since the date of such balance sheet and the application of the proceeds thereof and to any reduction of Debt that has occurred since the date of such balance sheet, to (2) the 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; *provided* 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 Consolidated Cash Flow Available for 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 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 amended and restated as of January 9, 2001 and as such agreement may be further 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, installment 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 provides 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 the Canada Customs and Revenue Agency 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 are 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, Torys, 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 Company, 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 or penal laws; and (4) the action to enforce such judgment is commenced within the applicable limitation period after the date of such judgment.

Consent to Jurisdiction and Service

The Indenture provides that the Company will irrevocably appoint CT Corporation System, 111 Eighth Avenue, New York, New York 10011 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 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 provides 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)

Ratings

The notes have been rated B2 by Moody's and BB– by Standard & Poor's. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. Ratings for debt instruments range from AAA, in the case of Standard & Poor's, or Aaa in the case of Moody's, which represent the highest quality of securities rated, to D, in the case of Standard & Poor's, and D, in the case of Moody's, which represent the lowest quality of securities rated.

The credit ratings accorded to the notes by the Rating Agencies are not recommendations to purchase, hold or sell the notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a Rating Agency in the future if in its judgment circumstances so warrant.

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 Exchange Notes to a U.S. Holder (as defined below). It deals only with Notes held as capital assets by investors who receive the Exchange Notes in the exchange offering, 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 Exchange 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. 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.

HOLDERS OR PROSPECTIVE HOLDERS OF EXCHANGE 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 EXCHANGE 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.

The exchange of outstanding notes for Exchange Notes pursuant to the Exchange Offer will not be a taxable event for U.S. federal income tax purposes and a U.S. Holder will have the same tax basis in the Exchange Notes as in the notes exchanged thereof.

A U.S. Holder of an Exchange Note will be required to report as ordinary interest income for U.S. federal income tax purposes interest paid or accrued on the Exchange 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 an Exchange Note generally will be the holder’s purchase price for the outstanding note exchanged therefrom. Upon the sale or exchange of an Exchange 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 Exchange 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 an Exchange 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 an Exchange 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 an Exchange Note may be subject to backup withholding at the rate of 31% with respect to interest paid on the Exchange Notes and to proceeds from the sale, exchange, redemption or retirement of the Exchange 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 an Exchange 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 receives Exchange Notes pursuant to the exchange offering of the Exchange 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 Exchange 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 the Canada Customs and Revenue Agency. 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 Exchange 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 Exchange 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 Exchange Notes.

RELATIONSHIPS BETWEEN THE COMPANY AND CERTAIN OF THE INITIAL PURCHASERS

TD Securities (USA) Inc., RBC Dominion Securities Corporation, BMO Nesbitt Burns Corp., CIBC World Markets Corp., Scotia Capital (USA) Inc., ING Barings Limited, acting as agent for ING Bank N.V. and NBC International (USA) Inc., seven of the initial purchasers, are affiliates of Canadian chartered banks which are lenders under our Credit Facility, and TD Securities (USA) Inc. and RBC Dominion Securities Corporation were also lenders under our previous credit facility. See "Description of Certain Indebtedness". The outstanding indebtedness under our previous credit facility was \$320.8 million as of December 31, 2000. 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 \$27.4 million as of December 31, 2000. We are in compliance with the terms of such credit facilities. The decision of the initial purchasers to participate in this offering was made independently of their affiliated banks, which had no involvement in determining whether and when to purchase 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 initial purchasers. None of TD Securities (USA) Inc., RBC Dominion Securities Corporation, BMO Nesbitt Burns Corp., CIBC World Markets Corp., Scotia Capital (USA) Inc., ING Barings Limited, acting as agent for ING Bank N.V. or NBC International (USA) Inc. will receive any benefit from this offering other than their respective portions of the underwriting commission payable by us. A portion of the net proceeds from the sale of the Notes were used to repay outstanding indebtedness owed to their affiliates under the Credit Facility. See "Use of Proceeds."

PLAN OF DISTRIBUTION

Based on positions taken by the staff of the Commission set forth in no-action letters issued to Exxon Capital Holdings Corp. and Morgan Stanley & Co. Inc., among others, we believe that Exchange Notes issued pursuant to the Exchange Offer in exchange for outstanding notes may be offered for resale, resold and otherwise transferred by holders thereof (other than any holder which is (i) an "affiliate" of Alliance Atlantis within the meaning of Rule 405 under the Securities Act, (ii) a broker-dealer who acquired notes directly from us, or (iii) broker-dealers who acquired notes as a result of market-making or other trading activities) without compliance with the registration and prospectus delivery provisions for the Securities Act provided that such Exchange Notes are acquired in the ordinary course of such holders' business, and such holders are not engaged in, and do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of such Exchange Notes, provided that broker-dealers ("Participating Broker-Dealers") receiving Exchange Notes, provided that broker-dealers ("Participating Broker-Dealers") receiving Exchange Notes in the exchange offer will be subject to a prospectus delivery requirement with respect to resales of such Exchange Notes. To date, the staff of the Commission has taken the position that Participating Broker-Dealers may fulfill their prospectus delivery requirements with respect to transactions involving an exchange of securities such as the exchange pursuant to the Exchange Offer (other than a resale of an unsold allotment from the sale of the outstanding notes to the initial purchasers thereof) with the prospectus contained in the Registration Statement. Pursuant to the registration rights agreement we, the Company, have agreed to permit Participating Broker-Dealers and other persons, if any, subject to similar prospectus delivery requirements to use this prospectus in connection with the resale of such Exchange Notes. We have agreed that, for a period of 180 days after the exchange offer has been consummated, we will make this prospectus, and any amendment or supplement to this prospectus, available to any broker-dealer that requests such documents in the Letter of Transmittal.

Each holder of outstanding notes who wishes to exchange its outstanding notes for Exchange Notes in the Exchange Offer will be required to make certain representations to us as set forth in "The Exchange Offer" section of this prospectus. In addition, each holder who is a broker-dealer and who receives Exchange Notes for its own account in exchange for outstanding notes that were acquired by it as a result of market-making activities or other trading activities, will be required to acknowledge that it will deliver a prospectus in connection with any resale by it of such Exchange Notes.

Holders who tender outstanding notes in the Exchange Offer with the intention to participate in a distribution of the Exchange Notes may not rely upon the Exxon Capital Holdings Corp., the Morgan Stanley & Co. Inc. or similar no-action letters.

We will not receive any proceeds from any sale of Exchange Notes by broker-dealers. Exchange Notes received by broker-dealers for their own account pursuant to the Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the Exchange Notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such

prevailing market prices or at negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such Exchange Notes. The letter of transmittal states that by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an “underwriter” within the meaning of the Securities Act.

We have agreed to pay all expenses incidental to the Exchange Offer other than commissions and concessions of any brokers or dealers and will indemnify holders of the outstanding notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act, as set forth in the Registration Rights Agreement.

LEGAL MATTERS

Certain legal matters in connection with the offering of the Exchange 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 Torys, Toronto, Ontario with respect to matters of Canadian law.

Barry J. Reiter and Gary Solway, two of our directors, are also partners in the law firm of Torys. As of March 14, 2001, the members of Torys 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 as of March 31, 2000 and 1999 and for each of the three years in the period ended March 31, 2000 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

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 17, 2000, with respect to the annual and special meeting of shareholders of Alliance Atlantis held on September 26, 2000, other than the sections entitled “Report on Executive Compensation” and “Performance Graph”;
- b. Annual Information Form of Alliance Atlantis dated August 17, 2000 for the fiscal year ended March 31, 2000;
- c. Management’s Discussion and Analysis of Financial Condition and Results of Operations for Alliance Atlantis found on pages 34 to 40, inclusive, of our 2000 annual report (the “Annual Report”);
- d. Audited consolidated balance sheets of Alliance Atlantis as at March 31, 2000, and 1999 and consolidated statements of operations and retained earnings and cash flows for each of the years in the three-year period ended March 31, 2000 together with the accompanying report of the auditor found on pages 41 to 59 inclusive, of the Annual Report;
- e. Unaudited consolidated balance sheets of Alliance Atlantis as at December 31, 2000 and December 31, 1999 consolidated statements of operations and retained earnings for each of the three and nine month periods ended December 31, 2000 and 1999 and cash flows for the nine-month periods ended December 31, 2000 and December 31, 1999;

- f. A material change report filed by Alliance Atlantis dated January 25, 2001 in respect of the completion of a private placement of US\$95 million aggregate principal amount of its 13% senior subordinated notes due December 15, 2009; and
- g. A material change report filed by Alliance Atlantis dated February 21, 2001 in respect of the proposed acquisition of Salter Street Films by Alliance Atlantis.

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.

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 securities commissions or similar authorities in Canada. Copies of the documents incorporated herein 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 a registration statement on Form F-10 with the Securities and Exchange Commission with respect to the Exchange Notes offered under this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information in the registration statement or the exhibits and schedules that are part of the registration statement. For further information on us and the Exchange Notes we are offering, you should review the registration statement and the exhibits filed as a part of the registration statement. The exhibits to this registration statement should be referenced for the complete contents of these contracts and documents. The registration statement, including the exhibits, may be inspected without charge at the public reference facilities maintained by the Commission in Room 1024, 450 Fifth Street, N.W. Washington, D.C. 20549, and the Commission's regional offices located in New York, New York and Chicago, Illinois. Copies of all or any part of the registration statement may be obtained from these offices after payment of fees prescribed by the Commission. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. The Commission also maintains a Web site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

The Company is subject to certain of the informational requirements of the Exchange Act, and in accordance therewith, will file reports and other information with the Securities and Exchange 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 filed with the Commission may be inspected and copied at the public reference facilities maintained by the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at Seven World Trade Center, 13th Floor, New York, New York 10007 and at Northwestern Atrium Center, 500 West Madison Street, 14th Floor, Chicago, Illinois 60661-2551. Copies of such material can also be obtained from the principal office of the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the Indenture provides that the Company, if not required to file such information pursuant to the Exchange Act, shall provide the Trustee and holders of Notes with audited year-end financial statements prepared in accordance with Canadian GAAP and substantially in the form prescribed by applicable Canadian regulatory authorities (whether or not the Company is a public reporting company at the time) and unaudited quarterly financial statements prepared in accordance with Canadian GAAP and substantially in the form prescribed by applicable Canadian regulatory authorities (whether or not the Company is a public reporting company at the time).

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"; press release dated January 18, 2001; consent of PricewaterhouseCoopers LLP; consent of Torgys; powers of attorney; Form of Indenture; First Supplemental Indenture; Second Supplemental Indenture; Third Supplemental Indenture; Exchange and Registration Rights Agreement; Letter of Transmittal; Notice of Guaranteed Delivery; Letter to Bankers, Dealers, Commercial Banks, Trust Companies and other Nominees; Brokers' Letter to Clients; Instructions to Registered Holders 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. as at March 31, 2000 and 1999 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, 2000. 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 and United States 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, 2000 and 1999 and the results of its operations and cash flows for each of the years in the three-year period ended March 31, 2000 in accordance with Canadian generally accepted accounting principles.

June 13, 2000
Toronto, Canada

(Signed) PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

ALLIANCE ATLANTIS COMMUNICATIONS INC.
CONSOLIDATED BALANCE SHEETS
(in millions of Canadian dollars)

	<u>As at March 31, 2000</u>	<u>As at March 31, 1999</u>
ASSETS		
Cash and cash equivalents	1.0	56.9
Accounts receivable	476.8	470.1
Loans receivable	27.2	39.9
Income taxes (note 13)	7.3	32.0
Investment in film and television programs (note 2)	591.6	542.7
Development costs	30.7	23.4
Property and equipment (note 3)	53.7	38.7
Broadcasting licenses	76.4	78.3
Goodwill	80.0	81.5
Other assets (note 4)	65.4	21.9
	<u>1,410.1</u>	<u>1,385.4</u>
LIABILITIES		
Revolving term loans (note 5)	187.7	437.0
Accounts payable and accrued liabilities	260.5	278.0
Deferred revenue	98.7	149.4
Term loans (note 6)	55.9	48.4
Senior Subordinated Notes (note 7)	217.5	—
Convertible debentures (note 8)	8.8	8.8
Minority interest	9.5	8.9
	<u>838.6</u>	<u>930.5</u>
SHAREHOLDERS' EQUITY		
Share capital (note 9)	521.2	438.4
Retained earnings	50.1	13.1
Cumulative translation adjustments (note 10)	0.2	3.4
	<u>571.5</u>	<u>454.9</u>
	<u>1,410.1</u>	<u>1,385.4</u>
Commitments and Contingencies (note 19)		

Approved by the Board of Directors

(Signed) MICHAEL I.M. MACMILLAN

Director

(Signed) ELLIS JACOB

Director

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

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

	For the year ended March 31		
	2000	1999	1998
Revenue	771.6	633.4	385.2
Direct operating expenses	592.4	502.7	302.6
Gross profit	179.2	130.7	82.6
Operating expenses	73.0	71.4	51.3
Earnings before undernoted	106.2	59.3	31.3
Amortization	17.7	12.3	5.1
Interest, including amortization of interest previously capitalized (note 11) . .	33.1	22.0	3.6
Merger and restructuring expenses (note 16)	—	81.4	—
Gain on sale of investments (note 12)	2.5	0.7	5.2
Minority Interest	(0.5)	(0.6)	(0.1)
Earnings (loss) before income taxes	58.4	(55.1)	27.9
Provision for (recovery of) income taxes (note 13)	19.3	(27.8)	8.0
Net earnings (loss) for the year	39.1	(27.3)	19.9
Retained earnings—beginning of year (note 14)	13.1	78.8	58.9
Redemption of Common Shares (note 9)	—	(36.3)	—
Dividends on Preferred Shares	(0.5)	(0.5)	—
Accretion of conversion feature of Preferred Shares	(1.6)	(1.6)	—
Retained earnings—end of year	50.1	13.1	78.8
Basic earnings (loss) per Common Share (note 15)	1.31	(1.44)	1.38
Fully diluted earnings (loss) per Common Share	1.25	(1.44)	1.28

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

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

	For the year ended March 31		
	2000	1999	1998
CASH PROVIDED BY (USED IN)			
Operating cash flows			
Net earnings (loss) for the year	39.1	(27.3)	19.9
Items not affecting cash			
Amortization of film and television programs	569.7	509.8	294.0
Amortization of development costs	4.5	3.4	1.9
Amortization of property and equipment	7.7	6.6	2.5
Amortization of broadcasting licenses	1.9	1.0	0.2
Amortization of goodwill and other assets	3.6	1.3	0.5
Gain on sale of investments	(2.5)	(0.7)	(5.2)
Non-cash interest	—	—	1.0
Minority interest	(0.5)	(0.6)	—
	<u>623.5</u>	<u>493.5</u>	<u>314.8</u>
Net changes in other non-cash balances related to operations (note 17) .	<u>(65.3)</u>	<u>(133.7)</u>	<u>(97.3)</u>
	<u>558.2</u>	<u>359.8</u>	<u>217.5</u>
Investing cash flows			
Loans receivable	12.7	0.7	(31.4)
Film and television programs	(620.7)	(703.8)	(368.0)
Development costs	(11.8)	(4.5)	(8.1)
Property and equipment	(19.8)	(16.8)	(6.3)
Business acquisitions (note 16)	(1.9)	(3.7)	(9.3)
Minority interest in acquired businesses	1.2	7.5	—
Long-term investments	(37.1)	(1.7)	(0.2)
Proceeds from sale of investments	11.2	0.8	5.2
	<u>(666.2)</u>	<u>(721.5)</u>	<u>(418.1)</u>
Financing cash flows			
Issue of senior subordinated notes	219.5	—	—
Revolving term loans	(251.6)	325.5	142.0
Term loans	4.5	(0.1)	—
Issue of Common Shares	132.5	84.7	50.1
Dividends paid on Preferred Shares	(0.5)	(0.5)	—
Redemption of Preferred Shares	(51.9)	—	—
	<u>52.5</u>	<u>409.6</u>	<u>192.1</u>
Increase (decrease) in cash and cash equivalents during the year	<u>(55.5)</u>	<u>47.9</u>	<u>(8.5)</u>
Cash in acquired businesses	—	6.6	—
Cash and cash equivalents—beginning of year	56.9	2.4	10.8
Effect of exchange rates on cash	<u>(0.4)</u>	<u>—</u>	<u>0.1</u>
Cash and cash equivalents—end of year	<u>1.0</u>	<u>56.9</u>	<u>2.4</u>

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

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

The Company is a leading Canadian broadcaster, creator and international distributor of filmed entertainment content with significant ownership interests in eight specialty television networks. The Company's principal business activities are carried out through three operating groups: Broadcasting, Motion Picture and Television.

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 differ in certain respects from those generally accepted in the United States (United States GAAP) and to the extent that they affect the company, the differences are described in note 24 "Reconciliation to United States GAAP."

Principles of consolidation

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

Revenue recognition

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 license 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 which do not meet all of the above criteria and not yet recognized as revenue are included in deferred revenue.

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 earnings, and reduced by write-offs net of expected recoveries. The Company conducts ongoing

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

1. Summary of Significant Accounting Principles (Continued)

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. Investment in film and television programs also includes 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 and exploitation costs and capitalized interest which are expected to be recovered from future revenues. Film and television programs in progress represent the accumulated costs of productions which have not yet been completed by the Company. Film and television program libraries acquired represents the unamortized fair value assigned at the date of acquisition.

Amortization of film and television programs produced and acquired is determined based on the ratio that current revenue earned from the film and television programs bear to expected gross future revenue for periods not exceeding ten years from the date of delivery or acquisition. The cost of libraries is being amortized over the acquired titles' economic lives not exceeding twenty years from the date of acquisition.

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. Broadcast rights and corresponding liabilities are recorded when the license period begins and the program is available for telecast.

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 and interest capitalized 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. Development costs are written off when determined not to be recoverable.

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

1. Summary of Significant Accounting Principles (Continued)

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 other equipment	20% - 30% by declining balance
Computer equipment	30% by declining balance
Leasehold improvements	straight-line over the lease term
Broadcasting equipment	straight-line over five years

Broadcasting licenses

In business acquisitions involving broadcasting, fair value is assigned to the broadcasting licenses acquired. Broadcasting licenses are carried at assigned value less accumulated amortization. Amortization is provided on a straight-line basis over a period of forty years. Broadcasting licenses are written down to the net recoverable amount if there is an expectation that the net carrying amount of the license will not be recovered. Accumulated amortization at March 31, 2000 was \$3.2 (1999—\$1.3).

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets 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 this review indicates that the net carrying amount of the goodwill will not be recovered. Accumulated amortization of goodwill at March 31, 2000 was \$5.2 (1999—\$3.0).

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 charges which are being amortized on a straight-line basis over the life of the loan.

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.

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

1. Summary of Significant Accounting Principles (Continued)

Income taxes

Future income tax assets and liabilities are recognized 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.

Gains or losses on foreign currency balances or transactions that are designated as hedges of a net investment in self-sustaining foreign operations are offset against exchange losses or gains included in the separate item under shareholders' equity.

Translation gains and losses are included in income except for unrealized gains and losses arising from the translation of long-term monetary assets and liabilities, which are deferred and amortized on the straight-line basis over the remaining life of the related items.

Derivative financial instruments

The Company enters into foreign exchange contracts intended to hedge its estimated net foreign currency cash requirements, and certain significant transactions, generally over the ensuing twelve to eighteen months. The Company does not engage in a speculative trading program. All foreign exchange contracts are marked to market and the resulting gains and losses are deferred and included in the measurement of the related transactions, when they occur.

Stock-based Compensation Plan

The Company has a stock-based compensation plan which is described in Note 9(f). No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock options is charged to retained earnings.

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

1. Summary of Significant Accounting Principles (Continued)

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.

Comparative amounts

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

2. Investment in Film and Television Programs

	<u>Broadcasting</u>	<u>Motion Picture</u>	<u>Television</u>	<u>Total</u>
2000				
Produced	—	38.0	157.3	195.3
Acquired	—	180.9	67.0	247.9
Libraries	—	—	36.2	36.2
Programs in progress	—	10.4	57.3	67.7
Broadcast rights	<u>44.5</u>	<u>—</u>	<u>—</u>	<u>44.5</u>
	<u>44.5</u>	<u>229.3</u>	<u>317.8</u>	<u>591.6</u>
1999				
Produced	—	3.4	124.3	127.7
Acquired	—	147.3	46.1	193.4
Libraries	—	—	40.5	40.5
Programs in progress	—	44.4	96.1	140.5
Broadcast rights	<u>40.6</u>	<u>—</u>	<u>—</u>	<u>40.6</u>
	<u>40.6</u>	<u>195.1</u>	<u>307.0</u>	<u>542.7</u>

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

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. Previously, the Company amortized broadcast rights over the lesser of two years or the contracted exhibition period. The effect of the change in accounting policy was reflected retroactively and the results of comparative prior periods presented were restated accordingly. As a result of the restatement of prior periods, fiscal 1999 opening retained earnings was reduced by \$1.2, fiscal 1998 direct operating expenses increased by \$1.2 and fiscal 1998 provision for income taxes decreased by \$0.5.

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

3. Property and Equipment

	2000		1999	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	0.8	—	0.8	—
Building	3.5	1.5	3.5	1.4
Furniture and other equipment	21.5	7.8	16.7	6.9
Computer equipment	23.4	11.4	17.9	8.5
Leasehold improvements	27.1	6.4	15.1	3.4
Broadcasting equipment	9.1	4.6	8.7	3.8
	<u>85.4</u>	<u>31.7</u>	<u>62.7</u>	<u>24.0</u>
Net book value		<u>53.7</u>		<u>38.7</u>

4. Other Assets

	2000	1999
Prepaid and other deferred charges	27.3	16.4
Long-term investments	38.1	5.5
	<u>65.4</u>	<u>21.9</u>

During the year, the Company acquired a 47.85% interest in Sportscope Television Network Ltd. for cash of \$18.4 plus a 13.47% interest in Lifeserve Corporation and a 9.08% interest in Galaxy Entertainment Inc. for total cash of \$9.8. The Company accounts for these investments using the cost method since it does not exercise significant influence. The fair value of investments accounted for on the cost basis is approximately equal to the carrying value.

Effective January 1, 1999 the Company changed its accounting policy to expense pre-operating costs as incurred. 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. The effect of this change in policy was reflected retroactively and the results of comparative prior periods presented restated accordingly. As a result of the restatement of prior periods, the fiscal 1999 opening retained earnings was reduced by \$2.9, the fiscal 1998 operating expenses increased by \$3.8 and the fiscal 1998 amortization and income taxes decreased by \$0.6 and \$1.4 respectively.

5. Revolving Term Loans

	2000	1999
\$440.0 maturing September 2003 bearing interest at the lower of commercial prime rates plus 0.75%, Bankers Acceptance rate or LIBOR plus 1.75%	<u>187.7</u>	<u>437.0</u>

Substantially all of the assets of the Company and certain of its subsidiaries have been pledged as security for borrowings under the revolving term loans.

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

5. Revolving Term Loans (Continued)

As at March 31, 2000, the Company had unused credit facilities aggregating \$218.8 (1999—\$113.0). After giving effect to the sale of the senior subordinated notes of US\$55.0, the unused credit facility increased to \$295.7 (see note 23).

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.

Repayment of the revolving term loans are expected as follows:

2001	—
2002	44.6
2003	92.7
2004	50.4
2005	—
Due subsequent	—
	<u>187.7</u>

6. Term Loans

	<u>2000</u>	<u>1999</u>
Term loans under revolving facilities totaling \$31.0, which are non-recourse to the Company, bearing interest at rates between the commercial prime rate plus 0.5% to plus 1.5%	30.8	30.4
Mortgages payable, bearing interest at commercial prime rates plus 3% and 9.99%, and repayable over terms extending to October 15, 2005	3.0	3.3
Industry and other term loans which are unsecured and have no fixed terms of repayment, bearing interest at various rates	17.7	13.3
Obligations under capital lease	4.4	1.4
	<u>55.9</u>	<u>48.4</u>

Assets with a carrying value of \$59.5 have been pledged as security for borrowings under the revolving term loans.

Principal repayments are expected to be as follows:

2001	50.8
2002	2.4
2003	1.1
2004	0.3
2005	0.3
Due subsequent	1.0
	<u>55.9</u>

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

7. Senior Subordinated Notes

On November 15, 1999, the Company issued US\$150.0 senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009. Interest is payable semi-annually on June 15 and December 15. The notes are redeemable at the option of the Company, in whole or in part, at any time on or after December 15, 2004 at specified redemption rates ranging from 106.5% of the principal amount at December 15, 2004 to 100% of the principal amount after December 15, 2007, plus accrued and unpaid interest. The Company may be required to redeem the notes at up to 101% of the principal plus accrued interest in the event of a change in control. In addition, up to 35% of the notes are subject to redemption, at the Company's option, prior to December 15, 2002, in the event that the Company issues its own common shares. The notes are subordinated to all indebtedness of the Company and all debt and liabilities of the Company's subsidiaries, including trade payables. (See note 23.)

The Company received proceeds of \$210.9, net of \$8.6 of expenses included in deferred charges.

8. Convertible Debentures

The debentures are unsecured, subordinated and convertible, at the option of the holder, into Class A Voting Shares of the Company at a conversion price of \$19 per share. During the year the debentures also became 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. As at March 31, 2000, the above conditions were not met. 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. The debentures bear interest at 6.5% per year and mature on April 5, 2002.

9. Share Capital

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

Common Shares

Class A Voting Shares—unlimited

Class B Non-Voting Shares—unlimited

Class C Special Voting Shares—275,000

Class D Special Non-Voting Share—1

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 September 21, 2001, into twenty fully paid and non-assessable Class B Non-Voting Shares. The Class D Special Non-Voting share allows the holder, depending on the

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

9. Share Capital (Continued)

holder's level of equity ownership in the Company, to elect up to two members to the Company's Board of Directors.

(b) During fiscal 2000, the following transactions occurred:

In May 1999, 24,514 Class B Non-Voting Shares were issued in exchange for a 1% ownership interest in one of the Company's subsidiaries.

In October 1999, 6,276,317 Class B Non-Voting Shares and one Class D Special Non-Voting Share were issued in a private placement transaction for proceeds of \$131.1, net of issue expenses.

In September 1999, the Company redeemed 100% of the issued Preferred Shares for cash proceeds of \$51.9.

During fiscal 2000, 208,850 Class A Voting Shares and 1,879 Class C Special-Voting Shares were converted into 246,427 Class B Non-Voting Shares. In addition, 5,642 Class A-Voting Shares and 111,940 Class B Non-Voting Shares were issued under the Company's stock option plans, employee share purchase plan and Director's and Officer's alternate compensation plan for cash of \$1.5.

(c) 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. valued at \$154.7, 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, \$36.3 was allocated from retained earnings to Preferred Shares, being the excess of the fair value of the Preferred Shares over the \$12.5 book value of the shares converted, net of a \$3.2 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 \$8.8 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 \$80.5, 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 141,333 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 \$16.0.

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

9. Share Capital (Continued)

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 \$0.5.

(d) 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 \$49.4 net of issue expenses and income tax benefits.

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 \$1.9.

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

	<u>2000</u>	<u>1999</u>
Class A Voting Shares, 4,838,302 (1999—5,041,510)	67.6	70.5
Class B Non-Voting Shares, 25,384,025 (1999—18,724,827)	421.1	284.0
Class C Special Voting Shares, 63,060 (1999—64,939)	32.5	33.6
Class D Special Non-Voting Share, 1 (1999—nil)	—	—
Preferred Shares, nil (1999—1,855,662)	—	50.3
	<u>521.2</u>	<u>438.4</u>

(f) The Company has Employee Stock Option Plans which provide for the issuance of up to 2,640,979 Class B Non-Voting 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 millions of Canadian dollars—except per share amounts)

9. Share Capital (Continued)

Stock option activity for 1998, 1999 and 2000 is as follows:

	Number of Shares			Weighted average exercise price
	Voting	Non-Voting	Total	
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
Outstanding at March 31, 1999	90,144	2,458,061	2,548,205	23.90
Granted	—	464,250	464,250	18.60
Exercised	(5,642)	(102,576)	(108,218)	13.46
Converted	(57,802)	57,802	—	—
Cancelled	—	(387,092)	(387,092)	24.61
Outstanding at March 31, 2000	26,700	2,490,445	2,517,145	23.50
Exercisable at March 31, 2000	26,700	1,526,680	1,555,478	22.83
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

At March 31, 2000, 2,517,145 options were outstanding with exercise prices ranging from \$11.70 to \$32.00 and with a weighted average remaining contractual life of 6.72 years. The options are distributed by exercise price as follows:

Weighted average exercise price	Number of options	Weighted average contractual life
\$11.70 to 17.55	437,186	3.9
\$17.56 to 27.03	1,673,500	7.7
\$27.04 to 32.00	406,459	5.9

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

10. Cumulative Translation Adjustments

An analysis of the cumulative translation adjustments shown separately in shareholders' equity is as follows:

	<u>2000</u>	<u>1999</u>
Balance at the beginning of year	3.4	0.5
Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations	(1.2)	2.9
Effect of exchange rate variation on translation of items designated as hedges of net investments in self-sustaining foreign operations	(2.0)	—
Balance at end of year	<u>0.2</u>	<u>3.4</u>

11. Interest

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Revolving term loans	7.2	8.8	1.1
Other term loans	3.2	2.8	1.2
Senior subordinated notes	10.8	—	—
Convertible debentures	0.6	0.8	1.7
Amortization of interest previously capitalized	15.7	10.6	0.9
	37.5	23.0	4.9
Interest Income	(4.4)	(1.0)	(1.3)
	<u>33.1</u>	<u>22.0</u>	<u>3.6</u>

Interest for the year is net of \$22.0 (1999—\$17.0; 1998—\$2.7) capitalized to investment in film and television programs and includes \$15.7 (1999—\$10.6; 1998—\$0.9) of amortization of interest previously capitalized to investment in film and television programs.

The weighted average interest rate for the year ended March 31, 2000 was 9.0% (1999—8.1%; 1998—6.3%).

During the year ended March 31, 2000, the Company paid interest of \$33.4 (1999—\$29.5; 1998—\$6.8).

12. Gain on Sale of Investments

During the year ended March 31, 2000, the Company sold a portion of its interest in ExtendMedia and its entire investments in TMP (The Music Publisher) and Les Productions la Fête Inc. for total proceeds of \$11.2, realizing a net pre-tax gain on sale of \$2.5. The Company continues to hold a 10% interest in ExtendMedia.

During the year ended March 31, 1999, the Company sold the balance of its investment in Mainframe Entertainment, Inc. for net proceeds of \$0.8 and realized a pre-tax gain on sale of \$0.7.

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

12. Gain on Sale of Investments (Continued)

During the year ended March 31, 1998, the Company sold a portion of its investment in Mainframe Entertainment, Inc. for net proceeds of \$5.2 and realized a pre-tax gain on the sale of \$5.2.

13. 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:

	2000 %	1999 %	1998 %
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	(18.2)	(14.1)	(16.9)
Expenses not deductible for income tax purposes	1.2	0.2	1.6
Restructuring provision	—	7.0	—
Utilization of previously unrecognized tax losses	—	—	(4.4)
Other	5.5	1.1	3.9
	<u>33.1</u>	<u>(50.4)</u>	<u>28.8</u>

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

	2000	1999
Future income tax assets:		
Property and equipment	15.1	15.7
Loss carryforwards	20.9	17.4
Merger and restructuring expenses	10.0	18.7
All other	9.7	3.0
	<u>55.7</u>	<u>54.8</u>
Future income tax liabilities:		
Broadcasting licenses	23.9	24.2
Property and equipment	3.1	3.8
Investment in film and television programs	14.9	11.5
All other	7.0	2.6
	<u>48.9</u>	<u>42.1</u>
Net future income taxes	6.8	12.7
Current taxes recoverable	0.5	19.3
	<u>7.3</u>	<u>32.0</u>

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

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

13. Income Taxes (Continued)

During the year ended March 31, 2000, the Company paid income taxes of \$11.5 (1999—\$24.3; 1998—\$12.4).

In fiscal 1999, the Company 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 were reflected retroactively and the results of comparative periods restated accordingly. As a result of the restatement of prior periods, fiscal 1999 opening retained earnings was reduced by \$2.2 and fiscal 1998 provision for income taxes increased by \$2.0.

14. Retained Earnings

Opening retained earnings for the year ended March 31, 1999 has been restated to reflect changes in accounting policies and the adoption of new accounting standards as described in notes 2, 4 and 13. Opening retained earnings for the year ended March 31, 1999 were previously reported as \$85.2 (1998—\$60.9).

In fiscal 1999, the Company changed its accounting policy for revenue recognition. Revenue from the sale of film or television programs is recognized only when the license period has begun. The change in accounting policy has been accounted for prospectively as the necessary financial data to account for this retroactively was not reasonably determinable. The effect of the change in fiscal 1999 was a reduction in revenue and an increase in deferred revenue of approximately \$20.0.

15. Earnings Per Share

Earnings (loss) per common share is calculated on the basis of 28,151,767 (1999—20,406,308; 1998—14,408,000) weighted average common shares outstanding.

For the year ended March 31, 2000, the fully diluted earnings per share were calculated on the basis of 30,765,916 weighted average common shares outstanding. The effects of the employee stock options and convertible debentures increase the earnings available to common shareholders by \$1.0. For the year ended March 31, 1999, fully diluted loss per share was equal to basic loss per share as the effects of the employee stock options and convertible debentures were anti-dilutive. For the year ended March 31, 1998, the fully diluted earnings per share were calculated on the basis of 16,728,000. The effects of the employee stock options and convertible debentures increased the earnings available to common shareholders by \$1.4 in 1998.

16. Business Acquisitions

- (a) During fiscal 2000, the following acquisitions occurred: In May 1999, the Company purchased the remaining 1% minority interest in Showcase Television in exchange for 24,514 Class B Non-Voting Shares. The acquisition has been accounted for by the purchase method and has resulted in an increase to goodwill of \$0.5.

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

16. Business Acquisitions (Continued)

In March 2000, the Company purchased the 50% minority interest in Calibre Digital Pictures for cash consideration of \$1.0. The acquisition has been accounted for by the purchase method and has resulted in an increase to goodwill of \$0.7.

As a result of the above transactions, both companies are now wholly owned subsidiaries.

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

On September 21, 1998 the Company 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 \$160.5. 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 the Company, resulting in the following merger and restructuring charges:

Cash expenses including employee severance, legal, professional fees and other merger and restructuring charges	30.5
Non-cash charges on development costs, investment in film and television programs, other assets and investments	50.9
	<u>81.4</u>

As at March 31, 2000, the Company had paid approximately \$29.3 of the \$30.5 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.

On May 21, 1998, the Company purchased 75% of the outstanding shares of Odeon Films Inc. (Odeon) for cash consideration of \$2.6. 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 millions of Canadian dollars—except per share amounts)

16. Business Acquisitions (Continued)

The purchase consideration for each acquisition was allocated as follows:

	<u>Atlantis</u>	<u>Odeon</u>
Identifiable assets acquired		
Cash	6.6	—
Accounts receivable	234.5	3.2
Investment in film and television programs	130.5	2.7
Development costs	2.4	—
Property and equipment	14.3	—
Broadcasting licenses	69.1	—
Goodwill and other assets	88.8	—
	<u>546.2</u>	<u>5.9</u>
Liabilities assumed	385.7	3.3
Net assets acquired	<u>160.5</u>	<u>2.6</u>

The Atlantis transaction resulted in goodwill of \$77.4.

The following is unaudited proforma consolidated results of operations, assuming the Atlantis acquisition had taken place at the beginning of the respective periods presented:

	<u>1999</u>	<u>1998</u>
Revenue	707.7	596.8
Direct operating expenses	561.4	479.6
Gross profit	<u>146.3</u>	<u>117.2</u>
Operating expenses	<u>79.2</u>	<u>66.9</u>
Earnings before undernoted	67.1	50.3
Amortization	16.0	11.1
Interest, including amortization of interest previously capitalized	23.3	4.6
Merger and restructuring expenses	81.4	—
Gain on sale of investment	0.7	5.2
Minority interest	(0.7)	(0.1)
Earnings (loss) before income taxes	<u>(52.2)</u>	<u>39.9</u>
Provision for (recovery of) income taxes	<u>(26.5)</u>	<u>13.4</u>
Net earnings (loss) for the year	<u>(25.7)</u>	<u>26.5</u>
Earnings (loss) per share	<u>(1.10)</u>	<u>1.33</u>

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

17. Statement of Cash Flows

	Year ended March 31		
	2000	1999	1998
Cash provided by (used in)			
Accounts receivable	(7.2)	17.7	(86.2)
Accounts payable and accrued liabilities	(17.0)	(36.6)	(0.4)
Deferred revenue	(50.7)	(56.4)	(3.0)
Income taxes	24.7	(60.6)	(1.3)
Other	(15.1)	2.2	(6.4)
Net change in other non-cash balances related to operations	<u>(65.3)</u>	<u>(133.7)</u>	<u>(97.3)</u>

18. Government Financing and Assistance

Revenue includes \$21.1 of production financing obtained from the government for the year ended March 31, 2000 (1999—\$26.9; 1998—\$24.1). This financing is related to equity participation by government agencies and is repayable from distribution revenues in respect of which the financing was made. The maximum amount repayable over the period of forecast revenues for amortization purposes is estimated to be \$6.8. In addition, revenues include \$20.8 (1999—\$23.3; 1998—\$14.9) of government grants and \$57.4 (1999—\$57.3; 1998—\$21.9) of tax credits relating to production activities.

Investment in film and television programs includes a reduction of \$9.1 (1999—\$8.5; 1998—\$10.9) 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 maximum amount repayable over the period of forecast revenues used for amortization purposes is estimated to be \$6.5. In addition, net earnings include \$0.4 (1999—\$0.8; 1998—\$0.6) of government grants relating to distribution activities.

19. Commitments and Contingencies

- (a) The Company is committed with respect to operating leases for office premises and equipment expiring at various dates to January 2008. The future minimum payments under the terms of such leases are as follows:

2001	6.7
2002	6.7
2003	6.5
2004	6.4
2005	6.1
Due subsequent	<u>4.9</u>
	<u>37.3</u>

Rent expense for fiscal 2000 is \$5.5 (1999—\$3.7; 1998—\$2.8).

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

19. Commitments and Contingencies (Continued)

- (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 \$28.4 outstanding at March 31, 2000 (1999—\$62.9; 1998—\$nil), and subsequent to year end cancelled \$18.6.
- (d) The Company has entered into various foreign exchange forward contracts to buy and sell U.S. dollars at various rates and increments aggregating US\$5.0 and US\$1.4 respectively (1999—sell US\$7.5; 1998—nil). The contracts mature at various dates up to August 15, 2000.
- (e) Pursuant to the company's agreement with Kinowelt, it has committed to finance up to US\$12.5 per year for three years to acquire motion pictures for U.K. release and to contribute up to US\$75 over the next three years to develop, produce and acquire motion pictures for international distribution.

20. Segmented Information

The Company's principal business activities are carried out through three operating groups: Broadcasting, Motion Picture, and Television. The Broadcasting Group consists of the Company's cable channels which include lifestyle, drama and documentary programming. The Motion Picture and Television groups involve the development, production, acquisition, distribution and financing of live action dramatic television and animation, and motion pictures, respectively. The other group is primarily comprised of structured financing and corporate functions. Management measures the results of operations based on the earnings before undernoted provided by each business segment.

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

20. Segmented Information (Continued)

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

	<u>Broadcasting</u>	<u>Motion Picture</u>	<u>Television</u>	<u>Other</u>	<u>Total</u>
2000					
Revenues	93.4	229.1	412.0	37.1	771.6
Gross profit	53.5	46.1	64.9	14.7	179.2
Earnings before undernoted	29.7	34.2	49.2	(6.9)	106.2
Total assets	154.4	346.2	730.7	178.8	1,410.1
Capital expenditures	5.3	7.3	1.3	5.9	19.8
1999					
Revenues	59.6	180.4	382.5	10.9	633.4
Gross profit	32.9	32.8	58.8	6.2	130.7
Earnings before undernoted	12.9	18.3	32.0	(3.9)	59.3
Total assets	107.8	352.1	729.0	196.5	1,385.4
Capital expenditures	0.5	6.3	6.6	3.4	16.8
1998					
Revenues	23.0	149.5	196.5	16.2	385.2
Gross profit	11.3	34.2	30.3	6.8	82.6
Earnings before undernoted	16.8	1.2	26.0	(12.7)	31.3
Total assets	37.9	220.9	284.2	22.0	565.0
Capital expenditures	4.1	0.1	0.7	1.4	6.3

(b) Geographic information is as follows:

	<u>Revenues</u>		
	<u>Year ended March 31</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Canadian	443.2	353.1	232.0
U.S.	103.7	128.5	51.7
Other Foreign	224.7	151.8	101.5
Total	<u>771.6</u>	<u>633.4</u>	<u>385.2</u>

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

21. Financial Instruments

Fair values of financial instruments

The estimated fair values of financial instruments as at March 31, 2000 and March 31, 1999 are based on relevant market prices and information available at the time. The carrying values of cash and cash equivalents, loans receivable, long-term investments, revolving term loans, accounts payable and accrued liabilities, other term loans and senior subordinated debentures approximate the fair values of these financial instruments. Financial instruments with carrying values different from their fair values include:

	2000		1999	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Accounts receivable	476.8	475.8	470.1	465.2
Financial liabilities				
Convertible debentures	8.8	9.5	8.8	11.2

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 at March 31.

Concentration of credit risk

Accounts receivable from the federal government and other government agencies in connection with production financing represents 30% (1999—14%) of total accounts receivable at March 31, 2000. The Company believes that there is minimal risk associated with the collection of 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 of \$8.7 (1999—\$3.2).

22. Related Party Transactions

During the year, approximately \$2.3 was advanced to senior officers in order for them to acquire additional Class A Voting Shares of the Company. Approximately \$0.8 of the advances were repaid and included in accounts receivable is approximately \$1.6 which is receivable on demand and bears interest at a rate of 10% per annum.

23. Subsequent Events

On June 13, 2000, the Company issued US\$55.0 senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009. The notes carry the same terms and conditions as the senior subordinated notes issued on November 15, 1999. (See note 7.)

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

24. 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 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 earning (loss) and earnings (loss) per common share figures for the years ended March 31, 2000, 1999 and 1998 and the shareholders' equity for the years ended March 31, 2000 and 1999 would be adjusted as follows:

	Year Ended March 31				
	Net Earnings (loss)			Shareholders' Equity	
	2000	1999	1998	2000	1999
Canadian GAAP	39.1	(27.3)	19.9	571.5	454.9
Adjustment to development costs and investment in scripts, net of income taxes of \$7.8 (1999—\$3.9; 1998—\$1.2) (a)	(9.6)	(4.9)	(1.4)	(16.5)	(6.9)
Adjustment to operating expenses with respect to stock option (b)	—	—	(0.1)	(0.9)	(0.9)
Adjustment to revenue with respect to television license agreements, net of income taxes of \$1.7 (1999—\$(0.8); 1998—\$(0.7)) (c)	8.2	(4.6)	0.1	(2.0)	(10.2)
Adjustment to shareholders' equity with respect to stock options (b)	—	—	—	0.9	0.9
Adjustment to restructuring provisions (d)	(1.0)	1.0	—	—	1.0
Adjustment to reclass related party loan to equity (e)	—	—	—	(1.6)	—
Adjustment to remove value of preferred shares (f)	—	—	—	—	(50.3)
Adjustment to expense foreign exchange loss (g)	—	—	—	—	—
United States GAAP excluding cumulative effect adjustment	36.7	(35.8)	18.5	551.4	388.5
Cumulative effect of change in accounting policy, net of income taxes of nil (1999—\$2.3; 1998—\$1.0) (h)	—	(2.9)	(1.2)	(4.1)	(4.1)
United States GAAP	<u>36.7</u>	<u>(38.7)</u>	<u>17.3</u>	<u>547.3</u>	<u>384.4</u>
Earnings (loss) per common share based on United States GAAP (i)					
Basic	1.23	(1.89)	1.20		
Diluted	<u>1.17</u>	<u>(1.89)</u>	<u>1.15</u>		

(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

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

24. Reconciliation To United States GAAP (Continued)

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% (1999—0.0%; 1998—0.0%); expected volatility of 50.0% (1999—40.0%; 1998—40.4%); risk-free interest rate of 6.1% (1999—4.9%; 1998—6.0%) and expected life of 5.0 years (1999—5.3 years; 1998—3 years). The weighted average fair value of each stock option granted in 2000 was \$9.18 (1999—\$11.65; 1998—\$4.73). Therefore, the resulting compensation expense in 2000 would have been \$4.3 (1999—\$4.7; 1998—\$1.3).

(c) Revenue recognition from television license agreements

In September 1998, the Company changed its accounting policy for revenue recognition under Canadian GAAP. Consistent with SFAS 53, the Company recognizes revenue from license agreements for television programs when the television program is completed and delivered, when amounts are due from the exhibitor or when a contract is executed that irrevocably transfers distribution rights to a licensee, the license period has begun and there is reasonable assurance of collectability of proceeds. Under the former policy, revenues from license agreements for television programs were recognized at the time the license agreements were executed instead of at the time the license period begins. This change in accounting policy was accounted for prospectively. Therefore, the adjustment reflects the recognition of license agreements where the license period began subsequent to September 1998 and revenue was recognized prior to that date under the former policy.

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

24. Reconciliation To United States GAAP (Continued)

(d) 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.

(e) Accounting for related party loan

Under United States GAAP, amounts receivable from officers in respect of share purchase loans, are deducted from Shareholders' equity (see note 22).

(f) Accounting for Preferred Shares

Under United States GAAP, convertible Preferred Shares are presented outside of Shareholders' Equity.

(g) Accounting for foreign exchange

Under United States GAAP, gains and losses on foreign exchange resulting from the translation of long term debt denominated in US dollars are charged to income and expensed as incurred. Canadian GAAP requires the amortization of foreign exchange gains or losses over the remaining life of the long term debt.

(h) Change in accounting policy

In fiscal 1999, the Company changed its accounting policy with respect to pre-operating costs which was accounted for retroactively under Canadian GAAP resulting in a \$2.9 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.

In fiscal 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, resulting in a \$1.3 reduction in opening retained earnings. Previously, the Company amortized broadcast rights over the lesser of two years or the contracted exhibition period.

(i) Earnings per Share

Under both United States and Canadian GAAP, basic earnings per share is computed by dividing the net income (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.

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

24. Reconciliation To United States GAAP (Continued)

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

(j) **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		
	2000	1999	1998
Net earnings for the year reported under United States GAAP . .	36.7	(38.7)	17.3
Other comprehensive earnings:			
Foreign currency translation adjustment, net of tax	(3.2)	2.9	(0.2)
Comprehensive earnings	<u>33.5</u>	<u>(35.8)</u>	<u>17.1</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.

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

24. Reconciliation To United States GAAP (Continued)

(k) **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		
	2000	1999	1998
Operating activities	544.0	351.5	214.2
Investing activities	(652.0)	(713.2)	(414.8)
Financing activities	52.5	409.6	192.1
Effect of exchange rates on cash	(0.4)	—	0.1
(Decrease)/increase in cash and cash equivalents	<u>(55.9)</u>	<u>47.9</u>	<u>(8.4)</u>

(l) **New Accounting Standards**

SOP 00-2 Accounting by producers or distributors of films

In June 2000, the United States Financial Accounting Standards Board issued statement of position 00-2, which provides guidance on generally accepted accounting principles to all producers or distributors that own or hold rights to distribute or exploit films. The new standard is effective for financial statements for fiscal years beginning after December 15, 2000. The Company has not yet determined the impact the adoption of SOP 00-2 will have on its financial statements.

SFAS No. 133—Accounting for derivative instruments and hedging activities

In June 1998, the United States Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133") which standardized the accounting for all derivatives. The new standard must be implemented for year ends ending after June 15, 2000. The Corporation has not yet determined the impact the adoption of SFAS No. 133 will have on its financial statements. However, the Corporation does not use derivative financial instruments for trading purposes and only enters into normal commercial foreign currency hedges.

Unaudited Consolidated Financial Statements

**For the Three Months and Nine Months Ended
December 31, 2000 and December 31, 1999**

ALLIANCE ATLANTIS COMMUNICATIONS INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS
As at December 31, 2000, and December 31, 1999
(in millions of Canadian dollars—except per share amounts)

	December 31, 2000	March 31, 2000	December 31, 1999
Assets			
Cash and cash equivalents	0.8	1.0	4.1
Accounts receivable	607.5	476.8	489.3
Loans receivable	34.9	27.2	27.5
Income taxes	7.2	7.3	8.7
Investment in film and television programs <i>(note 1)</i>	892.2	591.6	659.1
Development costs	45.8	30.7	28.0
Property and equipment	61.1	53.7	46.2
Broadcasting licences	75.0	76.4	76.9
Goodwill <i>(note 8)</i>	88.8	80.0	79.6
Other assets	96.4	65.4	54.2
	<u>1,909.7</u>	<u>1,410.1</u>	<u>1,473.6</u>
Liabilities			
Senior revolving credit <i>(note 2)</i>	320.8	187.7	206.7
Accounts payable and accrued liabilities	370.8	260.5	260.8
Deferred revenue	239.6	98.7	179.4
Term loans <i>(note 3)</i>	55.3	55.9	35.2
Senior subordinated notes <i>(note 4)</i>	307.5	217.5	216.0
Convertible debentures	8.8	8.8	8.8
Minority interest	12.2	9.5	10.3
	<u>1,315.0</u>	<u>838.6</u>	<u>917.2</u>
Shareholders' Equity			
Capital stock <i>(note 5)</i>	525.3	521.2	520.2
Retained earnings	76.9	50.1	41.7
Cumulative translation adjustments	(7.5)	0.2	(5.5)
	<u>594.7</u>	<u>571.5</u>	<u>556.4</u>
	<u>1,909.7</u>	<u>1,410.1</u>	<u>1,473.6</u>

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

ALLIANCE ATLANTIS COMMUNICATIONS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
For the periods ended December 31, 2000 and December 31, 1999
(in millions of Canadian dollars—except per share amounts)

	Three months ended December 31,		Nine months ended December 31,	
	2000	1999	2000	1999
Revenue	247.3	209.6	546.9	563.2
Direct operating expenses	180.3	157.9	389.0	430.7
Gross Profit	67.0	51.7	157.9	132.5
Operating expenses	23.9	18.3	64.6	54.0
Earnings Before Interest, Taxes and Amortization	43.1	33.4	93.3	78.5
Amortization	8.4	2.5	22.4	13.1
Interest (<i>note 6</i>)	12.5	9.1	35.6	22.4
Minority interest	0.2	—	0.3	—
Investment gains	0.6	—	3.9	2.5
Earnings Before Income Taxes	22.6	21.8	38.9	45.5
Provision for income taxes	6.8	7.5	12.1	14.8
Net Earnings for the Period	15.8	14.3	26.8	30.7
Dividends on preferred shares	—	—	—	(0.5)
Accretion of conversion feature of preferred shares	—	—	—	(1.6)
Net Earnings Available to Common Shareholders	15.8	14.3	26.8	28.6
Earnings Per Share (<i>note 7</i>)				
Basic	0.50	0.46	0.85	1.06
Fully Diluted	0.49	0.45	0.84	0.99
Weighted Average Common Shares Outstanding (<i>in millions</i>)				
Basic	31.8	30.9	31.6	27.0
Fully Diluted	34.6	32.9	32.4	30.6

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

ALLIANCE ATLANTIS COMMUNICATIONS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the periods ended December 31, 2000 and December 31, 1999
(in millions of Canadian dollars)

	Three months ended December 31,		Nine months ended December 31,	
	2000	1999	2000	1999
Retained Earnings—Beginning of Period	61.1	27.4	50.1	13.1
Net earnings for the period	15.8	14.3	26.8	30.7
Dividends on preferred shares	—	—	—	(0.5)
Accretion of conversion feature of preferred shares	—	—	—	(1.6)
Retained Earnings—End of Period	<u>76.9</u>	<u>41.7</u>	<u>76.9</u>	<u>41.7</u>

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

ALLIANCE ATLANTIS COMMUNICATIONS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the periods ended December 31, 2000 and December 31, 1999
(in millions of Canadian dollars—except per share amounts)

	3 months ended December 31,		9 months ended December 31,	
	2000	1999	2000	1999
Cash and Cash Equivalents Provided By (used in)				
Operating Activities				
Net earnings for the period	15.8	14.3	26.8	30.7
Items not affecting cash				
Amortization of film and television programs	175.0	190.4	375.6	453.8
Amortization of development costs	3.1	0.4	7.3	3.1
Amortization of property and equipment	2.8	1.1	8.3	6.2
Amortization of broadcasting licences	0.4	0.4	1.4	1.4
Amortization of goodwill and other assets	2.1	0.6	5.4	2.4
Investment gains	(0.6)	—	(3.9)	(2.5)
Minority interests	0.2	—	0.3	—
	<u>198.8</u>	<u>207.2</u>	<u>421.2</u>	<u>495.1</u>
Net changes in other non-cash balances related to operations . .	(1.0)	(12.5)	35.9	(27.0)
	<u>197.8</u>	<u>194.7</u>	<u>457.1</u>	<u>468.1</u>
Investing Activities				
Loans receivable	(6.6)	5.5	(7.7)	12.4
Film and television programs	(263.5)	(217.8)	(602.3)	(551.5)
Development costs	(8.5)	(2.3)	(22.1)	(7.6)
Property and equipment	(4.2)	(4.7)	(15.3)	(13.9)
Business acquisitions (<i>Note 8</i>)	—	—	(7.0)	(0.6)
Minority interest in acquired businesses	3.1	1.4	3.1	1.4
Long term investments	(13.1)	(18.4)	(23.3)	(23.3)
Proceeds from sale of investments	—	—	8.3	11.2
	<u>(292.8)</u>	<u>(236.3)</u>	<u>(666.3)</u>	<u>(571.9)</u>
Financing Activities				
Issue of senior subordinated notes	—	216.0	80.8	216.0
Senior revolving credit	87.0	(185.4)	132.3	(230.6)
Term loans	7.0	(11.7)	(7.0)	(13.2)
Issue of Common Shares	0.4	—	2.5	131.4
Redemption of Preferred Shares	—	—	—	(51.9)
Dividends paid on Preferred Shares	—	—	—	(0.5)
	<u>94.4</u>	<u>18.9</u>	<u>208.6</u>	<u>51.2</u>
Change in Cash and Cash Equivalents	(0.6)	(22.7)	(0.6)	(52.6)
Cash in Acquired Businesses	—	—	0.4	—
Cash and Cash Equivalents—Beginning of Period	1.4	26.9	1.0	56.9
Effect of Exchange Rates on Cash	—	(0.1)	—	(0.2)
Cash and Cash Equivalents—End of Period	<u>0.8</u>	<u>4.1</u>	<u>0.8</u>	<u>4.1</u>

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

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended December 31, 2000 and December 31, 1999
(in millions of Canadian dollars—except per share amounts)

The unaudited consolidated financial statements and notes to the consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the years ended March 31, 2000, 1999 and 1998 included elsewhere in this prospectus.

The unaudited consolidated financial statements and notes to financial statements have been prepared by Management in accordance with generally accepted accounting principles. The unaudited consolidated financial statements and related notes include some figures and assumptions based on Management's best estimates which have been derived with careful judgement. In the opinion of management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made were of a normal recurring nature. Interim results may not necessarily be indicative of results anticipated for the year.

These consolidated financial statements have been in accordance with Canadian generally accepted accounting principles (Canadian GAAP). These principles differ in certain respects from those generally accepted in the United States (United States GAAP) and to the extent they affect the company, the differences are described in note 12 "Reconciliation to United States GAAP."

Alliance Atlantis Communications Inc. (the "Company" or the "Corporation") is a leading Canadian broadcaster, creator and international distributor of filmed entertainment content with significant ownership interests in eight specialty television networks. The Company's principal business activities are carried out through three operating groups: Broadcast, Motion Picture and Television.

1. INVESTMENT IN FILM AND TELEVISION PROGRAMS

	<u>Broadcast</u>	<u>Motion Picture</u>	<u>Television</u>	<u>Total</u>
December 2000				
Produced	—	33.0	205.6	238.6
Acquired	—	251.8	63.2	315.0
Libraries	—	—	43.4	43.4
Programs in progress	—	42.7	188.3	231.0
Broadcast rights	<u>64.2</u>	<u>—</u>	<u>—</u>	<u>64.2</u>
	<u>64.2</u>	<u>327.5</u>	<u>500.5</u>	<u>892.2</u>
	<u>Broadcast</u>	<u>Motion Picture</u>	<u>Television</u>	<u>Total</u>
March 2000				
Produced	—	38.0	157.3	195.3
Acquired	—	180.9	67.0	247.9
Libraries	—	—	36.2	36.2
Programs in Progress	—	10.4	57.3	67.7
Broadcast rights	<u>44.5</u>	<u>—</u>	<u>—</u>	<u>44.5</u>
	<u>44.5</u>	<u>229.3</u>	<u>317.8</u>	<u>591.6</u>

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the periods ended December 31, 2000 and December 31, 1999
(in millions of Canadian dollars—except per share amounts)

1. INVESTMENT IN FILM AND TELEVISION PROGRAMS (Continued)

	<u>Broadcast</u>	<u>Motion Picture</u>	<u>Television</u>	<u>Total</u>
December 1999				
Produced	—	34.6	151.6	186.2
Acquired	—	162.7	90.0	252.7
Libraries	—	—	33.4	33.4
Programs in progress	—	19.4	128.5	147.9
Broadcast rights	<u>38.9</u>	<u>—</u>	<u>—</u>	<u>38.9</u>
	<u>38.9</u>	<u>216.7</u>	<u>403.5</u>	<u>659.1</u>

2. SENIOR REVOLVING CREDIT

Substantially all of the assets of the Company and certain of its subsidiaries have been pledged as security for borrowing under the senior revolving credit facility.

As at December 31, 2000, after giving effect to financing commitments in place relating to the Company's amended and restated senior revolving credit facility, the Company had unused credit facilities aggregating \$178.9 (1999—\$203.2). See note 11—Subsequent events.

Repayment of the senior revolving credit is expected as follows:

2001	—
2002	—
2003	—
2004	—
2005	—
Due subsequent	<u>320.8</u>
	<u>320.8</u>

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the periods ended December 31, 2000 and December 31, 1999
(in millions of Canadian dollars—except per share amounts)

3. TERM LOANS

	<u>December 2000</u>	<u>March 2000</u>	<u>December 1999</u>
Non-recourse term loans under revolving facilities, bearing interest at rates between the commercial prime rate plus 0.5% to plus 1.5%	27.4	30.8	17.0
Mortgages payable, bearing interest at 9.99% and at commercial prime rates plus 3%, and repayable over terms extending to October 15, 2005	2.8	3.0	3.1
Industry and other term loans which are unsecured and have no fixed terms of repayment, bearing interest at various rates	20.4	17.7	11.4
Obligations under capital lease	<u>4.7</u>	<u>4.4</u>	<u>3.7</u>
	<u>55.3</u>	<u>55.9</u>	<u>35.2</u>

Repayment of the term loans is expected as follows:

2001	0.6
2002	50.5
2003	1.6
2004	1.1
2005	0.6
Due subsequent	<u>0.9</u>
	<u>55.3</u>

4. SENIOR SUBORDINATED NOTES

On November 15, 1999, the Company issued US\$150.0 senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009. Interest is payable semi-annually on June 15 and December 15. The notes are redeemable at the option of the Company, in whole or in part, at any time on or after December 15, 2004 at specified redemption rates ranging from 106.5% of the principal amount at December 15, 2004 to 100% of the principal amount after December 15, 2007, plus accrued and unpaid interest. In addition, up to 35% of the notes are subject to redemption, at the Company's option at a redemption price of 113% of the principal amount of the notes plus accrued interest, prior to December 15, 2002, in the event that the Company issues its own common shares. The notes are subordinated to all indebtedness of the Company and all debt and liabilities of the Company's subsidiaries, including trade payables.

On June 13, 2000, the Company issued an additional US\$55.0 senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009. The notes carry the same terms and conditions as the senior subordinated notes issued on November 15, 1999.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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5. CAPITAL STOCK

As at December 31, the issued capital stock is as follows:

	<u>December 2000</u>	<u>March 2000</u>	<u>December 1999</u>
Class A Voting Shares—3,806,452 (March 2000 — 4,838,302, December 1999—4,832,660)	53.2	67.6	67.5
Class B Non-Voting Shares—26,927,878 (March 2000 — 25,384,025, December 1999—25,291,444)	445.9	421.1	420.1
Class C Special-Voting Shares—51,048 (March 2000 — 63,060, December 1999—63,255) . . .	26.2	32.5	32.6
Class D Special Non-Voting Share—1 (March 2000 — 1, December 1999—1)	<u>—</u>	<u>—</u>	<u>—</u>
	<u>525.3</u>	<u>521.2</u>	<u>520.2</u>

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 September 21, 2001, into 20 fully paid and non-assessable Class B Non-Voting Shares. The Class D Special Non-Voting Share allows the holder, depending on the holder's level of equity ownership in the Company, to elect up to two members to the Company's Board of Directors.

In June 2000, the Company issued 100,000 Class B Non-Voting Shares in connection with the acquisition of Tattersall Sound Inc.

During the period January 1, 2000 to December 31, 2000, 1,038,350 Class A Voting Shares and 12,207 Class C Special-Voting Shares were converted into 1,282,488 Class B Non-Voting Shares. In addition, 12,142 Class A-Voting Shares and 253,946 Class B Non-Voting Shares were issued under the Company's stock option plans, employee share purchase plan and Directors' and Officers' alternate compensation plan.

As at March 1, 2001, there were 3,806,452 Class A Voting Shares, 27,887,822 Class B Non-Voting Shares, 3,051 Class C Special Voting Shares and 1 Class D Special Non-Voting Share issued and outstanding.

6. INTEREST

Interest for the three months ended December 31, 2000 is net of \$7.0 (1999—\$6.4) capitalized to investment in film and television programs and includes \$3.4 (1999—\$3.5) of amortization of interest previously capitalized to investment in film and television programs. Interest for the nine months ended December 31, 2000 is net of \$16.0 (1999—14.7) capitalized to investment in film

ALLIANCE ATLANTIS COMMUNICATIONS INC.
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6. INTEREST (Continued)

and television programs and includes \$7.5 (1999—\$7.3) of amortization of interest previously capitalized to investment in film and television programs.

The weighted average interest rate for the nine months ended December 31, 2000 was 10.2% (1999—8.7%).

7. EARNINGS PER SHARE

Earnings per common share is calculated on the basis of 31.8 million weighted average common shares outstanding for the three months ended December 31, 2000 (1999—30.9 million) and 31.6 million weighted average common shares outstanding for the nine months ended December 31, 2000 (1999—27.0 million).

Fully diluted earnings per common share for the three months ended December 31, 2000 is calculated on the basis of 34.6 million (1999—32.9 million) weighted average common shares outstanding. The net effect of the employee stock options and convertible debentures increase earnings available to common shareholders by \$1.0 (1999—\$0.4).

Fully diluted earnings per common share for the nine months ended December 31, 2000 is calculated on the basis of 32.4 million (1999—30.6 million) weighted average common shares outstanding. The net effect of the employee stock options and convertible debentures increase earnings available to common shareholders by \$0.5 (1999—\$1.6).

8. BUSINESS ACQUISITIONS

During the quarter ended June 30, 2000, the following acquisitions occurred:

- (a) The Company purchased 100% of the outstanding shares of Tattersall Sound Inc. in exchange for 100,000 Class B Non-Voting Shares valued at approximately \$1.9. 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 earnings from the date of acquisition.
- (b) The Company purchased the remaining 61% of the outstanding shares of Great North Communications Ltd. in exchange for cash and the assumption of debt totalling \$14.0. 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 earnings from the date of acquisition.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the periods ended December 31, 2000 and December 31, 1999
(in millions of Canadian dollars—except per share amounts)

9. 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:

	Three months ended December 31,		Nine months ended December 31,	
	2000	1999	2000	1999
Corporate statutory rate of income tax	43.3	44.6	43.3	44.6
Adjusted for the effect of:				
Foreign operations subject to different income tax rates	(12.8)	(12.9)	(12.8)	(10.7)
Expenses not deductible for income tax purposes	(0.9)	0.2	(1.3)	(0.6)
Other	0.5	2.5	1.9	(0.8)
	<u>30.1</u>	<u>34.4</u>	<u>31.1</u>	<u>32.5</u>

10. SEGMENTED INFORMATION

Information on reportable operating group earnings and operating group assets is as follows:

	Broadcast	Motion Picture	Television	Other	Total
Three months ended December 31:					
2000					
Revenue	32.5	64.9	144.5	5.4	247.3
Gross profit	18.1	12.0	31.6	5.3	67.0
Earnings Before Interest, Taxes and Amortization	10.8	8.3	26.7	(2.7)	43.1
Total assets	188.0	535.6	946.0	240.1	1,909.7
Capital expenditures	<u>0.8</u>	<u>0.5</u>	<u>1.5</u>	<u>1.4</u>	<u>4.2</u>
1999					
Revenue	25.5	54.8	122.6	6.7	209.6
Gross profit	16.0	10.9	21.9	2.9	51.7
Earnings Before Interest, Taxes and Amortization	10.1	8.2	18.3	(3.2)	33.4
Total assets	128.9	305.0	856.7	183.0	1,473.6
Capital expenditures	<u>1.6</u>	<u>2.2</u>	<u>0.3</u>	<u>0.6</u>	<u>4.7</u>

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the periods ended December 31, 2000 and December 31, 1999
(in millions of Canadian dollars—except per share amounts)

10. SEGMENTED INFORMATION (Continued)

	<u>Broadcast</u>	<u>Motion Picture</u>	<u>Television</u>	<u>Other</u>	<u>Total</u>
Nine months ended December 31:					
2000					
Revenue	85.0	164.2	276.0	21.7	546.9
Gross profit	47.4	31.8	57.8	20.9	157.9
Earnings Before Interest, Taxes and					
Amortization	29.3	20.3	43.7	—	93.3
Total assets	188.0	535.6	946.0	240.1	1,909.7
Capital expenditures	<u>7.1</u>	<u>0.9</u>	<u>3.5</u>	<u>3.8</u>	<u>15.3</u>
1999					
Revenue	67.6	180.9	286.6	28.1	563.2
Gross profit	38.3	35.2	47.9	11.1	132.5
Earnings Before Interest, Taxes and					
Amortization	22.1	26.6	36.4	(6.6)	78.5
Total assets	128.9	305.0	856.7	183.0	1,473.6
Capital expenditures	<u>2.0</u>	<u>4.6</u>	<u>2.6</u>	<u>4.7</u>	<u>13.9</u>

Geographic revenue information is as follows:

	<u>Three months ended December 31,</u>		<u>Nine months ended December 31,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Canadian	142.3	118.9	346.1	297.9
U.S.	68.5	24.1	122.4	89.4
Other Foreign	36.5	66.6	78.4	175.9
	<u>247.3</u>	<u>209.6</u>	<u>546.9</u>	<u>563.2</u>

11. SUBSEQUENT EVENTS

- (a) On January 9, 2001, the Company entered into an amended and restated senior revolving credit agreement which amended the existing credit facility. The credit facility provides up to \$500.0 in borrowings and bears interest at rates ranging from the prime rate to the prime rate plus 1.75%. Substantially all of the assets of the Company have been pledged as security for borrowing under the credit facility.
- (b) On February 12, 2001, the Company announced an offer to purchase 100% of the issued and outstanding shares of Salter Street Films Limited. The acquisition agreement provides that shareholders of Salter Street Films Limited may elect to receive either \$3.33 in cash and 0.310 Class B Non-Voting Shares in exchange for each share of Salter Street Films Limited or 0.465 Class B Non-Voting Shares in exchange for each share of Salter Street Films Limited. Consequently, the maximum Class B Non-Voting Shares expected to be

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the periods ended December 31, 2000 and December 31, 1999
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11. SUBSEQUENT EVENTS (Continued)

issued is approximately 4,171,184. This transaction is subject to Salter Street Films Limited shareholder approval which is expected to occur on or about April 16, 2001.

- (c) On January 15, 2001, the Company issued US\$95.0 senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009. The notes carry the same terms and conditions as the senior subordinated notes issued on June 13, 2000 and November 15, 1999.

12. RECONCILIATION TO UNITED STATES GAAP

The unaudited 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 order to present the unaudited 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 three and nine months ended December 31, 2000 and 1999 and the shareholders' equity for the nine months ended December 31, 2000 and 1999 would be adjusted as follows:

	Net Earnings				Shareholders' Equity	
	Three months ended		Nine months ended		December 31,	
	December 31,		December 31,		December 31,	
	2000	1999	2000	1999	2000	1999
Canadian GAAP	15.8	14.3	26.8	30.7	594.7	556.4
Adjustments to development costs and investment in scripts(a)	0.4	(0.8)	(2.0)	(3.0)	(18.5)	(9.9)
Adjustment to revenue with respect to television licence agreements(b)	—	—	0.8	8.1	(1.2)	(2.1)
Adjustment to restructuring provisions(c)	—	—	—	(1.0)	—	—
Adjustment to reclassify related party loan to equity(d)	—	—	—	—	(1.8)	(1.9)
Adjustment to include foreign exchange gains and losses in income(e)	0.4	—	(1.5)	—	(1.5)	—
Adjustment to equity accounting for long term investment(f)	(1.2)	(0.4)	(3.9)	(0.4)	(5.2)	(0.4)
United States GAAP	15.4	13.1	20.2	34.4	566.5	542.1
Earnings per common share based						
United States GAAP(g)						
Basic	0.48	0.42	0.64	1.20		
Diluted	0.48	0.41	0.63	1.11		

ALLIANCE ATLANTIS COMMUNICATIONS INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the periods ended December 31, 2000 and December 31, 1999
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12. RECONCILIATION TO UNITED STATES GAAP (Continued)

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computation.

	Three months ended December 31,		Nine months ended December 31,	
	2000	1999	2000	1999
Numerator for basic earnings per share:				
Net earnings in accordance with US GAAP	15.4	13.1	20.2	34.4
Accretion of Preferred Share conversion feature	—	—	—	(1.6)
Dividends on Preferred Shares	—	—	—	(0.5)
Earnings used in computing basic earnings per share . . .	15.4	13.1	20.2	32.3
Denominator for basic earnings per share:				
Weighted average number of shares	31.8	30.9	31.6	27.0
Basic earnings per share—US GAAP	\$ 0.48	\$ 0.42	\$ 0.64	\$ 1.20
Numerator for diluted earnings per share:				
Earnings used in computing basic earnings per share . .	15.4	13.1	20.2	32.3
Imputed interest in convertible debentures	0.1	0.1	0.3	0.3
Preferred share dividends	—	—	—	0.5
Earnings used in computing diluted earnings per share . .	15.5	13.2	20.5	33.1
Denominator for diluted earnings per share:				
Weighted average number of shares	31.8	30.9	31.6	27.0
Preferred Shares	—	—	—	1.0
Warrant	—	0.5	—	1.1
Convertible debentures	0.5	0.5	0.5	0.5
Stock options	0.1	—	0.2	0.1
Shares used in computing diluted earnings per share . . .	32.4	31.9	32.3	29.7
Diluted net earnings per share—US GAAP	\$ 0.48	\$ 0.41	\$ 0.63	\$ 1.11

(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) Revenue recognition from television licence agreements

In September 1998, the Company changed its accounting policy for revenue recognition. Consistent with SFAS 53, the Company recognizes revenue from licence agreements for

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12. RECONCILIATION TO UNITED STATES GAAP (Continued)

television programs when the television program is completed and delivered, when amounts are due from the exhibitor or when a contract is executed that irrevocably transfers distribution rights to a licensee, the licence period has begun and there is reasonable assurance of collectability of proceeds. Under the former policy, revenues from licence agreements for television programs were recognized at the time the licence agreements were executed instead of at the time the licence period begins. This change in accounting policy was accounted for prospectively. Therefore, the adjustment reflects the recognition of licence agreements where the licence period began subsequent to September 1998 and revenue was recognized prior to that date under the former policy.

(c) Accounting for restructuring provisions

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

(d) Accounting for related party loan

Under United States GAAP, amounts receivable from officers in respect of share purchase loans, are deducted from Shareholders' Equity.

(e) Adjustment to include foreign exchange gains and losses in income

Under United States GAAP, gains and losses on foreign exchange resulting from the translation of long term debt denominated in U.S. dollars are included in income as incurred. Canadian GAAP requires the amortization of foreign exchange gains or losses over the remaining life of the long term debt.

(f) Accounting for long term investment

On October 21, 1999 the Company purchased an interest in Sportscope Television Network Ltd. (Subsequently renamed Headline Media Group Inc.). At that time, the investment was accounted for at cost as the conditions for equity accounting were not present. In November 2000, the Company obtained significant influence by securing representation on Headline Media Group Inc.'s board of directors and accordingly began accounting for its interest, on a prospective basis, using the equity method. Under United States GAAP, a situation where an investor obtains significant influence over an investee that was previously accounted for on the cost basis, requires that historical results be restated to present the situation as if the investor always had followed the equity method. As a result, the United States GAAP reconciling item represents the Company's equity loss in Headline Media Group from October 21, 1999.

(g) Earnings per Share

Under both United States and Canadian GAAP, basic earnings per share is computed by dividing the net income (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

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12. RECONCILIATION TO UNITED STATES GAAP (Continued)

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 income 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 income for imputed interest in calculating diluted earnings per share under United States GAAP.

(h) Consolidated statements of comprehensive earnings

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

(i) Comprehensive earnings—current periods:

	Three months ended December 31,		Nine months ended December 31,	
	2000	1999	2000	1999
Net earnings for the period reported under US GAAP	15.4	13.1	20.2	34.4
Other comprehensive earnings:				
Foreign currency translation adjustment, net of tax	0.1	(3.3)	(6.2)	(8.9)
Comprehensive earnings	<u>15.5</u>	<u>9.8</u>	<u>14.0</u>	<u>25.5</u>

(ii) Other comprehensive earnings/(loss)—accumulated balances:

	Three months ended December 31,		Nine months ended December 31,	
	2000	1999	2000	1999
Opening balance	(6.1)	(2.2)	0.2	3.4
Change for period	0.1	(3.3)	(6.2)	(8.9)
Balance, December 31	<u>(6.0)</u>	<u>(5.5)</u>	<u>(6.0)</u>	<u>(5.5)</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,

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12. RECONCILIATION TO UNITED STATES GAAP (Continued)

which under Canadian GAAP is recorded as a separate component or shareholders' equity.

(i) Accounting for stock options and share issuances

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% (1999 — 0.0%; 1998 — 0.0%), expected volatility of 50% (1999 — 40%; 1998 — 40.4%), risk-free interest rate of 6.1% (1999 — 4.9%; 1998 — 6.0%) and expected life of 5.0 years (1999 — 5.3 years; 1998 — 3 years). The weighted average fair value of each stock option granted in 2000 was \$9.18 (1999 — \$11.65; 1998 — \$4.73). Therefore, the resulting compensation expense in 2000 would have been \$4.3 (1999 — \$4.7; 1998 — 1998 — \$1.3). The resulting compensation expense for the three and nine months ended December 31, 2000 and 1999 would have been \$1.1 (1999 — \$1.2) and \$3.2 (1999 — \$3.5) respectively.

(j) Consolidated statements of cash flows

The Company's cash flows determined in accordance with United States GAAP for the nine months ended December would be as follows:

	<u>2000</u>	<u>1999</u>
Operating activities	449.7	462.3
Investing activities	(658.9)	(566.1)
Financing activities	208.6	51.2
Effect of exchange rates on cash	—	(0.2)
Decrease in cash and cash equivalents	<u>(0.6)</u>	<u>(52.8)</u>

(k) New accounting standards

SOP 00-2 Accounting by producers or distributors of films

In June 2000, the United States Financial Accounting Standards Board issued statement of position 00-2, which provides guidance on generally accepted accounting principles to all producers or distributors that own or hold rights to distribute or exploit films. The new standard is effective for financial statements for fiscal years beginning after December 15, 2000. The Company has not yet determined the impact the adoption of SOP 00-2 will have on its financial statements.

CICA Section 3500—Earning per share

In January 2001, the Canadian Institute of Chartered Accountants approved the revised standard for the calculation of Earnings Per Share. This new standard is effective for

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12. RECONCILIATION TO UNITED STATES GAAP (Continued)

financial statements for fiscal years beginning after January 1, 2001. The Company has not yet determined the impact the adoption of CICA 3500 will have on its financial statements.

SFAS No. 133—Accounting for derivative instruments and hedging activities

In June 1998, the United States Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133") which standardized the accounting for all derivatives. The new standard must be implemented for year ends ending after June 15, 2000. Based on the analysis to date, the Company does not expect the adoption of SFAS No. 133 to have a significant effect on the financial statements.

13. COMPARATIVE AMOUNTS

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

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 only to exchange the outstanding notes for the Exchange 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\$95,000,000



Alliance Atlantis Communications Inc.

13% Senior Subordinated Notes
due December 15, 2009

PROSPECTUS

PART II
INFORMATION NOT REQUIRED TO BE
DELIVERED TO OFFEREEES OR PURCHASERS

Indemnification

Under the *Canada Business Corporations Act* (the “CBCA”), except in respect of an action by or on behalf of a corporation or body corporate to procure a judgment in its favor, 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 body corporate 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 or body corporate 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 or body corporate 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, and is therefore unenforceable.

Exhibits

The following exhibits have been filed as part of the Registration Statement:

<u>Exhibit Number</u>	<u>Description</u>
2.1	Exchange and Registration Rights Agreement dated January 25, 2001 among the Registrant, Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, TD Securities (USA) Inc., RBC Dominion Securities Corporation, BMO Nesbitt Burns Corp., CIBC World Markets Corp., Scotia Capital (USA) Inc., ING Barings Limited, acting as agent for ING Bank N.V. and NBC International (USA) Inc. •
4.1	Management Proxy Circular dated August 17, 2000, with respect to the annual and special meeting of shareholders of Alliance Atlantis held on September 26, 2000, other than the sections entitled “Report on Executive Compensation” and “Performance Graph.” (Incorporated by reference to Form 6-K dated August 17, 2000.)
4.2	Annual Information Form of Alliance Atlantis dated August 7, 2000 for the fiscal year ended March 31, 2000.*
4.3	Management’s Discussion and Analysis of Financial Condition and Results of Operations for Alliance Atlantis found on pages 34 to 40, inclusive, of the Registrant’s 2000 annual report (the “Annual Report”).*
4.4	Audited consolidated balance sheets of Alliance Atlantis as at March 31, 2000, and 1999 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, 2000 together with the accompanying report of the auditor found on pages 41 to 59 of the Annual Report.*
4.5	Unaudited consolidated balance sheet of Alliance Atlantis as of December 31, 2000 and consolidated statement of operations and retained earnings and cash flows for the six month periods ended December 31, 2000 and December 31, 1999 (contained on the financial pages of this Registration Statement).
4.6	Press release dated January 18, 2001 in respect of the pricing of US\$95 million aggregate principal amount of 11% senior subordinated notes. (Incorporated by reference to Form 6-K dated January 23, 2001.)
4.7	A Material Change Report filed by Alliance Atlantis dated January 25, 2001 in respect of the issuance of US\$95 million aggregate principal amount of 13% senior subordinated notes. (Incorporated by reference to Form 6-K dated January 25, 2001.)
4.8	A Material Change Report filed by Alliance Atlantis dated February 21, 2001 in respect of the proposed acquisition of Salter Street Films Limited by Alliance Atlantis. (Incorporated by reference to Form 6-K dated February 21, 2001.)
5.1	Consent of PricewaterhouseCoopers LLP.
5.2	Consent of Torys. •
6.1	Powers of Attorney (contained on the signature pages of the Registration Statement).

Exhibit Number	Description
7.1	Form of Indenture.+
7.2	Form of First Supplemental Indenture dated as of April 1, 2000.†
7.3	Form of Second Supplemental Indenture dated as of June 13, 2000.†
7.4	Form of Third Supplemental Indenture dated as of January 25, 2001. •
99.1	Letter of Transmittal.
99.2	Notice of Guaranteed Delivery.
99.3	Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
99.4	Brokers' Letter to Clients.
99.5	Instruction to Registered Holder.

+ Incorporated by reference to Amendment No. 1 to Registration Statement on Form F-10, Registration No. 333-11056, filed on November 8, 1999.

† Incorporated by reference to Registration Statement on Form F-10, Registration No. 333-12352 filed on July 27, 2000.

* Incorporated by reference to Form 40-F dated August 18, 2000.

• 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

The Registrant has previously filed a written irrevocable consent and power of attorney on Form F-X.

SIGNATURES

Pursuant to the requirements of the Securities Act, 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 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 16th day of March, 2001.

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, this Amendment to the Registration Statement has been signed below by or on behalf of the following persons in the capacities indicated on March 16, 2001.

<u>Signature</u>	<u>Title</u>
_____ /s/ MICHAEL I. M. MACMILLAN Michael I. M. MacMillan	Chairman, Chief Executive Officer and Director (Principal Executive Officer)
_____ *	Executive Vice-President, Chief Financial Officer and Director
_____ W. Judson Martin	(Principal Financial and Accounting Officer)
_____ Seaton S. McLean	Director
_____ *	Director
_____ Edward A. Riley	Director
_____ Victor Loewy	Director
_____ Phyllis Yaffe	Director
_____ *	Director
_____ Pierre DesRoches	Director
_____ Pierre Y. Ducros	Director
_____ Harold P. Gordon	Director
_____ *	Director
_____ Anthony F. Griffiths	Director

<u>Signature</u>	<u>Title</u>
_____ Ellis Jacob	Director
_____ *	
_____ Allen Karp	Director
_____ David J. Kassie	Director
_____ Rainer Kölmel	Director
_____ *	
_____ Barry J. Reiter	Director
_____ *	
_____ Donald R. Sobey	Director
_____ *	
_____ Gary Solway	Director
_____ Edward Unzeitig	Director
_____ *	
_____ Thomas J. Volpe	Director
_____ *	
_____ Edward Waitzer	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 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 Santa Monica, State of California, on the 16th day of March, 2001.

ALLIANCE ATLANTIS ENTERTAINMENT, INC.
(Authorized Representative)

By: /s/ PETER SUSSMAN
 Peter Sussman
 Chief Executive Officer

By: /s/ JOHN MORAYNISS
 John Morayniss
 Secretary and Chief Financial Officer

EXHIBIT INDEX

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* Incorporated by reference to Form 40-F dated August 18, 2000.

• Previously filed.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the inclusion in this Form F-10 Registration Statement of our report dated June 13, 2000, on our audits of the consolidated financial statements of Alliance Atlantis Communications Inc. as of March 31, 2000 and 1999, and the three years in the period ended March 31, 2000, which appears in such Registration Statement. We also consent to the reference to us under the heading "Experts" in the Registration Statement.

Toronto, Canada
March 16, 2001

"PricewaterhouseCoopers LLP"
Chartered Accountants

Exhibit 99.1

LETTER OF TRANSMITTAL
for
Tender of all Outstanding
13% Senior Subordinated Notes Due December 15, 2009
in Exchange for
13% Senior Subordinated Exchange Notes Due 2009
of
Alliance Atlantis Communications Inc.

THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON APRIL 20, 2001 (THE "EXPIRATION DATE") UNLESS THE OFFER IS EXTENDED BY ALLIANCE ATLANTIS COMMUNICATIONS INC. IN ITS SOLE DISCRETION.

EXCHANGE AGENT:

THE BANK OF NOVA SCOTIA TRUST COMPANY OF NEW YORK

By Mail, Hand or Overnight Delivery:

The Bank of Nova Scotia Trust Company
of New York
One Liberty Plaza, 23rd Floor
New York, NY 10006
Attention: Pat Keane

Facsimile: (212) 225-5436

Confirm by Telephone: (212) 225-5427

Delivery to an address other than the Depository Trust Company (ATOP) or as set forth in this letter of transmittal or transmission of instructions via a facsimile transmission to a number other than as set forth above will not constitute a valid delivery.

By execution hereof, the undersigned acknowledges receipt of the Prospectus dated March 16, 2001 (the "Prospectus") of Alliance Atlantis Communications Inc. ("Alliance Atlantis") which, together with this Letter of Transmittal (the "Letter of Transmittal"), constitute Alliance Atlantis' offer (the "Exchange Offer") to exchange \$1,000 in stated amount at maturity of a new series of 13% Senior Subordinated Exchange Notes Due 2009 (the "Exchange Notes") of Alliance Atlantis for each \$1,000 in stated amount at maturity of outstanding 13% Senior Subordinated Notes Due December 15, 2009 (the "Outstanding Notes") of Alliance Atlantis. The terms of the Exchange Notes are identical in all material respects (including stated amount at maturity, interest rate and maturity) to the terms of the Outstanding Notes for which they may be exchanged pursuant to the Exchange Offer, except that the Exchange Notes will have been registered under the Securities Act of 1933, as amended, and, therefore, will not bear legends restricting the transfer thereof.

This Letter of Transmittal is to be used by Holders (as defined below) if: (i) certificates representing Outstanding Notes are to be physically delivered to the Exchange Agent herewith by Holders; (ii) tender of Outstanding Notes is to be made by book-entry transfer to the Exchange Agent's account at The Depository Trust Company ("DTC") by any financial institution that is a participant in DTC and whose name appears on a security position listing as the owner of Outstanding Notes (such participants, acting on behalf of Holders, are referred to herein, together with such Holders, as "Acting Holder"); or (iii) tender

of Outstanding Notes is to be made according to the guaranteed delivery procedures. **Delivery of documents to DTC does not constitute delivery to the Exchange Agent.**

If delivery of the Outstanding Notes is to be made by book-entry transfer to the account maintained by the Exchange Agent at DTC as set forth in (ii) in the immediately preceding paragraph, this Letter of Transmittal need not be manually executed; provided, however, that tenders of Outstanding Notes must be effected in accordance with the procedures mandated by DTC's Automated Tender Offer Program ("ATOP"). To tender Outstanding Notes through ATOP, the electronic instructions sent to DTC and transmitted by DTC to the Exchange Agent must contain the character by which the participant acknowledges its receipt of and agrees to be bound by this Letter of Transmittal.

Unless the context requires otherwise, the term "Holder" for purposes of this Letter of Transmittal means: (i) any person in whose name Outstanding Notes are registered on the books of Alliance Atlantis or any other person who has obtained a properly completed bond power from the registered Holder or (ii) any participant in DTC whose Outstanding Notes are held of record by DTC who desires to deliver such Outstanding Notes by book-entry transfer at DTC.

The undersigned has completed, executed and delivered this Letter of Transmittal to indicate the action the undersigned desires to take with respect to the Exchange Offer.

The instructions included with this Letter of Transmittal must be followed. Questions and requests for assistance or for additional copies of the Prospectus, this Letter of Transmittal and the Notice of Guaranteed Delivery may be directed to the Exchange Agent.

HOLDERS WHO WISH TO ACCEPT THE EXCHANGE OFFER AND TENDER THEIR OUTSTANDING NOTES MUST COMPLETE THIS LETTER OF TRANSMITTAL IN ITS ENTIRETY.

List below the Outstanding Notes to which this Letter of Transmittal relates. If the space provided below is inadequate, the Certificate Numbers and Stated Amounts at Maturity should be listed on a separate signed schedule affixed hereto. Tenders of Outstanding Notes will be accepted only in authorized denominations of \$1,000.

DESCRIPTION OF OUTSTANDING NOTES		
Name(s) and Address(es) of Holder(s) (Please fill in, if blank)	Certificate Number(s)* (Attached signed list if necessary)	Aggregate Stated Amount at Maturity Tendered (if less than all)**
TOTAL STATED AMOUNT AT MATURITY OF OUTSTANDING NOTES TENDERED		
* Need not be completed by Holders tendering by book-entry transfer.		
** Need not be completed by Holders who wish to tender with respect to all Outstanding Notes listed. See Instruction 2.		

☐ CHECK HERE IF TENDERED OUTSTANDING NOTES ARE BEING DELIVERED BY DTC TO THE EXCHANGE AGENT'S ACCOUNT AT DTC AND COMPLETE THE FOLLOWING:

Name of Tendering Institution: _____

DTC Book -Entry Account:

Transaction Code No.:

Holders who wish to tender their Outstanding Notes and (i) whose Outstanding Notes are not immediately available, or (ii) who cannot deliver their Outstanding Notes, the Letter of Transmittal or any other required documents to the Exchange Agent prior to the Expiration Date, or cannot complete the procedure for book-entry transfer on a timely basis, may effect a tender according to the guaranteed delivery procedures and must also complete the Notice of Guaranteed Delivery.

☐ CHECK HERE IF TENDERED OUTSTANDING NOTES ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY DELIVERED TO THE EXCHANGE AGENT AND COMPLETE THE FOLLOWING:

Name(s) of Holder(s) of Outstanding Notes:

Window Ticket No. (if any):

Date of Execution of Notice of Guaranteed Delivery:

Name of Eligible Institution that Guaranteed Delivery:

DTC Book -Entry Account No.:

If Delivered by Book-Entry Transfer:

Name of Tendering Institution:

Transaction Code No.:

☐ CHECK HERE IF YOU ARE A BROKER-DEALER AND WISH TO RECEIVE 10 ADDITIONAL COPIES OF THE PROSPECTUS AND 10 COPIES OF ANY AMENDMENTS OR SUPPLEMENTS THERETO.

Name:

Address:

PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

Ladies and Gentlemen:

Upon the terms and subject to the conditions of the Exchange Offer, the undersigned hereby tenders to Alliance Atlantis the above-described stated amount at maturity of Outstanding Notes. Subject to, and effective upon, the acceptance for exchange of the Outstanding Notes tendered herewith, the undersigned hereby exchanges, assigns and transfers to, or upon the order of, Alliance Atlantis all right, title and interest in and to such Outstanding Notes. The undersigned hereby irrevocably constitutes and appoints the Exchange Agent as the true and lawful agent and attorney-in-fact of the undersigned (with full knowledge that said Exchange Agent also acts as the agent of Alliance Atlantis and as Trustee under the Indenture for the Outstanding Notes and the Exchange Notes) to cause the Outstanding Notes to be assigned, transferred and exchanged. The undersigned represents and warrants that it has full power and authority to tender, exchange, assign and transfer the Outstanding Notes and to acquire Exchange Notes issuable upon the exchange of such tendered Outstanding Notes, and that, when the same are accepted for exchange, Alliance Atlantis will acquire good and unencumbered title to the tendered Outstanding Notes, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim. The undersigned also warrants that it will, upon request, execute and deliver any additional documents deemed by the Exchange Agent or Alliance Atlantis to be necessary or desirable to complete the exchange, assignment and transfer of tendered Outstanding Notes.

The Exchange Offer is subject to certain conditions as set forth in the Prospectus under the caption "Exchange Offer — Certain Conditions to the Exchange Offer". The undersigned recognizes that as a result of these conditions (which may be waived, in whole or in part, by Alliance Atlantis) as more particularly set forth in the Prospectus, Alliance Atlantis may not be required to exchange any of the Outstanding Notes tendered hereby and, in such event, the Outstanding Notes not exchanged will be returned to the undersigned at the address shown below the signature of the undersigned.

By tendering, each Holder of Outstanding Notes represents to Alliance Atlantis that (i) the Exchange Notes acquired pursuant to the Exchange Offer are being obtained in the ordinary course of business of the person receiving such Exchange Notes, whether or not such person is such Holder, (ii) neither the Holder of Outstanding Notes nor any such other person has an arrangement or understanding with any person to participate in the distribution of such New Notes, (iii) if the Holder is not a broker-dealer or is a broker-dealer but will not receive Exchange Notes for its own account in exchange for Outstanding Notes, neither the Holder nor any such other person is engaged in or intends to participate in a distribution of the Exchange Notes and (iv) neither the Holder nor any such other person is an "affiliate" of Alliance Atlantis within the meaning of Rule 405 under the Securities Act of 1933, as amended (the "Securities Act"), or, if such Holder is such an "affiliate", that such Holder will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable. If the tendering Holder is a broker-dealer (whether or not it is also an "affiliate" of Alliance Atlantis within the meaning of Rule 405 under the Securities Act) that will receive Exchange Notes for its own account in exchange for Outstanding Notes, it represents that the Outstanding Notes to be exchanged for the Exchange Notes were acquired by it as a result of market-making activities or other trading activities, and acknowledges that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such Exchange Notes. By acknowledging that it will deliver and by delivering a prospectus meeting the requirements of the Securities Act in connection with any resale of such Exchange Notes, the undersigned is not deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For purposes of the Exchange Offer, Alliance Atlantis shall be deemed to have accepted validly tendered Outstanding Notes when, as and if Alliance Atlantis has given oral or written notice thereof to the Exchange Agent and complied with the applicable provisions of the Registration Rights Agreement. If any tendered Outstanding Notes are not accepted for exchange pursuant to the Exchange Offer for any reason or if Outstanding Notes are submitted for a greater stated amount at maturity than the holder desires to exchange, such unaccepted or non-exchanged Outstanding Notes will be returned without expense to the tendering Holder thereof (or, in the case of Outstanding Notes tendered by book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility pursuant to customary book-entry transfer procedures, such non-exchanged Notes will be credited to an account maintained with such Book-Entry Transfer Facility) as promptly as practicable after the expiration or termination of the Exchange Offer.

All authority conferred or agreed to be conferred by this Letter of Transmittal shall survive the death, incapacity or dissolution of the undersigned and every obligation under this Letter of Transmittal shall be binding upon the undersigned's heirs, personal representatives, successors and assigns.

The undersigned understands that tenders of Outstanding Notes pursuant to the instructions hereto will constitute a binding agreement between the undersigned and Alliance Atlantis upon the terms and subject to the conditions of the Exchange Offer.

Unless otherwise indicated under "Special Issuance Instruction," please issue the certificates representing the Exchange Notes issued in exchange for the Outstanding Notes accepted for exchange and return any Outstanding Notes not tendered or not exchanged, in the name(s) of the undersigned (or in either such event in the case of Outstanding Notes tendered by DTC, by credit to the account at DTC). Similarly, unless otherwise indicated under "Special Delivery Instructions," please send the certificates representing the Exchange Notes issued in exchange for the Outstanding Notes accepted for exchange and any certificates for Outstanding Notes not tendered or not exchanged (and accompanying documents as appropriate) to the undersigned at the address shown below the undersigned's signatures, unless, in either event, tender is being made through DTC. In the event that both "Special Issuance Instructions" and "Special Delivery Instructions" are completed, please issue the certificates representing the Exchange Notes issued in exchange for the Outstanding Notes accepted for exchange and return any Outstanding Notes not tendered or not exchanged in the name(s) of, and send said certificates to, the person(s) so indicated. The undersigned recognizes that Alliance Atlantis has no obligation pursuant to the "Special Issuance Instructions" and "Special Delivery Instruction" to transfer any Outstanding Notes from the name of the registered holder(s) thereof if Alliance Atlantis does not accept for exchange any of the Outstanding Notes so tendered.

PLEASE SIGN HERE

(To Be Completed by All Tendering Holders of Outstanding Notes Regardless of Whether Outstanding Notes Are Being Physically Delivered Herewith)

This Letter of Transmittal must be signed by the Holder(s) of Outstanding Notes exactly as their name(s) appear(s) on certificate(s) for Outstanding Notes or, if tendered by a participant in DTC, exactly as such participant's name appears on a security position listing as the owner of Outstanding Notes, or by person(s) authorized to become registered Holder(s) by endorsements and documents transmitted with this Letter of Transmittal. If signature is by a trustee, executor, administrator, guardian, attorney-in-fact, officer or other person acting in a fiduciary or representative capacity, such person must set forth his or her full title below under "Capacity" and submit evidence satisfactory to Alliance Atlantis of such persons authority to so act. See Instruction 3 herein. If the signature appearing below is not of the registered Holder(s) of the Outstanding Notes, then the registered Holder(s) must sign a valid proxy.

X _____ Date: _____

X _____ Date: _____
Signature(s) of Holder(s) or Authorized Signatory

Name(s): _____ Address: _____

(Please Print) (Including ZIP Code)

Capacity(ies): _____ Area Code and
Telephone No.: _____

Social Security No(s).: _____

PLEASE COMPLETE SUBSTITUTE FORM W-9 HEREIN

**SIGNATURE GUARANTEE (See Instruction 3 herein)
Certain Signatures Must Be Guaranteed by an Eligible Institution**

(Name of Eligible Institution Guaranteeing Signatures)

(Address (including zip code) and Telephone Number (including area code) of Firm)

(Authorized Signature)

(Printed Name)

(Title)

Date: _____

SPECIAL ISSUANCE INSTRUCTIONS
(See Instruction 4 herein)

To be completed ONLY if certificates for Outstanding Notes in a stated amount at maturity not tendered are to be issued in the name of, or the Exchange Notes issued pursuant to the Exchange Offer are to be issued to the order of, someone other than the person or persons whose signature(s) appear(s) within this Letter of Transmittal or issued to an address different from that shown in the box entitled "Description of Outstanding Notes" within this Letter of Transmittal, or if Outstanding Notes tendered by book-entry transfer that are not accepted maintained at DTC other than the account at DTC indicated above.

Name: _____
(Please Print)

Address: _____
(Please Print)

Zip Code

Taxpayer Identification or Social Security Number
(See Substitute Form W-9 herein)

SPECIAL DELIVERY INSTRUCTIONS
(See Instruction 4 herein)

To be completed ONLY if certificates for Outstanding Notes in a stated amount at maturity not tendered or not accepted for purchase or the Exchange Notes issued pursuant to the Exchange Offer are to be sent to someone other than the person or persons whose signature(s) appear(s) within this Letter of Transmittal or to an address different from that shown in the box entitled "Description of Outstanding Notes" within this Letter of Transmittal or to be credited to an account maintained at DTC other than the account at DTC indicated above.

Name: _____
(Please Print)

Address: _____
(Please Print)

Zip Code

Taxpayer Identification or Social Security Number
(See Substitute Form W-9 herein)

INSTRUCTIONS

Forming Part of the Terms and Conditions of the Exchange Offer

- 1. Delivery of this Letter of Transmittal and Certificates.** The certificates for the tendered Outstanding Notes (or a confirmation of a book-entry into the Exchange Agent's account at DTC of all Outstanding Notes delivered electronically), as well as a properly completed and duly executed copy of this Letter of Transmittal of facsimile hereof and any other documents required by this Letter of Transmittal must be received by the Exchange Agent at its address set forth herein prior to 5:00 P.M., New York City time, on the Expiration Date. The method of delivery of the tendered Outstanding Notes, this Letter of Transmittal and all other required documents to the Exchange Agent are at the election and risk of the Holder and, except as otherwise provided below, the delivery will be deemed made only when actually received by the Exchange Agent. Instead of delivery by mail, it is recommended that the Holder use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure timely delivery. No Letter of Transmittal or Outstanding Notes should be sent to Alliance Atlantis.

Holders who wish to tender their Outstanding Notes and (i) whose Outstanding Notes are not immediately available or (ii) who cannot deliver their Outstanding Notes, this Letter of Transmittal or any other documents required hereby to the Exchange Agent prior to the Exchange Date, or who cannot complete the procedure for book-entry transfer of a timely basis must tender their Outstanding Notes and follow the guaranteed delivery procedures set forth in the Prospectus. Pursuant to such procedures: (i) such tender must be made by or through an Eligible Institution (as defined below); (ii) prior to the Expiration Date, the Exchange Agent must have received from the Eligible Institution a properly completed and duly executed Notice of Guaranteed Delivery (by facsimile transmission, mail or hand delivery) setting forth the name and address of the Holder of the Outstanding Notes, the certificate number or numbers of such Outstanding Notes and the stated amount at maturity of Outstanding Notes tendered, stating that the tender is being made thereby and guaranteeing that within three New York Stock Exchange trading days after the Expiration Date, this Letter of Transmittal (or copy thereof) (or electronic instructions containing the character by which the participant acknowledges its receipt of and agrees to be bound by this letter of transmittal) together with the certificate(s) representing the Outstanding Notes (or a confirmation of electronic mail delivery of book-entry into the Exchange Agent's account at DTC) and any of the required documents will be deposited by the Eligible Institution with the Exchange Agent; and (iii) such properly completed and executed Letter of Transmittal (or copy thereof) (or electronic instructions containing the character by which the participant acknowledges its receipt of and agrees to be bound by this letter of transmittal), as well as all other documents required by this Letter of Transmittal, and the certificate(s) representing all tendered Outstanding Notes in proper form for transfer (or a confirmation of electronic mail delivery book-entry delivery into the Exchange Agent's account at DTC), must be received by the Exchange Agent within three New York Stock Exchange trading days after the Expiration Date. Any Holder of Outstanding Notes who wishes to tender this Outstanding Notes pursuant to the guaranteed delivery procedures described above must ensure that the Exchange Agent receives the Notice of Guaranteed Delivery prior to 5:00 P.M., New York City time, on the Expiration Date.

All questions as to the validity, form, eligibility (including time of receipt), acceptance and withdrawal of tendered Outstanding Notes will be determined by Alliance Atlantis in its sole discretion, which determination will be final and binding. Alliance Atlantis reserves the absolute right to reject any and all Outstanding Notes not properly tendered or any Outstanding Notes Alliance Atlantis's acceptance of which would, in the opinion of counsel for Alliance Atlantis, be unlawful. Alliance Atlantis also reserves the absolute right to waive any defects, irregularities or conditions of tender as to particular Outstanding Notes. Alliance Atlantis' interpretation of the terms and conditions of the Exchange Offer (including the instructions in this Letter of Transmittal) will be final and binding on all parties. Unless waived, any defects or irregularities in connections with tenders of Outstanding Notes must be cured within such time as Alliance Atlantis shall determine. Although Alliance Atlantis intends to notify Holders of defects or irregularities with respect to tenders of Outstanding Notes, neither Alliance Atlantis, the Exchange Agent nor any other person shall be under any duty to give notification of defects or irregularities with respect to tenders of Outstanding Notes, nor shall any of them incur any liability for failure to give such notification. Tenders of Outstanding Notes will not be deemed to have been made until such defects or irregularities have not been cured or waived will be returned without cost by the Exchange Agent to the tendering Holders of Outstanding Notes, unless otherwise provided in this Letter of Transmittal, as soon as practicable following the Expiration Date.

- 2. Partial Tenders; Withdrawals.** If less than all Outstanding Notes are tendered, the tendering Holder should fill in the number of Outstanding Notes tendered in the third column of the chart entitled "Description of Outstanding Notes." All

Outstanding Notes delivered to the Exchange Agent will be deemed to have any tendered unless otherwise indicated. If not all Outstanding Notes are tendered, Outstanding Notes for the aggregate stated amount at maturity of Outstanding Notes delivered to the Exchange Agent will be deemed to have been tendered unless otherwise indicated. If not all Outstanding Notes are tendered, a certificate or certificates representing Exchange Notes issued in exchange of any Outstanding Notes tendered and accepted will be sent to the Holder at his or her registered address, unless a different address is provided in the appropriate box in this Letter of Transmittal or unless tender is made through DTC, promptly after the Outstanding Notes are accepted for exchange.

- 3. Signature on the Letter of Transmittal; Bond Power and Endorsements; Guarantee of Signatures.** If this Letter of Transmittal (or copy hereof) is signed by the registered Holder(s) of the Outstanding Notes tendered hereby, the signature must correspond with the name(s) as written on the face of the Outstanding Notes without alteration, enlargement or any change whatsoever.

If this Letter of Transmittal (or copy hereof) is signed by the registered Holder(s) of Outstanding Notes tendered and the certificate(s) for Exchange Notes issued in exchange therefor is to be issued (or any untendered number of Outstanding Notes is to be reissued) to the registered Holder, such Holder need not and should not endorse any tendered Outstanding Note, nor provide a separate bond power. In any other case, such holder must either properly endorse the Outstanding Notes tendered or transmit a properly completed separate bond power with this Letter of Transmittal, with the signature on the endorsement or bond power guaranteed by an Eligible Institution.

If this Letter of Transmittal (or copy hereof) is signed by a person other than the registered Holder(s) of Outstanding Notes listed therein, such Outstanding Notes must be endorsed or accompanied by properly completed bond powers which authorized such person to tender the Outstanding Notes on behalf of the registered Holder, in either case signed as the name of the registered Holder or Holders appears on the Outstanding Notes.

If this Letter of Transmittal (or copy hereof) or any Outstanding Notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, or officers of corporations or others acting in a fiduciary or representative capacity, such person should so indicate when signing and unless waived by Alliance Atlantis, evidence satisfactory to Alliance Atlantis of their authority to so act must be submitted with this Letter of Transmittal.

Endorsements on Outstanding Notes or signatures on bond powers required by this Instruction 3 must be guaranteed by an Eligible Institution.

Signatures on this Letter of Transmittal (or copy hereof) or a notice of withdrawal, as the case may be, must be guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States or an "eligible guarantor institution" within the meaning of Rule 17Ad-15 under the Exchange Act (an "Eligible Institution") unless the Outstanding Notes tendered pursuant thereto are tendered (i) by a registered Holder (including any participant in DTC whose name appears on a security position listing as the owner of Outstanding Notes) who has not completed the box set forth herein entitled "Special Issuance Instructions" or "Special Delivery Instructions" of this Letter of Transmittal or (ii) for the account of an Eligible Institution.

- 4. Special Issuance and Delivery Instructions.** Tendering Holders should include, in the applicable spaces, the name and address to which Exchange Notes or substitute Outstanding Notes for stated amount at maturity not tendered or not accepted for exchange are to be sent, if different from the name and address of the person signing this Letter of Transmittal (or in the case of tender of the Outstanding Notes through DTC, if different from the account maintained at DTC indicated above). In the case of issuance in a different name, the taxpayer identification or social security number of the person named must also be indicated.
- 5. Transfer Taxes.** Alliance Atlantis shall pay all transfer taxes, if any, applicable to the exchange of Outstanding Notes pursuant to the Exchange Offer. If, however, certificates representing Exchange Notes, or Outstanding Notes for stated amounts at maturity not tendered or accepted for exchange, are to be delivered to, or are to be issued in the name of, any person other than the registered Holder of the Outstanding Notes tendered hereby, or if a transfer tax is imposed for any reason other than the exchange of Outstanding Notes pursuant to the Exchange Offer, then the amount of any such transfer taxes (whether imposed on the registered Holder or any other person) will be payable by the tendering Holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted herewith, the amount of such transfer taxes will be billed directly to such tendering Holder.

Except as provided in this Instruction 5, it will not be necessary for transfer tax stamps to be affixed to the Outstanding Notes listed in this Letter of Transmittal.

6. **Waiver of Conditions.** Alliance Atlantis reserves the absolute right to amend, waive or modify, in whole or in part, any of the conditions to the Exchange Offer set forth in the Prospectus.
7. **Mutilated, Lost, Stolen or Destroyed Notes.** Any Holder whose Outstanding Notes have been mutilated, lost, stolen or destroyed should contact the Exchange Agent at the address indicated above for further instructions.
8. **Requests for Assistance or Additional Copies.** Questions relating to the procedure for tendering, as well as requests for additional copies of the Prospectus and this Letter of Transmittal, may be directed to the Exchange Agent at the address and telephone number set forth above. In addition, all questions relating to the Exchange Offer, as well as requests for assistance or additional copies of the Prospectus and this Letter of Transmittal, may be directed to the Exchange Agent at the address specified in the Prospectus.
9. **Irregularities.** All questions as to the validity, form, eligibility (including time of receipt), and acceptance of Letters of Transmittal or Outstanding Notes will be resolved by Alliance Atlantis, whose determination will be final and binding. Alliance Atlantis reserves the absolute right to reject any or all Letters of Transmittal or tenders that are not in proper form or the acceptance of which would, in the opinion of Alliance Atlantis' counsel, be unlawful. Alliance Atlantis also reserves the right to waive any irregularities or conditions of tender as to the particular Outstanding Notes covered by any Letter of Transmittal or tendered pursuant to such Letter of Transmittal. None of Alliance Atlantis, the Exchange Agent or any other person will be under any duty to give notification of any defects or irregularities in tenders or incur any liability for failure to give any such notification. Alliance Atlantis' interpretation of the terms and conditions of the Exchange Offer shall be final and binding.
10. **No Conditional Tenders.** No alternative, conditional, irregular or contingent tenders will be accepted. All tendering holders of Outstanding Notes, by execution of this Letter of Transmittal, shall waive any right to receive notice of the acceptance of their Outstanding Notes for exchange.
11. **Definitions.** Capitalized terms used in this Letter of Transmittal and not otherwise defined have the meanings given in the Prospectus.

IMPORTANT: This Letter of Transmittal or a facsimile thereof (together with certificates for Outstanding Notes and all other required documents) or a Notice of Guaranteed Delivery must be received by the Exchange Agent on or prior to the Expiration Date.

IMPORTANT TAX INFORMATION

The Holder is required to give the Exchange Agent the social security number or employer identification number of the Holder of the Notes. If the Notes are in more than one name or are not in the name of the actual owner, consult the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for additional guidance on which number to report.

TO BE COMPLETED BY ALL TENDERING HOLDERS

PAYORS NAME: ALLIANCE ATLANTIS COMMUNICATIONS INC.

SUBSTITUTE Form W-9 Department of the Treasury Internal Revenue Service Payer's Request for Taxpayer Identification Number (TIN)	Please fill out your name and address below:	
	Name: _____	
	Address (Number and street): _____ _____	
	City, State and Zip Code: _____ _____	
	Part 1 — PLEASE PROVIDE YOUR TIN IN THE BOX AT RIGHT AND CERTIFY BY SIGNING AND DATING BELOW	_____ Social Security Number _____ Employer Identification Number
	Part 2 — CERTIFICATION — UNDER PENALTIES OF PERJURY, I CERTIFY THAT: (1) The number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued to me) and (2) I am not subject to backup withholding either because (a) I am exempt from backup withholding; or (b) I have not been notified by the Internal Revenue Service (the "IRS") that I am subject to backup withholding as a result of failure to report all interest and dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding.	Part 3 — Awaiting TIN ☐ Exempt ☐
CERTIFICATION INSTRUCTIONS — You must cross out item (2) above if you have been notified by the IRS that you are subject to backup withholding because of under-reporting interest or dividends on your tax return. However, if after being notified by the IRS that you were subject to backup withholding you received another notification from the IRS stating that you are no longer subject to backup withholding, do not cross out item (2). If you are exempt from backup withholding, check the applicable box in Part 3.		
SIGNATURE _____ DATE _____		
NAME (Please Print) _____		
ADDRESS (Number and street) _____ City, State and Zip Code _____		

NOTE: FAILURE TO COMPLETE AND RETURN THIS FORM MAY RESULT IN BACKUP WITHHOLDING OF 31 PERCENT OF ANY PAYMENTS MADE TO YOU UNDER THE NOTES. PLEASE REVIEW THE ENCLOSED GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9 FOR ADDITIONAL DETAILS.

YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU CHECKED THE APPLICABLE BOX IN PART 3 OF SUBSTITUTE FORM W-9.

CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

I certify under penalties of perjury that a taxpayer identification number has not been issued to me, and either (a) I have mailed or delivered an application to receive a taxpayer identification number to the appropriate Internal Revenue Service Center or Social Security Administration Office or (b) I intend to mail or deliver an application in the near future. I understand that if I do not provide a taxpayer identification number to the payor by the time of payment, 31% of all reportable payments made to me will be withheld until I provide a number and that, if I do not provide my taxpayer identification number within 60 days, such retained amounts shall be remitted to the IRS as backup withholding.

Signature

Date

IMPORTANT: This Letter of Transmittal (together with certificates for Outstanding Notes and all other required documents) or a Notice of Guaranteed Delivery must be received by the Exchange Agent on or prior to 5:00 p.m., New York City time on the Expiration Date.

(DO NOT WRITE IN SPACE BELOW)

Certificate Surrendered	Outstanding Notes Tendered	Outstanding Notes Accepted
Delivery Prepared by _____	Checked by _____	Date _____

**GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION
NUMBER ON SUBSTITUTE FORM W-9**

Guidelines for Determining the Proper Identification Number to Give the Payer. —Social Security numbers have nine digits separated by two hyphens, i.e., 000-00-0000. Employer identification numbers have nine digits separated by only one hyphen: i.e., 00-0000000. The table below will help determine the number to give the payer.

<u>For this type of account:</u>	<u>Give the SOCIAL SECURITY number of —</u>	<u>For this type of account:</u>	<u>Give the SOCIAL SECURITY number of —</u>
An individual's account	The individual	9. A valid trust, estate, or pension trust	The legal entity (Do not furnish the identifying number or the personal representative or trustee unless the legal entity itself is not designated in the account title) (5)
Two or more individuals (joint account)	The actual owner of the account or, if combined funds, any one of the individuals (1)		
Husband and wife (joint account)	The actual owner of the account or, if joint funds, either person(1)	10. Corporate account	The corporation
Custodian account of a minor (Uniform Gift to Minors Act)	The minor (2)	11. Religious, charitable, or educational organization account	The organization
Adult and minor (joint account)	The adult or, if the minor is the only contributor, the minor (1)	12. Partnership account held in the name of the business	The partnership
Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor or incompetent person(3)	13. Association, club or other tax-exempt organization	The organization
a. The usual revocable savings trust account (grantor is also trustee)	The grantor-trustee(1)	14. A broker or registered nominee	The broker or nominee
b. So-called trust account that is not a legal or valid trust under State law	The actual owner(1)	15. Account with the Department of Agriculture in the name of a public entity (such as a State or local government, school district, or person) that receives agricultural program payments	The public entity
Sole proprietorship account	The owner(4)		

(1) List first and circle the name of the person whose number you furnish.

(2) Circle the minor's name and furnish the minor's Social Security number.

(3) Circle the ward's, minor's or incompetent person's name and furnish such person's Social Security number.

(4) Show the name of the owner.

(5) List first and circle the name of the legal trust, estate or pension trust.

Note: If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.

**GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION
NUMBER ON SUBSTITUTE FORM W-9**

Obtain a Number

If you don't have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for a Social Security Number Card, or Form SS-4, Application for Employer Identification Number, at the local office of the Social Security Administration or the Internal Revenue Service and apply for a number.

Payees Exempt from Backup Withholding

Payees specifically exempted from backup withholding on ALL payments include the following:

- A corporation.
- A financial institution.
- An organization exempt from tax under section 501(a), or an individual retirement plan.
- The United States or any agency or instrumentality thereof.
- A State, the District of Columbia, a possession of the United States, or any subdivision or instrumentality thereof.
- A foreign government, a political subdivision of a foreign government, or any agency or instrumentality thereof.
- An international organization or any agency or instrumentality thereof.
- A registered dealer in securities or commodities registered in the U.S. or a possession of the U.S.
- A real estate investment trust.
- A common trust fund operated by a bank under section 584(a).
- An exempt charitable remainder trust, or a non-exempt trust described in section 4947(a)(1).
- An entity registered at all times under the Investment Company Act of 1940.
- A foreign central bank of issue.

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

- Payments to nonresident aliens subject to withholding under section 1441.
- Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident partner.
- Payments of patronage dividends where the amount renewed is not paid in money.
- Payments made by certain foreign organizations.

Payments of interest not generally subject to backup withholding include the following:

- Payments of interest on obligations issued by individuals. **Note:** You may be subject to backup withholding if this interest is \$600 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.
- Payments of tax-exempt interest (including exempt-interest dividends under section 852).

Payments described in section 6049(b)(5) to non-resident aliens.

Payments on tax-free covenant bonds under section 1451.

Payments made by certain foreign organizations.

Payments made to a nominee.

Exempt payees described above should file Form W-9 to avoid possible erroneous backup withholding.

FILE SUBSTITUTE FORM W-9 WITH THE PAYER, FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, AND RETURN IT TO THE PAYER. IF THE PAYMENTS ARE INTEREST, DIVIDENDS, OR PATRONAGE DIVIDENDS, ALSO SIGN AND DATE THE FORM.

Certain payments other than interest, dividends and patronage dividends that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under sections 6041, 6041A(a), 6045 and 6050A.

Privacy Act Notice. — Section 6109 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to the IRS. The IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payee. Certain penalties may also apply.

Penalties

(1) Penalty for Failure to Furnish Taxpayer Identification Number. — If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) Civil Penalty for False Information with Respect to Withholding. — If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of \$500.

(3) Criminal Penalty for Falsifying Information. — Falsifying certifications or affirmations may subject you to criminal penalties including fines and /or imprisonment.

(4) Failure to Report Certain Dividend and Interest Payments. — If you fail to include any portion of an includible payment for interest, dividends or patronage dividends in gross income and such failure is due to negligence, a penalty of 20% is imposed on any portion of an underpayment attributable to that failure.

**FOR ADDITIONAL INFORMATION CONTACT
YOUR TAX CONSULTANT OR THE INTERNAL
REVENUE SERVICE.**

Exhibit 99.2

NOTICE OF GUARANTEED DELIVERY
for
Tender of all Outstanding
13% Senior Subordinated Notes Due December 15, 2009
In Exchange for
13% Senior Subordinated Exchange Notes Due 2009
of
Alliance Atlantis Communications Inc.

Registered holders of outstanding 13% Senior Subordinated Notes Due December 15, 2009 (the "Outstanding Notes") of Alliance Atlantis Communications Inc. ("Alliance Atlantis") who wish to tender their Outstanding Notes in exchange for a like stated amount at maturity of 13% Senior Subordinated Exchange Notes Due 2009 (the "Exchange Notes") of Alliance Atlantis and, in each case, whose Outstanding Notes are not immediately available or who cannot deliver their Outstanding Notes and Letter of Transmittal (and any other documents required by the Letter of Transmittal) to The Bank of Nova Scotia Trust Company of New York (the "Exchange Agent") prior to the Expiration Date, may use this Notice of Guaranteed Delivery or one substantially equivalent hereto. This Notice of Guaranteed Delivery may be delivered by hand or sent by facsimile transmission (receipt confirmed by telephone and an original delivered by guaranteed overnight delivery) or mail to the Exchange Agent. See "The Exchange Offer — Procedures for Tendering Outstanding Notes" in the Prospectus.

THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON APRIL 20, 2001 (THE "EXPIRATION DATE") UNLESS THE OFFER IS EXTENDED BY ALLIANCE ATLANTIS IN ITS SOLE DISCRETION. TENDERS OF OUTSTANDING NOTES MAY BE WITHDRAWN AT ANY TIME PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON THE EXPIRATION DATE.

The Exchange Agent for the Exchange Offer is:

THE BANK NOVA SCOTIA TRUST COMPANY OF NEW YORK

By Mail, Hand or Overnight Delivery:

The Bank of Nova Scotia
Trust Company of New York
One Liberty Plaza, 23rd Floor
New York, NY 10006
Attention: Pat Keane

Facsimile: (212) 225-5436
Confirm by Telephone: (212) 225-5427

Delivery of this Notice of Guaranteed Delivery to an address other than as set forth above or transmission of instructions via a facsimile transmission to a number other than as set forth above will not constitute a valid delivery.

This Notice of Guaranteed Delivery is not to be used to guarantee signatures. If a signature on a Letter of Transmittal is required to be guaranteed by an Eligible Institution, such signature guarantee must appear in the applicable space provided on the Letter of Transmittal for Guarantee of Signatures.

Ladies & Gentlemen:

The undersigned hereby tender(s) to Alliance Atlantis upon the terms and subject to the conditions set forth in the Prospectus and the accompanying Letter of Transmittal, receipt of which is hereby acknowledged, the aggregate stated amount at maturity of Outstanding Notes set forth below pursuant to the guaranteed delivery procedures set forth in the Prospectus.

The undersigned understands that tenders of Outstanding Notes will be accepted only in stated amounts at maturity equal to \$1,000 or integral multiples thereof. The undersigned understands that tenders of Outstanding Notes pursuant to the Exchange Offer may not be withdrawn after 5:00 p.m., New York City time on the business day prior to the Expiration Date. Tenders of Outstanding Notes may also be withdrawn if the Exchange Offer is terminated without any such Outstanding Notes being purchased thereunder or as otherwise provided in the Prospectus.

All authority herein conferred or agreed to be conferred by this Notice of Guaranteed Delivery shall survive the death or incapacity of the undersigned and every obligation of the undersigned under this Notice of Guaranteed Delivery shall be binding upon the heirs, personal representatives, executors, administrators, successors, assigns, trustees in bankruptcy and other legal representatives of the undersigned.

PLEASE SIGN AND COMPLETE

Signature(s) of Registered Owner(s) or Authorized Signatory:

Name(s) of Registered Holder(s):

Stated Amount at Maturity of Outstanding Notes Tendered:

Address:

Certificate No(s). of Outstanding Notes(if available):

Area Code and Telephone No.:

If Outstanding Notes will be delivered by book-entry transfer at The Depository Trust Company, insert Depository Account No.:

Date: _____

This Notice of Guaranteed Delivery must be signed by the registered holder(s) of Outstanding Notes exactly as its (their) name(s) appear on certificates for Outstanding Notes or on a security position listing as the owner of Outstanding Notes, or by person(s) authorized to become registered Holder(s) by endorsements and documents transmitted with this Notice of Guaranteed Delivery. If signature is by a trustee, executor, administrator, guardian, attorney-in-fact, officer or other person acting in a fiduciary or representative capacity, such person must provide the following information.

Please print name(s) and address(es)

Name(s): _____

Capacity: _____

Address(es) _____

Do not send Outstanding Notes with this form. Outstanding Notes should be sent to the Exchange Agent together with a properly completed and duly executed Letter of Transmittal.

GUARANTEE OF DELIVERY
(Not to be used for signature guarantee)

The undersigned, a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or a correspondent in the United States or an "eligible guarantor institution" as defined by Rule 17Ad-15 under the Exchange Act, hereby (a) represents that each holder of Outstanding Notes on whose behalf this tender is being made "own(s)" the Outstanding Notes covered hereby within the meaning of Rule 14e-4 under the Securities Exchange Act of 1934, as amended, (b) represents that such tender of Outstanding Notes complies with such Rule 14e-4, and (c) guarantees that, within three New York Stock Exchange trading days from the date of this Notice of Guaranteed Delivery, a properly completed and duly executed Letter of Transmittal, together with certificates representing the Outstanding Notes covered hereby in proper form for transfer and required documents will be deposited by the undersigned with the Exchange Agent.

The undersigned acknowledges that it must deliver the Letter of Transmittal and Outstanding Notes tendered hereby to the Exchange Agent within the time set forth above and that failure to do so could result in financial loss to the undersigned.

Name of Firm:

Authorized Signature

Address: _____

Name: _____

Area Code and Telephone No. _____

Title: _____

Date: _____

**Tender for all Outstanding
13% Senior Subordinated Notes Due December 15, 2009
in Exchange for
13% Senior Subordinated Exchange Notes Due 2009
of
Alliance Atlantis Communications Inc.**

To Registered Holders:

We are enclosing herewith the material listed below relating to the offer (the "Exchange Offer") by Alliance Atlantis Communications Inc. ("Alliance Atlantis") to exchange its 13% Senior Subordinated Exchange Notes Due December 15, 2009 (the "Exchange Notes"), which have been registered under the Securities Act of 1933, as amended (the "Securities Act"), for a like stated amount at maturity of Alliance Atlantis' issued and outstanding 13% Senior Subordinated Notes Due 2009 (the "Outstanding Notes") upon the terms and subject to the conditions set forth in the Prospectus, dated March 16, 2001 and the related Letter of Transmittal.

Enclosed herewith are copies of the following documents:

1. Prospectus dated March 16, 2001;
2. Letter Of Transmittal;
3. Notice of Guaranteed Delivery;
4. Instruction to Registered Holder from Beneficial Owner;
5. Guidelines for Certification of Taxpayer Identification: and
6. Letter which may be sent to your clients for whose account you hold Outstanding Notes in your name or in the name of your nominee, to accompany the instruction form referred to above, for obtaining such client's instruction with regard to the Exchange Offer.

We urge, you to contact your clients promptly. Please note that the Exchange Offer will expire at 5:00 p.m., New York City time, on April 20, 2001, unless extended.

The Exchange Offer is not conditional upon any minimum number of Outstanding Notes being tendered.

Pursuant to the Letter of Transmittal each holder of Outstanding Notes will represent to Alliance Atlantis that (i) the Exchange Notes acquired pursuant to the Exchange Offer are being obtained in the ordinary course of business of the person receiving such Exchange Notes, whether or not such person is such holder, (ii) neither the holder of the Outstanding Notes nor any such other person has an arrangement or understanding with any person to participate in the distribution of such Exchange Notes, (iii) if the holder is not a broker-dealer, or is a broker-dealer but will not receive Exchange Notes for its own account in exchange for Outstanding Notes, neither the holder nor any such other person is engaged in or intends to participate in a distribution of the Exchange Notes and (iv) neither the holder nor any such other person is an "affiliate" of Alliance Atlantis within the meaning of Rule 405 under the Securities Act or, if such person is an "affiliate", that such holder will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable. If the tendering holder is a broker-dealer that will receive Exchange Notes for its own account in exchange for Outstanding Notes, you will represent on behalf of such broker-dealer that the Outstanding Notes to be exchanged for the Exchange Notes were acquired by it as a result of market-making activities or other trading activities, and acknowledge on behalf of such broker-dealer that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such Exchange Notes. By acknowledging that it will deliver and by delivering a prospectus meeting the requirements of the Securities Act in connection with any resale of such Exchange Notes, the undersigned is not deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

The enclosed Instruction to Registered Holder from Beneficial Owner contains an authorization by the beneficial owner of the Outstanding Notes for you to make the foregoing representations.

Alliance Atlantis will not pay any fee or commission to any broker or dealer or to any other persons (other than the exchange agent for the Exchange Offer) in connection with the solicitation of tenders of Outstanding Notes pursuant to the Exchange Offer. Alliance Atlantis will pay or cause to be paid any transfer taxes payable on the transfer of Outstanding Notes to it, except as otherwise provided in Instruction 5 of the enclosed Letter of Transmittal.

Any inquiries you may have with respect to the Exchange Offer may be addressed to, and additional copies of the enclosed materials may be obtained from, the Exchange Agent, The Bank of Nova Scotia Trust Company of New York, in the manner set forth below.

The Bank of Nova Scotia
Trust Company of New York
One Liberty Plaza, 23rd Floor
New York, NY 10006
Attention: Pat Keane

By: Telephone: (212) 225-5436
Facsimile: (212) 225-5427

Very truly yours,

ALLIANCE ATLANTIS COMMUNICATIONS
INC.

NOTHING CONTAINED HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU THE AGENT OF ALLIANCE ATLANTIS OR THE EXCHANGE AGENT, OR AUTHORIZE YOU TO USE ANY DOCUMENT OR MAKE ANY STATEMENT ON THEIR BEHALF IN CONNECTION WITH THE EXCHANGE OFFER OTHER THAN THE DOCUMENTS ENCLOSED HERewith AND THE STATEMENTS CONTAINED THEREIN.

Exhibit 99.4

**Tender for all Outstanding
13% Senior Subordinated Notes Due December 15, 2009
in Exchange for
13% Senior Subordinated Exchange Notes Due 2009
of
Alliance Atlantis Communications Inc.**

To Our Clients:

We are enclosing herewith a Prospectus, dated March 16, 2001 of Alliance Atlantis Communications Inc. ("Alliance Atlantis"), and a related Letter of Transmittal (which together constitute the "Exchange Offer") relating to the offer by Alliance Atlantis, to exchange its 13% Senior Subordinated Exchange Notes Due December 15, 2009 (the "Exchange Notes"), which have been registered under the Securities Act of 1933, as amended (the "Securities Act"), for a like stated amount at maturity of its issued and outstanding 13% Senior Subordinated Notes Due December 15, 2009 (the "Outstanding Notes") upon the terms and subject to the conditions set forth in the Exchange Offer.

Please note that the Exchange Offer will expire at 5:00 p.m., New York City time, on April 20, 2001 unless extended by Alliance Atlantis in its sole discretion.

The Exchange Offer is not conditional upon any minimum number of Outstanding Notes being tendered.

We are the holder of record of Outstanding Notes held by us for your account. A tender of such Outstanding Notes can be made only by us as the record holder and pursuant to your instructions. The Letter of Transmittal is furnished to you for your information only and cannot be used by you to tender Outstanding Notes held by us for your account.

We request instructions as to whether you wish to tender any or all of the Outstanding Notes held by us for your account pursuant to the terms and conditions of the Exchange Offer. Please so instruct us by completing, executing and returning to us the enclosed instruction to Registered Holder from Beneficial Holder enclosed herewith. We also request that you confirm with such instruction form that we may on your behalf make the representations contained in the Letter of Transmittal.

Pursuant to the Letter of Transmittal, each holder of Outstanding Notes will represent to Alliance Atlantis that (i) the Exchange Notes acquired in the Exchange Offer are being obtained in the ordinary course of business of the person receiving such Exchange Notes, whether or not such person is such holder, (ii) neither the holder of the Outstanding Notes nor any such other person has an arrangement or understanding with any person to participate in the distribution of such Exchange Notes, (iii) If the holder is not a broker-dealer or is a broker-dealer but will not receive Exchange Notes for its own account in exchange for Outstanding Notes, neither the holder nor any such other person is engaged in or intends to participate in a distribution of the Exchange Notes and (iv) neither the holder nor any such other person is an "affiliate" of Alliance Atlantis within the meaning of Rule 405 under the Securities Act or, if such holder is an "affiliate", that such holder will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable. If the tendering holder is a broker-dealer (whether or not it is also an "affiliate") that will receive Exchange Notes for its own account in exchange for Outstanding Notes, we will represent on behalf of such broker-dealer that the Outstanding Notes to be exchanged for the Exchange Notes were acquired by it as a result of market-making activities or other trading activities, and acknowledge on behalf of such broker-dealer that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such Exchange Notes. By acknowledging that it will deliver and by delivering a prospectus meeting the requirements of the Securities Act in connection with any resale of such Exchange Notes, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

Very truly yours.

Exhibit 99.5

INSTRUCTION TO REGISTERED HOLDER FROM BENEFICIAL OWNER
of
13% Senior Subordinated Notes Due December 15, 2009
of
Alliance Atlantis Communications Inc.

To Registered Holder:

The undersigned hereby acknowledges receipt of the Prospectus dated March 16, 2001 (the "Prospectus") of Alliance Atlantis Communications Inc. ("Alliance Atlantis"), and accompanying Letter of Transmittal (the "Letter of Transmittal"), that together constitute Alliance Atlantis' offer (the "Exchange Offer") to exchange \$1,000 in stated amount at maturity of its 13% Senior Subordinated Exchange Notes Due December 15, 2009 (the "Exchange Notes") of Alliance Atlantis for each \$1,000 in stated amount at maturity of outstanding 13% Senior Subordinated Notes Due December 15, 2009 (the "Outstanding Notes") of Alliance Atlantis. Capitalized terms used but not defined herein have the meanings ascribed to them in the Prospectus.

This will instruct you, the registered holder, as to the action to be taken by you relating to the Exchange Offer with respect to the Outstanding Notes held by you for the account of the undersigned.

The aggregate face amount of the Outstanding Notes held by you for the account of the undersigned is (fill in amount):

\$ _____ of 13% Senior Subordinated Notes Due December 15, 2009.

With respect to the Exchange Offer, the undersigned hereby instructs you (check appropriate box):

? To TENDER the following Outstanding Notes held by you for the account of the undersigned (insert stated amount at maturity of Outstanding Notes to be tendered (if any)):

\$ _____ of 13% Senior Subordinated Notes Due December 15, 2009.

? NOT to TENDER any Outstanding Notes held by you for the account of the undersigned.

If the undersigned instructs you to tender Outstanding Notes held by you for the account of the undersigned, it is understood that you are authorized to make, on behalf of the undersigned (and the undersigned, by its signature below, hereby makes to you), the representations and warranties contained in the Letter of Transmittal that are to be made with respect to the undersigned as a beneficial owner, including but not limited to the representations, that (i) the Exchange Notes acquired pursuant to the Exchange Offer are being obtained in the ordinary course of business of the undersigned, (ii) neither the undersigned nor any such other person has an arrangement or understanding with any person to participate in the distribution of such Exchange Notes, (iii) if the undersigned is not a broker-dealer, or is a broker-dealer but will not receive Exchange Notes for its own account in exchange for Outstanding Notes, neither the undersigned nor any such other person is engaged in or intends to participate in the distribution of such Exchange Notes and (iv) neither the undersigned nor any such other person is an "affiliate" of Alliance Atlantis within the meaning of Rule 405 under the Securities Act of 1933, as amended (the "Securities Act"), or, if the undersigned is an "affiliate", that the undersigned will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable. If the undersigned is a broker-dealer (whether or not it is also an "affiliate") that will receive Exchange Notes for its own account in exchange for Outstanding Notes, it represents that such Outstanding Notes were acquired as a result of market-making activities or other trading activities, and it acknowledges that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such Exchange Notes. By acknowledging that it will deliver and by delivering a prospectus meeting the requirements of the Securities Act in connection with any resale of such Exchange Notes, the undersigned is not deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

SIGN HERE

Name of beneficial owner (s) (please print): _____

Signature(s): _____

Address: _____

Telephone Number: _____

Taxpayer identification or Social Security Number:

Date: _____