

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Information has been incorporated by reference in this short form prospectus from documents filed with certain securities commissions or similar authorities in Canada. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Alliance Atlantis Communications Inc. at Suite 1500, 121 Bloor Street East, Toronto, Ontario M4W 3M5, telephone (416) 967-1174.

SUPPLEMENTED SHORT FORM PREP PROSPECTUS

New Issue

August 2, 2001



ALLIANCE ATLANTIS COMMUNICATIONS INC.

\$138,400,000

8,000,000 Class B Non-Voting Shares

The Class B Non-Voting Shares offered hereby are being issued and sold by Alliance Atlantis Communications Inc. ("Alliance Atlantis") in Canada and the United States.

The outstanding Class B Non-Voting Shares are listed for trading on The Toronto Stock Exchange and the Nasdaq National Market. The Toronto Stock Exchange has conditionally approved the listing of the Class B Non-Voting Shares offered hereby and the Class B Non-Voting Shares issuable upon the exercise of the overallotment option described below, subject to Alliance Atlantis fulfilling all of the requirements of The Toronto Stock Exchange on or before October 18, 2001. Application has been made to quote these Class B Non-Voting Shares on the Nasdaq National Market. On August 1, 2001, the closing sale price of our Class B Non-Voting Shares on The Toronto Stock Exchange was \$17.18 and on the Nasdaq National Market was US\$11.06.

Our outstanding share capital consists of Class A Voting Shares, Class B Non-Voting Shares and Class C Special Voting Shares, all of which have similar attributes, except for voting rights and conversion. Our Class B Non-Voting Shares carry no votes. Holders of our Class B Non-Voting Shares have the benefit of certain "coat-tail provisions" that provide those holders with specified rights if a take-over bid is made for our Class A Voting Shares. See "Description of Share Capital."

The offering price of the Class B Non-Voting Shares was determined by negotiation between Alliance Atlantis and Merrill Lynch Canada Inc., Goldman Sachs Canada, RBC Dominion Securities Inc., TD Securities Inc., BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc. and Scotia Capital Inc. (the "Underwriters").

In the opinion of counsel, the Class B Non-Voting Shares will qualify as investments under certain statutes as set out under "Eligibility for Investment."

Price: \$17.30 per Class B Non-Voting Share

	Price Per Share	Total
Public Offering Price	\$17.30	\$138,400,000
Underwriting Commission	\$865	\$6,920,000
Proceeds, before expenses, to Alliance Atlantis Communications Inc. ⁽¹⁾	\$16.435	\$131,480,000

(1) Before deducting expenses of this distribution estimated to be \$2.9 million which, together with the Underwriters' fee, will be paid from the general funds of Alliance Atlantis.

The Underwriters may also purchase up to 1,200,000 Class B Non-Voting Shares from Alliance Atlantis at the public offering price less the underwriting commission, exercisable at any time up to 30 days after the date of the prospectus. The Underwriters may exercise this option solely to cover overallotments, if any. This prospectus also qualifies the grant of the overallotment option and the issuance of the Class B Non-Voting Shares issuable on exercise of the overallotment option. If the Underwriters exercise the option in full, the total underwriting commissions will be \$8.0 million, and the total proceeds to Alliance Atlantis, before expenses, will be \$151.2 million.

Affiliates of RBC Dominion Securities Inc., TD Securities Inc., BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc. and Scotia Capital Inc. are lenders to us under our revolving bank credit facility. Consequently, Alliance Atlantis may be considered to be a connected issuer of RBC Dominion Securities Inc., TD Securities Inc., BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc. and Scotia Capital Inc. within the meaning of applicable Canadian securities legislation. See "Relationships between the Company and Certain of the Underwriters" and "Use of Proceeds."

Investing in our Class B Non-Voting Shares involves risks. See "Risk Factors" beginning on page 12 of this prospectus.

In connection with this distribution, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Class B Non-Voting Shares at levels other than those which otherwise might prevail on the open market. See "Underwriting."

The Underwriters, as principals, conditionally offer the Class B Non-Voting Shares, subject to prior sale, if, as and when issued by Alliance Atlantis and accepted by the Underwriters in accordance with the conditions contained in the Purchase Agreement referred to under "Underwriting" and subject to the approval of certain legal matters on behalf of Alliance Atlantis by Torys and on behalf of the Underwriters by Goodman and Carr LLP and Skadden, Arps, Slate, Meagher & Flom LLP.

Subscriptions for the Class B Non-Voting Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of this distribution will take place on August 8, 2001 or on such other date as Alliance Atlantis and the Underwriters may agree, but not later than September 12, 2001 and that certificates representing the Class B Non-Voting Shares will be available for delivery on or about closing.

BBC Kids

S H O W
C A S E

S H O W
C A S E **ACTION**

BBC CANADA

S H O W
C A S E **diva**



HISTORY
TELEVISION

**NATIONAL
GEOGRAPHIC
CHANNEL**

HGTV
HOME & GARDEN TELEVISION

**ALLIANCE
ATLANTIS**

SCREAM

THE
INDEPENDENT
FILM
CHANNEL
CANADA **IFC**

food
NETWORK
CANADA

SÈRIES+

HiSToRiA



LIF
e
life network™

Discovery
Health

one
the
Body, Mind & Spirit
channel

The BBC logo is a trademark of The British Broadcasting Corporation.
The Discovery Health Channel logo is a trademark of Discovery Communications, Inc.
NATIONAL GEOGRAPHIC CHANNEL and the Yellow Border Design are trademarks of National Geographic Society; used with permission.



AUSTIN POWERS
THE SPY WHO
SHAGGED
ME



LIFE WITH
JUDY GARLAND
ME & MY SHADOWS



rich co

VERTICALLY
INTEGRATED
BROADCASTER,
CREATOR &
DISTRIBUTOR
OF FILMED
ENTERTAINMENT
CONTENT



Content



BRIDGET JONES'S DIARY

Crime
Scene
Investigation

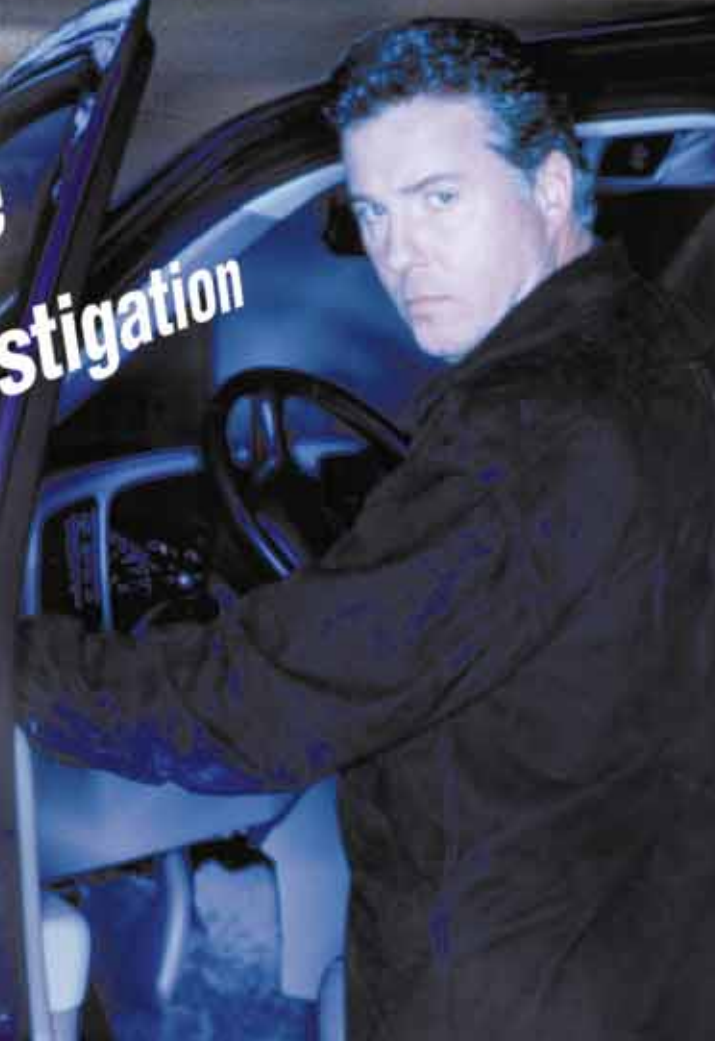


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You should rely only on the information contained or incorporated by reference in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

All dollar amounts in this prospectus are expressed in Canadian dollars, except where otherwise indicated. References to “Cdn\$” or “\$” are to Canadian dollars and references to “US\$” are to United States dollars. This prospectus contains a translation of some Canadian dollar amounts into U.S. dollars solely for your convenience. See “Exchange Rate Information.”

The consolidated financial statements and certain other financial information of Alliance Atlantis Communications Inc. and its consolidated subsidiaries (collectively, “Alliance Atlantis” or the “Company”) contained in this prospectus or incorporated herein by reference are, except where otherwise noted, reported in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada or Canadian GAAP. To the extent applicable to our consolidated financial statements included elsewhere in this prospectus, these principles conform in all material respects with accounting principles generally accepted in the United States or U.S. GAAP, except as described in Reconciliation to U.S. GAAP, found elsewhere in this prospectus.

Certain names used in this prospectus are trademarks of Alliance Atlantis. This prospectus also includes references to trademarks, product names and company names of other companies.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements include, among other things: our anticipated growth strategies; our intention to launch new digital specialty television channels; anticipated trends in our business, including trends in viewer acceptance, both of our programs and our specialty channels; the costs of producing new motion pictures, television productions and operating and launching specialty channels; our ability to maximize the long term value of our library; and our ability to expand our distribution activities.

The forward-looking statements included in the prospectus are subject to risks, uncertainties and assumptions about Alliance Atlantis. Our actual results of operations may differ materially from the forward-looking statements as a result of, among other things, general risks related to the entertainment industry, the success of our digital specialty television channels, competition within the production and distribution industries, penetration of prime time channel broadcasts, the potential for budget overruns and other production risks, changes in government regulations that could affect our specialty television channels, our reliance on key personnel, current accounting methods applicable to our industry, new accounting standards for our industry to be introduced, our substantial indebtedness, fluctuating results of operations, program delivery schedules, changes in government incentive programs or tax laws, foreign economic and exchange rate risks, our labour relations, our ability to effectively manage our acquisitions, constraints on the issue and transfer of our voting shares, control of Alliance Atlantis by key personnel, fluctuation of the market price of our Class B Non-Voting Shares and the other risk factors described under "Risk Factors." We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur.

ENFORCEMENT OF CERTAIN CIVIL LIABILITIES

We are incorporated under the *Canada Business Corporations Act*. A substantial portion of our assets are located outside of the United States and most of our directors and officers, as well as the experts named in this prospectus, are residents of Canada or other jurisdictions outside of the United States. As a result, it may be difficult for investors to effect service within the United States upon Alliance Atlantis or those directors, officers and experts who are not residents of the United States, or to realize in the United States upon judgments of courts of the United States predicated upon the civil liability provisions of the United States federal securities laws.

Alliance Atlantis has been advised by Torys that there is some doubt as to the enforceability in Canada by a court in original actions, or in actions to enforce judgments of United States courts, of civil liabilities predicated upon United States federal securities laws.

EXCHANGE RATE INFORMATION

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,				
	2001	2000	1999	1998	1997
High	0.6889	0.6925	0.7055	0.7317	0.7513
Low	0.6336	0.6607	0.6341	0.6832	0.7228
Average	0.6648	0.6810	0.6629	0.7112	0.7335
Period End	0.6336	0.6879	0.6626	0.7052	0.7228

On July 31, 2001, the inverse of the Noon Buying Rate was US\$0.6532 = \$1.00.

SUMMARY

The following summary highlights more detailed information contained elsewhere in this prospectus. You should read the entire prospectus, including, in particular, the “Risk Factors” beginning on page 12 and the financial statements (including all notes) presented later in this prospectus. References to “fiscal” refer to our results of operations for the twelve-month period ended March 31 of that year.

The Company

We are a leading, vertically integrated, Canadian broadcaster, creator and international distributor of filmed entertainment content, with significant ownership, either wholly or in part, of 18 complementary specialty television channels. In fiscal 2001, we generated \$806.1 million in revenue and \$133.6 million in earnings before interest, income taxes, amortization, minority interests, equity interest in affiliates and investment gains (“EBITDA”). Our principal businesses are conducted through our Broadcast Group, our Motion Picture Group and our Television Group.

Broadcast Group

Our Broadcast Group is a leading owner and operator of specialty television channels in Canada through our significant ownership of 18 complementary specialty channels, known as cable/niche networks in the U.S., that are focused on three core genres: movies/drama, fact/documentary and lifestyle. We control or are equal partners in 14 of these channels and have minority interests in the other four channels, including a 33% interest in Headline Media Group Inc., a publicly traded Canadian specialty television broadcaster. Of these 18 channels, we currently operate five national, English-language channels which are required to be carried on every major English-language cable system in Canada at a negotiated fee. We are partners in two French-language channels which are required to be carried by cable operators in Quebec at a negotiated fee. Seven of these 18 channels are new digital specialty channels that we intend to launch and operate in the fall of 2001. We have signed key carriage agreements for these channels and continue to pursue agreements with other Canadian cable operators. We also own minority interests in the three other digital channels which are also scheduled for launch in the fall of 2001. The following table describes our specialty channels:

Specialty Channel	Analog/ Digital	Must Carry	Equity Ownership	Year of Launch	Viewing Subscribers(6) (Millions)	Basic Subscriber Penetration(6)
Movies/Drama						
Showcase	Analog	Yes	100%	1995	5.6	72%
Showcase Diva	Digital	No	100%	2001(3)	—	—
Showcase Action	Digital	No	100%	2001(3)	—	—
The Independent Film Channel Canada(1)	Digital	Yes	95%	2001(3)	—	—
BBC Canada	Digital	No	50%	2001(3)	—	—
BBC Kids	Digital	No	50%	2001(3)	—	—
Series+(2)(4)	Analog	Yes	50%	2000	0.6	22%
Scream(2)	Digital	No	49%	2001(3)	—	—
Fact/Documentary						
History Television	Analog	Yes	88%	1997	4.8	62%
National Geographic Channel	Digital	No	50%	2001(3)	—	—
Historia(2)(4)	Analog	Yes	50%	2000	0.6	22%
The Score(2)(5)	Analog	Yes	33%	1997	4.9	—
Lifestyle						
Life Network	Analog	Yes	100%	1995	5.6	72%
HGTV Canada	Analog	Yes	67%	1997	4.5	58%
Discovery Health Channel	Digital	Yes	65%	2001(3)	—	—
Food Network Canada	Analog	Yes	51%	2000	3.7	55%
Pridevision(2)(5)	Digital	Yes	33%	2001(3)	—	—
One: The Mind, Body and Spirit Channel(2)	Digital	Yes	29%	2001(3)	—	—

(Footnotes on following page)

- (1) Subject to the approval of the Canadian Radio-television and Telecommunications Commission (the “CRTC”) in connection with our recent acquisition of Salter Street Films Limited.
- (2) Not operated by Alliance Atlantis.
- (3) Proposed launch in the fall of 2001.
- (4) French language.
- (5) Owned through our 33% interest in Headline Media Group.
- (6) As of March 31, 2001, except for The Score, which is as of February 28, 2001, as reported by Headline Media Group. “Basic subscriber penetration” means the number of cable and direct-to-home (“DTH”) subscribers to a channel as a percentage of cable and DTH subscribers who have access to that channel.

We currently earn revenue from fees paid to us by cable, DTH and other broadband system operators based on fees paid to them by subscribers to our specialty channels, as well as directly from advertisers who purchase advertising on our specialty channels. Most Canadian specialty channels, including our own, have been launched since 1995 and are experiencing significant growth in revenue from both subscription fees and advertising. In fiscal 2001, our revenue from subscription fees, which accounted for approximately 61% of the Broadcast Group’s revenue, grew by 21% and our advertising revenue grew by 26%.

In fiscal 2001, our Broadcast Group accounted for 14% of our revenue (\$114.6 million) and 31% of our EBITDA (\$40.8 million).

Motion Picture Group

Our Motion Picture Group is a leading distributor of films in Canada, with approximately 100 motion pictures released in calendar 2000. According to AC Nielsen EDI Inc., we led the Canadian market in the first six months of calendar 2001 with an 18% box office share. We primarily distribute films from leading independent production companies to theaters, video, DVD and on pay-per-view, pay, specialty and free television. We have long-term exclusive Canadian motion picture distribution agreements with New Line Cinema Corp., Miramax Film Corp., USA Films and Artisan Entertainment Inc. We believe that these relationships are based on our ability to generate higher per capita revenue per film due to our extensive knowledge, presence and experience in the Canadian market. Recent films that we distributed from these producers include *Scary Movie 2*, *Blow*, *Bridget Jones’s Diary*, *Spy Kids*, *Traffic* and *Chocolat*. Upcoming releases include *Rush Hour 2*, *The Lord of the Rings Trilogy*, *The Shipping News* and Martin Scorsese’s *Gangs of New York*, starring Leonardo DiCaprio. We distribute motion pictures in all media in the United Kingdom through our wholly owned subsidiary, Momentum Pictures Limited, and have the right to exploit titles from the Studio Canal library on DVD. We also operate a 24 screen chain of upscale, art-house cinemas in Canada in partnership with Famous Players, a subsidiary of Viacom, Inc.

Our Motion Picture Group also produces a small number of independent art-house films that are generally director-driven, and require relatively modest capital investment. Upcoming releases include *51st State*, directed by Ronny Yu and starring Samuel L. Jackson and Robert Carlisle, *Double Down*, starring Nick Nolte and *Owning Mahowny*, starring Minnie Driver and Philip Seymour Hoffman. The 20 films that we produced during the last four fiscal years had an average production budget of approximately \$6.7 million each and we covered, on average, approximately 70% of our production budgets with pre-sales.

In fiscal 2001, our Motion Picture Group accounted for 27% of our revenue (\$221.4 million) and 22% of our EBITDA (\$28.9 million).

Television Group

Our Television Group is the largest producer and distributor of prime-time dramatic television programs in Canada and among the leading English-language dramatic television producers in the world. This business is geographically diversified, with approximately 30%, 42% and 28% of revenue in fiscal 2001 originating from Canada, the United States and the rest of the world, respectively. In fiscal 2001, we produced and

distributed 176 hours of television series (including nine series renewals), 20 hours of television movies and mini-series, 45 hours of children's programming under our AAC Kids label and 70 hours of fact-based documentary programming under our AAC Fact brand. Our broadcast customers include ABC, CBS, FOX, NBC, TNN, UPN, HBO, Fox Family, Showtime, TNT, The Disney Channel, The Sci-Fi Channel and USA Network in the United States; CBC, CTV, Global and YTV in Canada; and Channel 5 in the U.K., Studio Canal and TF1 in France and Kirsch Group in Germany. During the last four fiscal years, we covered, on average, approximately 85% of our television production budgets with pre-sales.

Our television distribution business is centered around our new productions and our extensive, valuable library of approximately 15,000 hours of programming rights, including approximately 11,000 hours of Canadian programming rights and approximately 4,000 hours of world-wide programming rights. Our library is comprised of both our own and third-party programming, including television series, movies and mini-series and over 4,400 motion pictures. We distribute 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.

In fiscal 2001, our Television Group accounted for 56% of our revenue (\$448.1 million) and 54% of our EBITDA (\$72.1 million).

Recent Developments

In July 2001, we announced a partnership with Discovery Communications, Inc. to launch Discovery Health Channel in Canada. We will own 65% and Discovery Communications will hold 35% of the equity in this new channel, which is scheduled to launch in the fall of 2001.

In July 2001 we received 27 Primetime Emmy® Award nominations for our television productions. *Life With Judy Garland: Me and My Shadows*, starring Judy Davis, received 13 nominations including best mini-series, the third highest number of any program after *The Sopranos* and *West Wing*. *Nuremberg*, starring Alec Baldwin and Brian Cox, received four nominations, including best mini-series. Our dramatic series, *CSI: Crime Scene Investigation*, received four nominations, our mini-series, *Haven*, received three nominations and our television movie, *When Billie Beat Bobby*, received two nominations. We also received a nomination for *The Awful Truth*, a documentary created by and starring Michael Moore.

In July 2001, we notified the CRTC of our intention to file an application for a conventional television broadcast license to serve the Toronto market. The deadline for making this application is August 8, 2001.

In June 2001, we announced that we had signed digital channel carriage agreements with Shaw Communications Inc. and Star Choice Communications Inc., in which Shaw and Star Choice agreed to distribute seven new digital specialty television channels which we plan to launch in the fall of 2001 on Shaw's cable systems and Star Choice's DTH satellite service. We also announced we had entered into a digital channel carriage agreement with Bell ExpressVu L.P. for a number of our new digital specialty television channels. According to Shaw, it is Western Canada's largest cable operator with approximately 2.2 million subscribers and Star Choice, which is wholly owned by Shaw, has approximately 560,000 digital DTH subscribers in Canada. According to BCE Inc., ExpressVu's parent company, ExpressVu is Canada's largest DTH provider with approximately 800,000 subscribers. As of March 31, 2001, Shaw, Star Choice and ExpressVu collectively had approximately 1.5 million digital subscribers or approximately 75% of the growing Canadian digital specialty television market.

In May 2001, we announced our agreement to acquire a 29.9% equity interest in One: The Body, Mind and Spirit Channel, which is also expected to launch in the fall of 2001. We also hold an option to increase our total equity interest to 33.3% of the channel.

In March 2001, TNN (The National Network, a subsidiary of Viacom, Inc.) acquired certain second window United States broadcast rights for the prime time drama series *CSI: Crime Scene Investigation*, a 50/50 co-production between us and CBS Productions. The license fee for these U.S. second window rights is in excess of US\$1.6 million per episode, which we believe is a record fee for such rights. *CSI* ended the 2000/2001 broadcast season as the third highest rated show on U.S. television, after *Survivor II* and *E.R.*

Also in April 2001, we completed the acquisition of Salter Street, an integrated entertainment company that develops, produces and distributes filmed entertainment and has been awarded a digital specialty television channel license by the CRTC for The Independent Film Channel Canada. The Independent Film Channel Canada is expected to launch in the fall of 2001. The license for this channel has, in accordance with CRTC requirements, been placed in trust until the CRTC has approved the transfer of the license pursuant to our acquisition of Salter Street.

Business Strategy

Our business strategy is to increase our profitability and improve upon our leading market positions by, among other things, maximizing the vertical integration of our complementary television and motion picture production groups with our focused broadcasting business, as well as growing each of these businesses. The primary elements of our business strategy are as follows:

- leverage our existing broadcast platform by selectively growing our channel portfolio;
- build strong relationships with leading media companies;
- capitalize on our extensive programming library by supplying programming to our specialty channels and selling this programming to Canadian and other broadcasters around the world;
- expand our motion picture distribution and television licensing activities internationally, on a selective basis;
- minimize motion picture and television production exposure through pre-sales and a continued, focused approach on independent, art-house motion picture productions;
- diversify our television production slate by reducing the amount of high cost dramatic programming and increasing the amount of lower cost comedy, children's and fact based programming; and
- capitalize on the favorable Canadian media environment, including incentives, investments and programming requirements.

Registered Office

Our full name is Alliance Atlantis Communications Inc. and we are incorporated under the *Canada Business Corporations Act*. Our registered and principal executive office is located at 121 Bloor Street East, Suite 1500, Toronto, Ontario M4W 3M5 Canada. We also operate offices in Montreal, Edmonton and Halifax in Canada, Los Angeles, London (England), Sydney (Australia) and Shannon (Ireland).

The Offering

Class B Non-Voting Shares offered by Alliance Atlantis	8,000,000
Common Shares outstanding after the offering	
Class A Voting Shares	3,806,652
Class B Non-Voting Shares	38,689,980
Class C Special Voting Shares (as converted)	58,715
Total Common Shares	42,555,347
Use of proceeds	We estimate that our net proceeds from this offering, without exercise of the overallotment option, after deducting underwriting fees and expenses of the offering, will be approximately \$128.6 million (US\$84.0 million based on the Noon Buying Rate on July 31, 2001). We intend to use the net proceeds from this offering to repay a portion of the outstanding borrowings under our revolving credit facility with a syndicate of Canadian chartered banks. We intend to use the resulting increased credit availability under our credit facility for general corporate purposes, including the planned launch of our new digital specialty television channels. See “Use of Proceeds.”
Voting Rights	Class B Non-Voting Shares do not carry any votes. Each holder of Class A Voting Shares and Class C Special Voting Shares is entitled to one vote per share.
Conversion	If, among other things, a take-over bid is made for our Class A Voting Shares (but not for the Class B Non-Voting Shares) or our board of directors determines that we are no longer required by Canadian law to be Canadian-controlled, each Class B Non-Voting Share will become convertible into a Class A Voting Share, subject to certain conditions. Each Class A Voting Share is convertible at any time at the option of the holder, into a Class B Non-Voting Share. The Class C Special Voting Shares are convertible at the option of the holder into Class B Non-Voting Shares on the basis of 20 Class B Non-Voting Shares for each Class C Special Voting Share held. The Class C Special Voting Shares will automatically convert into Class B Non-Voting Shares on September 21, 2001.
Risk Factors	See “Risk Factors” and other information included in this prospectus for a discussion of certain factors you should consider carefully before deciding to invest in our Class B Non-Voting Shares.
Nasdaq National Market trading symbol	AACB
Toronto Stock Exchange trading symbol	AAC.B

The number of Class B Non-Voting Shares outstanding after this offering excludes 4,873,979 Class B Non-Voting Shares reserved for issuance under our stock option plans, of which options to purchase 2,804,732 Class B Non-Voting Shares, at an average price of \$21.78, have been granted. This number also assumes that the underwriter’s overallotment option is not exercised. If the overallotment option is exercised in full, we will issue and sell an additional 1,200,000 Class B Non-Voting Shares.

Summary Financial Data

You should read the following summary of certain of our historical consolidated financial data in conjunction with our audited consolidated financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus. 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 the reconciliation to U.S. GAAP included elsewhere in this prospectus. Our fiscal year ended March 31, 1999 includes the results of Atlantis Communications Inc. (“Atlantis”) and its subsidiaries from September 21, 1998, the date of the merger (the “Merger”) between Atlantis and a wholly owned subsidiary of ours.

	Year Ended March 31,				
	2001	2000	1999(1)	1998	1997
	(In millions, except per share amounts)				
Statement of Earnings					
Revenue	\$806.1	\$771.6	\$633.4	\$385.2	\$282.6
Direct operating expenses	580.3	592.4	502.7	302.6	214.9
Gross profit	225.8	179.2	130.7	82.6	67.7
Operating expenses	92.2	73.0	71.4	51.3	42.5
EBITDA(2).	133.6	106.2	59.3	31.3	25.2
Amortization	26.7	14.5	11.4	5.1	4.5
Interest	61.6	36.3	22.9	3.6	1.3
Net earnings	\$35.0	\$39.1	\$(27.3)	\$19.9	\$17.5
Earnings per Share					
Basic	\$1.10	\$1.31	\$(1.44)	\$1.38	\$1.47
Diluted	\$1.09	\$1.25	\$(1.44)	\$1.28	\$1.39
U.S. GAAP					
EBITDA(2).	\$113.8	\$98.7	\$45.1	\$29.9	\$22.0
Net earnings	17.8	35.4	(38.7)	17.3	15.0
Earnings per Share					
Basic	\$0.56	\$1.18	\$(1.89)	\$1.20	\$1.26
Diluted	\$0.56	\$1.13	\$(1.89)	\$1.15	\$1.21
		March 31, 2001		March 31, 2000	
		Actual	As adjusted(3) (Unaudited)		
			(In millions)		
Balance Sheet Data (at period end)					
Cash and cash equivalents		\$—	\$33.1	\$1.0	
Total assets		1,768.9	1,924.9	1,430.4	
Total debt		615.5	562.0	469.9	
Total shareholders' equity		598.6	789.1	571.5	
U.S. GAAP					
Total shareholders' equity		560.4	750.9	550.1	

	Year Ended March 31,				
	2001	2000	1999(1)	1998	1997
(In millions, except for units and hours)					
Other Financial Data					
Capital Expenditures	\$22.0	\$19.8	\$16.8	\$6.3	\$5.2
Segmented Revenue					
Broadcast Group	\$114.6	\$93.4	\$59.6	\$23.0	\$19.9
Motion Picture Group	221.4	229.1	180.4	149.5	113.9
Television Group	448.1	412.0	382.5	196.5	122.4
Other	22.0	37.1	10.9	16.2	26.4
Total Revenue	\$806.1	\$771.6	\$633.4	\$385.2	\$282.6
Segmented EBITDA					
Broadcast Group	\$40.8	\$29.7	\$12.9	\$1.2	\$1.0
Motion Picture Group	28.9	34.2	18.3	26.0	16.0
Television Group	72.1	49.2	32.0	16.8	12.0
Other	(8.2)	(6.9)	(3.9)	(12.7)	(3.8)
Total EBITDA	\$133.6	\$106.2	\$59.3	\$31.3	\$25.2
Operating Data					
Library Revenue	\$134.5	\$145.3	\$106.7		
Motion Picture Production Deliveries (units)	3	6	6		
Television Production Deliveries (hours)					
Television Series	176.0	190.5	267.0		
Television Movies	20.0	28.0	30.0		
AAC Kids	44.5	58.5	6.5		
AAC Fact	69.5	—	—		
Broadcast Subscribers(4)	31.0	21.9	16.6		

- (1) Includes the effect of \$49.0 million (\$81.4 million pretax) of merger and restructuring expenses related to the Merger.
- (2) EBITDA is not a measure recognized under Canadian or U.S. GAAP. We have defined EBITDA, calculated using figures determined in accordance with Canadian GAAP, as earnings before interest, income taxes, amortization, minority interests, equity interest in affiliates and investment gains. We have defined EBITDA, calculated using figures determined in accordance with U.S. GAAP, as EBITDA under Canadian GAAP adjusted for items a, b, e and i in the Reconciliation to U.S. GAAP found elsewhere in this prospectus, excluding the effect of income taxes. While many in the financial community consider EBITDA to be an important measure of operating performance, it should be considered in addition to, but not as a substitute for, earnings before undernoted, net earnings, cash flow and other measures of financial performance prepared in accordance with Canadian GAAP which are presented in our consolidated financial statements included elsewhere in this prospectus. In addition, our calculation of EBITDA may be different than the calculation used by other companies and therefore comparability may be affected. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of other measures of liquidity and operations.
- (3) As adjusted to give effect to (a) the acquisition, in April 2001, of Salter Street for total consideration of \$82.3 million consisting of 3,040,336 Class B Non-Voting Shares and \$24.6 million in cash and (b) this offering of Class B Non-Voting Shares, without giving effect to the over-allotment option, and the application of the net cash proceeds from it to repay indebtedness under our credit facility. See “Use of Proceeds.”
- (4) Represents aggregate subscriptions for all channels.

RISK FACTORS

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

Risks Related to Alliance Atlantis and the Entertainment Industry

Some or all of our television programs, motion pictures or specialty television channels may not be successful.

The television and motion picture industries and specialty television channel 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 channel as revenue 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 channel’s content, but also to the reviews of critics, promotions, the quality and acceptance of other competing programs released into, or channels 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 channels could have an adverse impact on our businesses, results of operations, prospects or 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. A substantial portion of our Broadcasting Group’s revenues are from advertising sales. We compete for advertising sales with other television channels, radio and print media. Our inability to generate advertising revenue could adversely impact our operating results, prospects or financial condition. Specialty television channel 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.

Generally, television programs are produced under contracts that provide for license fee revenue 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 the 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 channels 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 channels.

The success of our digital specialty television channels cannot be guaranteed.

We have recently announced the proposed launch of certain of our recently licensed digital specialty channels. We have not commenced operating these digital specialty television channels. While we have entered into carriage agreements with certain cable operators, we cannot assure you that these cable operators will continue to carry our digital channels or will carry them on terms favorable to us, nor can we assure you that any of these channels will be successful.

In addition, certain of the costs associated with launching our digital specialty channels cannot be quantified at this time. Unforeseen expenses in respect of the launch of our channels could have an adverse impact on our business, results of operations, prospects or financial condition. Specialty television channel 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 channel depends, to a significant extent, on its initial acceptance by the viewing public. The CRTC

tends to license a number of new specialty television channels from time to time and it cannot be determined in advance whether penetration rates will be sufficient to ensure the success of those digital specialty television channels for which the CRTC granted licenses in November 2000. 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 channels. 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.

Our production and distribution 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 and some of which own their own television networks. 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 channels, 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 channels 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 or financial condition.

We may not be able to maintain our penetration of prime time channel broadcasts.

The number of Canadian and U.S. channel prime time slots remains 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 channels. We cannot assure you that we will be able to increase or maintain our penetration of prime time channel broadcasts and any failure to do so could have an adverse impact on our businesses, results of operations, prospects or financial condition.

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 or financial condition.

Changes in government regulation could adversely affect our results of operations, prospects or financial condition.

Our specialty television channels 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 channels, 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.

Pursuant to our acquisition of Salter Street, CRTC regulations required us to place the assets of Salter Street Broadcasting, which include the license for the Category 1 digital specialty channel, The Independent Film Channel Canada, into trust, pending the CRTC's review of the change in control of the Salter Street digital specialty channel licenses. If the CRTC does not approve the acquisition, the CRTC could require us to sell some or all of the Salter Street entities that have been granted digital specialty channel licenses on terms which may not be favorable to us.

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.

We rely, to a significant degree on the experience, leadership and skills of Michael MacMillan, Seaton McLean, Edward Riley and Peter Sussman (collectively, the "Alliance Atlantis Principals"), Victor Loewy, Judson Martin and Phyllis Yaffe. 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 Alliance Atlantis 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 or financial condition.

Current accounting methods applicable to our industry may result in fluctuations and may not be indicative of results for future periods.

For periods prior to and including fiscal 2001, we have prepared our financial statements in accordance with Financial Accounting Standard No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films" ("FASB 53"), which required that 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 revenue earned in the current period for that title to management's estimate of the total revenue 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 this 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 motion picture or television program. 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, not exceeding ten years. As a result, our financial results fluctuate from period to period.

New accounting standards for our industry have been introduced, which will have a significant impact on our financial statements.

In June 2000, the American Institute of Certified Public Accountants issued Statement of Position 00-2 (“SOP 00-2”), that provides guidance on generally accepted accounting principles to all producers or distributors that own or hold rights to distribute or exploit motion pictures and television programs. The new standard is effective for our current fiscal year which began on April 1, 2001 and will be applied under both Canadian and U.S. GAAP. Some of the differences between FASB 53 and SOP 00-2 are:

- the costs of advertising and marketing for motion pictures and television programs are no longer capitalized, but are expensed as incurred;
- amortization periods for motion pictures and television programs are limited to a maximum of ten years;
- abandoned projects and development expenses for projects not set for production are written off within three years from the time of the first capitalized transaction;
- capitalization of production costs for episodic television series is limited to contracted-for revenue, on an episode-by-episode basis, until the criteria for recognizing forecasted secondary market revenue are met; and
- certain revenue recognition policies for the distribution of motion pictures and television programs are more clearly defined.

U.S. industry participants took significant non-cash charges in calendar 2000 as a result of adopting SOP 00-2. We have not yet determined the impact the adoption of SOP 00-2 will have on our financial statements, nor the amount of this one-time non-cash charge, but we expect it to be material.

We have substantial indebtedness which could adversely affect our financial health.

We have a significant amount of indebtedness. As of March 31, 2001, our total debt was \$615.5 million and our debt to total capitalization ratio was 50.7%. Our substantial indebtedness and our ability and the ability of our subsidiaries to incur additional indebtedness in the future, could have important consequences to you. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital, capital expenditures, development and production cost 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; and
- place us at a competitive disadvantage compared to competitors that have less debt.

Our obligations under our credit facility and other debt instruments 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 our credit facility and our senior subordinated debt, impose certain operating and financial restrictions on us. Our credit facility requires us to maintain specified financial ratios and tests, among other obligations. In addition, our credit facility restricts, among other things, our ability to: (a) declare dividends, redeem or repurchase capital stock or make other distributions to our shareholders; (b) prepay or redeem debt; (c) grant liens; (d) make loans, acquisitions and investments; (e) incur more debt; (f) amend or otherwise alter debt and other material agreements; (g) make capital expenditures; (h) engage in mergers, reorganizations and asset sales out of the ordinary

course of business; (i) change our business; (j) engage in transactions with related parties; (k) enter into certain sale leaseback transactions; (l) incur development costs and distribution and production expenses not supported by adequate pre-sales; or (m) enter into productions without complying with certain completion bonding requirements. The agreement governing our senior subordinated debt also restricts many of these same activities. A failure to comply with the restrictions contained in our credit facility or the agreement governing our senior subordinated debt could lead to an event of default, which could result in an acceleration of such indebtedness. If indebtedness under these agreements 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.

Our financial position and results of operations fluctuate from period to period due to program delivery schedules and other factors and may not be indicative of results for future periods.

Our financial position and 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 financial position and 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 revenue is recognized when the programming is delivered pursuant to a non-cancellable agreement, provided the license period has commenced. Minimum guaranteed revenue from motion picture license agreements are typically recognized when the license period begins and the motion picture is delivered. Revenue 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 and delivery of the television program or motion picture.

Although industry practices are changing, due, in part, to increased competition from new channels, broadcasters make most of their annual programming commitments between February and June so that new 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 revenue are not earned on an even basis throughout the year. In particular, television revenue 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. Also, our debt generally increases substantially between our fiscal year end on March 31st and the end of our first quarter on June 30th as we finance productions to be delivered later in the year. In addition, the delivery schedules of motion pictures are difficult to predict and not consistent from year to year. Consequently, our motion picture revenue fluctuate from period to period.

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 \$85.8 million to us in fiscal 2001. 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 and the Canadian Audio-Visual Certification Office ("CAVCO"). In Canada, broadcasters and programming services are required to broadcast significant minimum amounts of programming with certified Canadian content. For a program to contribute to a broadcaster's satisfaction of its Canadian content obligations, it must be certified as a Canadian program by CAVCO or the CRTC. Under the regulations and policies of CAVCO or the CRTC, a program will qualify as a Canadian production if it is produced by Canadians, with the involvement of

Canadians in principal development, production and performing functions and if a substantial portion of the budget is spent on Canadian labor and services. 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 the reduction 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 (“SHAAELP”), in which we hold a 30% limited partnership interest, are dependent on existing Canadian, German and United Kingdom tax laws. These laws could change at any time and any such prospective change may limit or eliminate the ability of SHAAELP to sell such products.

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

A significant portion of our revenue 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 2001 were derived from our foreign customers, the majority of which were paid in U.S. dollars. Exchange rates may vary substantially and have an adverse impact on our businesses, results of operations, prospects or financial condition.

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 revenue 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.

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 or financial condition.

We may not be able to effectively manage our acquisitions and their anticipated benefits may not be realized.

We have recently acquired Salter Street and several other businesses and may, in the future, make other selected acquisitions as the appropriate opportunity arises. The success of our business will depend upon our ability to manage effectively the operations of the entities we acquire and realize other anticipated benefits. The process of managing acquired businesses may involve unforeseen difficulties and may require a disproportionate amount of management resources. We cannot assure you that we will be able to manage successfully the operations of the businesses we acquire or that the anticipated benefits of our acquisitions will be realized.

Risks Related to this Offering and Owning Our Class B Non-Voting Shares

We have placed constraints on the issue and transfer of our voting shares to maintain minimum levels of Canadian ownership.

To ensure that we maintain minimum levels of Canadian ownership for regulatory purposes, we have instituted a voting and non-voting share structure and have placed constraints on the issue, voting and transfer of our non-voting shares. See “Business—Regulation.” To ensure that we comply with Canadian ownership requirements under the *Broadcasting Act* (Canada) and other legislation under which we derive the benefit of tax credits and industry incentives, our board of directors may refuse to permit the voting of or registration of any transfer of our shares if such voting or transfer were to result in persons other than Canadians owning or controlling more than the permitted number of our shares or the votes attaching to such shares, under such legislation. Our voting structure and the constraints and transfer restrictions on our non-voting shares may adversely affect the liquidity of our non-voting shares and may have an impact on their trading price. They may also prevent or delay a merger, takeover or other change in our control and thus discourage attempts to acquire us.

We are currently controlled by our principal shareholders and we have change of control provisions in our debt instruments and other agreements, which could limit the price investors are willing to pay for our shares and prevent or delay a merger or takeover.

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. The effect of this control may be to limit the price that investors may be willing to pay in the future for our Class B Non-Voting Shares, or to prevent or delay a merger, takeover or other change in our control and thus discourage attempts to acquire us. Also, an event of default under our credit facility could be triggered along with certain obligations under other agreements, including an obligation to make an offer to purchase the senior subordinated debt, in the event that any person other than the Alliance Atlantis Principals (or entities which they control) acquires control of Alliance Atlantis.

The market price of our Class B Non-Voting Shares may be subject to significant fluctuation.

The market price of our Class B Non-Voting Shares may be subject to significant fluctuation in response to numerous factors, including variations in our annual or quarterly financial results or those of our competitors, changes by financial research analysts in their recommendations or estimates of our earnings, conditions in the economy in general or in the broadcasting, motion picture or television sectors in particular, unfavorable publicity or changes in applicable laws and regulations or other factors. Moreover, from time to time, the stock market experiences significant price and volume volatility that may affect the market price of our Class B Non-Voting Shares for reasons unrelated to our economic performance. No prediction can be made as to the effect, if any, that future sales of Class B Non-Voting Shares or the availability of shares for future sale (including shares issuable upon the exercise of stock options) will have on the market price of the Class B Non-Voting Shares prevailing from time to time. Sales of substantial numbers of such shares, or the perception that such sales could occur, could adversely affect the prevailing price of our Class B Non-Voting Shares.

We may need to raise additional capital to grow our business, which we may not be able to do.

Our future liquidity and capital requirements are difficult to predict because they depend on numerous factors. As a result, we may not be able to generate sufficient cash from our operations to meet additional working capital requirements or capital expenditures or to take advantage of investment or acquisition opportunities. Accordingly, we may need to raise additional capital in the future.

Our ability to obtain additional financing will be subject to a number of factors including market conditions and our operating performance. These factors may make the timing, amount, terms and

conditions of additional financing unattractive for us. If we raise additional funds by selling equity securities, the relative equity ownership of our existing investors could be diluted or new investors could obtain terms more favorable than previous investors. If we raise additional funds through debt financing, we could incur significant borrowing costs. If we are unable to raise additional funds when needed, or on terms acceptable to us, our ability to operate and grow our business could be impeded.

USE OF PROCEEDS

We estimate that our net proceeds from this offering, after deducting underwriting fees and expenses of the offering, will be approximately \$128.6 million (US\$84.0 million based on the Noon Buying Rate on July 31, 2001). If the underwriters' overallotment option is exercised in full, such net proceeds would be \$148.3 million (US\$96.9 million based on the Noon Buying Rate). We intend to use the net proceeds from this offering to repay a portion of the outstanding borrowings under our revolving credit facility with a syndicate of Canadian chartered banks. We intend to use the resulting increased credit availability under our credit facility for general corporate purposes, including the planned launch of our new digital specialty television channels.

Five of the underwriters, RBC Dominion Securities Corporation and its Canadian affiliate, RBC Dominion Securities Inc., TD Securities (USA) Inc. and its Canadian affiliate, TD Securities Inc., BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc. and Scotia Capital Inc. are affiliates of Canadian chartered banks which are lenders under our credit facility. The net proceeds of the offering will be used to repay outstanding indebtedness owed to, among others, such affiliates. See "Relationships between the Company and Certain of the Underwriters."

DIVIDEND POLICY

We have not paid any dividends on our Class B Non-Voting Shares or any other of our common shares. Our current policy is to retain earnings for future growth. As a result, we do not intend to pay dividends in the foreseeable future. In addition, our revolving credit facility and the indenture governing our senior subordinated debt restrict the payment of dividends without the consent of the lender or the debt holders. Any future determination by us to pay dividends will be at the discretion of our board of directors and in accordance with the terms and conditions of our credit facility, our senior subordinated debt and any other indebtedness and will depend upon our financial condition, results of operations, capital requirements and other relevant factors.

PRICE RANGE AND TRADING VOLUME OF CLASS B NON-VOTING SHARES

Our Class B Non-Voting Shares are quoted on the Nasdaq National Market under the symbol "AACB" and listed on The Toronto Stock Exchange under the symbol "AAC.B." The following table sets forth, for the periods indicated, the high and low sale prices and trading volume of the Class B Non-Voting Shares on Nasdaq and the TSE.

	Nasdaq National Market			The Toronto Stock Exchange		
	High	Low	Volume	High	Low	Volume
	(U.S. dollars)			(Canadian dollars)		
1999						
First Calendar Quarter	\$18.50	\$12.88	420,700	\$27.50	\$19.55	6,021,074
Second Calendar Quarter	17.00	11.00	220,200	25.10	16.20	2,357,820
Third Calendar Quarter	13.25	9.69	252,400	19.55	14.55	3,323,491
Fourth Calendar Quarter	10.13	7.50	330,300	14.75	11.60	2,594,214
2000						
First Calendar Quarter	\$16.06	\$7.91	325,000	\$23.75	\$12.00	5,145,705
Second Calendar Quarter	14.38	10.13	100,200	21.00	15.50	2,264,659
Third Calendar Quarter	18.25	12.06	334,300	27.05	18.00	4,921,032
Fourth Calendar Quarter	17.31	12.00	117,400	26.30	18.00	2,826,977
2001						
First Calendar Quarter	\$15.00	\$10.56	115,700	\$22.00	\$16.50	11,283,855
Second Calendar Quarter	14.95	11.00	335,100	22.75	17.50	3,557,024
July 1–July 31	14.10	10.25	170,900	21.48	16.00	2,678,512

On August 1, 2001, the closing price of the Class B Non-Voting Shares was US\$11.06 on Nasdaq and \$17.18 on the TSE.

CAPITALIZATION

The following table sets forth our audited consolidated cash and cash equivalents and capitalization as of March 31, 2001 on an actual basis and as adjusted to give effect to (a) the acquisition, in April 2001, of Salter Street for total consideration of \$82.3 million, consisting of 3,040,336 Class B Non-Voting Shares and \$24.6 million in cash and (b) the offering of Class B Non-Voting Shares, without giving effect to the overallotment option, and the application of the net cash proceeds from it to repay indebtedness under our 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 consolidated financial statements and accompanying notes thereto appearing elsewhere in this prospectus.

	As of March 31, 2001	
	Actual	As adjusted (Unaudited)
	(In millions)	
Cash and cash equivalents	\$—	\$33.1
Debt (including current portion):		
Senior revolving credit facility	\$73.9	\$—
Term loans	58.8	79.2
Senior subordinated notes	474.0	474.0
Convertible debentures	8.8	8.8
Total debt	615.5	562.0
Total shareholders’ equity:		
Class A Voting Shares (unlimited authorized shares, 3,806,452 issued and outstanding, actual and as adjusted)	53.2	53.2
Class B Non-Voting Shares (unlimited authorized shares, 27,888,342 issued and outstanding, actual; 38,928,678 as adjusted)	470.5	661.0
Class C Special Voting Shares (275,000 authorized shares, 3,025 issued and outstanding, actual and as adjusted)	1.6	1.6
Cumulative translation adjustment	(11.8)	(11.8)
Retained earnings	85.1	85.1
Total shareholders’ equity	598.6	789.1
Total capitalization	\$1,214.1	\$1,351.1

SELECTED FINANCIAL DATA

You should read the following summary of certain of our historical consolidated financial data in conjunction with our audited consolidated financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus. 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 the Reconciliation to U.S. GAAP included elsewhere in this prospectus. Our fiscal year ended March 31, 1999 includes the results of Atlantis and its subsidiaries from September 21, 1998, the date of the Merger.

	Year Ended March 31,				
	2001	2000	1999(1)	1998	1997
	(In millions, except per share amounts)				
Statement of Earnings					
Revenue	\$806.1	\$771.6	\$633.4	\$385.2	\$282.6
Direct operating expenses	580.3	592.4	502.7	302.6	214.9
Gross profit	225.8	179.2	130.7	82.6	67.7
Operating expenses	92.2	73.0	71.4	51.3	42.5
EBITDA(2)	133.6	106.2	59.3	31.3	25.2
Amortization	26.7	14.5	11.4	5.1	4.5
Interest	61.6	36.3	22.9	3.6	1.3
Net earnings	<u>\$35.0</u>	<u>\$39.1</u>	<u>\$(27.3)</u>	<u>\$19.9</u>	<u>\$17.5</u>
Earnings per Share					
Basic	\$1.10	\$1.31	\$(1.44)	\$1.38	\$1.47
Diluted	\$1.09	\$1.25	\$(1.44)	\$1.28	\$1.39
U.S. GAAP					
EBITDA(2)	\$113.8	\$98.7	\$45.1	\$29.9	\$22.0
Net earnings	17.8	35.4	(38.7)	17.3	15.0
Earnings per Share					
Basic	\$0.56	\$1.18	\$(1.89)	\$1.20	\$1.26
Diluted	\$0.56	\$1.13	\$(1.89)	\$1.15	\$1.21
Balance Sheet Data (at period end)					
Cash and cash equivalents	\$—	\$1.0	\$56.9	\$2.4	\$10.8
Total assets	1,768.9	1,430.4	1,366.1	580.1	350.6
Total debt	615.5	469.9	494.3	162.9	19.9
Total shareholders’ equity	598.6	571.5	454.9	219.4	148.5
U.S. GAAP					
Total shareholders’ equity	\$560.4	\$550.1	\$384.4	\$210.5	\$142.3

	Year Ended March 31,				
	2001	2000	1999(1)	1998	1997
(In millions, except for units and hours)					
Other Financial Data					
Capital Expenditures	\$22.0	\$19.8	\$16.8	\$6.3	\$5.2
Segmented Revenue					
Broadcast Group	\$114.6	\$93.4	\$59.6	\$23.0	\$19.9
Motion Picture Group	221.4	229.1	180.4	149.5	113.9
Television Group	448.1	412.0	382.5	196.5	122.4
Other	22.0	37.1	10.9	16.2	26.4
Total Revenue	\$806.1	\$771.6	\$633.4	\$385.2	\$282.6
Segmented EBITDA					
Broadcast Group	\$40.8	\$29.7	\$12.9	\$1.2	\$1.0
Motion Picture Group	28.9	34.2	18.3	26.0	16.0
Television Group	72.1	49.2	32.0	16.8	12.0
Other	(8.2)	(6.9)	(3.9)	(12.7)	(3.8)
Total EBITDA	\$133.6	\$106.2	\$59.3	\$31.3	\$25.2
Operating Data					
Library Revenue	\$134.5	\$145.3	\$106.7		
Motion Picture Production Deliveries (units)	3	6	6		
Television Production Deliveries (hours)					
Television Series	176.0	190.5	267.0		
Television Movies	20.0	28.0	30.0		
AAC Kids	44.5	58.5	6.5		
AAC Fact	69.5	—	—		
Broadcast Subscribers(3)	31.0	21.9	16.6		

- (1) Includes the effect of \$49.0 million (\$81.4 million pretax) of merger and restructuring expenses related to the Merger.
- (2) EBITDA is not a measure recognized under Canadian or U.S. GAAP. We have defined EBITDA, calculated using figures determined in accordance with Canadian GAAP, as earnings before interest, income taxes, amortization, minority interests, equity interest in affiliates and investment gains. We have defined EBITDA, calculated using figures determined in accordance with U.S. GAAP, as EBITDA under Canadian GAAP adjusted for items a, b, e and i in the Reconciliation to U.S. GAAP found elsewhere in this prospectus, excluding the effect of income taxes. While many in the financial community consider EBITDA to be an important measure of operating performance, it should be considered in addition to, but not as a substitute for, earnings before undernoted, net earnings, cash flow and other measures of financial performance prepared in accordance with Canadian GAAP which are presented in our consolidated financial statements included elsewhere in this prospectus. In addition, our calculation of EBITDA may be different than the calculation used by other companies and therefore comparability may be affected. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of other measures of liquidity and operations.
- (3) Represents aggregate subscriptions for all channels.

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

Overview

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the accompanying notes appearing elsewhere in this prospectus.

We are a leading vertically integrated Canadian broadcaster, creator and international distributor of filmed entertainment content with significant ownership, either wholly or in part, of 18 complementary specialty television channels.

The following table presents an unaudited consolidated summary of our operating results on a quarterly basis for the fiscal years ended March 31, 2001 and 2000 (in millions of dollars):

	Quarter Ended				Quarter Ended			
	March 31, 2001	December 31, 2000	September 30, 2000(1)	June 30, 2000(1)	March 31, 2000	December 31, 1999	September 30, 1999	June 30, 1999
Revenue	259.2	247.3	194.0	105.6	208.4	209.6	190.3	163.3
Gross profit	67.9	67.0	54.7	36.2	46.7	51.7	44.8	36.0
Net earnings	8.2	15.8	9.6	1.4	8.4	14.3	9.2	7.2

- (1) Net earnings of \$3.1 million for the quarter ended June 30, 2000 have been reduced by \$1.7 million, and net earnings of \$7.9 million for the quarter ended September 30, 2000 have been increased by the same amount.

We and our consolidated subsidiaries earn revenue from various sources, the most significant of which are described below.

Our Broadcast Group revenue is earned from fees paid to us by cable, DTH and other broadband systems operators based on fees paid to them by subscribers to our specialty channels, as well as directly from advertisers who purchase advertising on our specialty channels.

Our Motion Picture Group generates revenue from the production and distribution of motion pictures, the sale of video cassettes and DVDs, the arrangement of structured financing, the exhibition of motion pictures through our chain of cinemas and government assistance for both production and distribution activities.

We derive motion picture distribution revenue from license fees earned on domestic theatrical distribution, domestic television distribution and international distribution. License fees from theatrical distribution are earned from theater owners who exhibit films distributed by us in their theaters for a percentage of box office revenue. License fees from international motion picture distribution are generated from sub-distributors in foreign countries or territories. Licensing agreements with sub-distributors generally include the receipt of non-refundable guaranteed amounts.

Our structured financing business provides high yield loans to independent film and television producers. We derive revenue from interest on the loans and arrangement fees.

Our Television Group generates revenue from the production and distribution of television programming both domestically and internationally. There are several sources of revenue, including financing from equity investors, broadcast license fees and government assistance. Equity investors can be co-producers, broadcasters and government organizations, such as Telefilm and La Société de Développement des Entreprises Culturelles (SODEC). We generate revenue by licensing both internally produced television programming and acquired content to broadcasters and buyers world-wide. Government assistance with respect to production activity is provided in the form of government grants and tax credits.

Revenue classified under Other is derived primarily from SHAAELP, in which one of our subsidiaries has a 30% limited partnership interest. SHAAELP originates and sells structured financing products related

to the film and television industries by packaging items related to production services into limited partnerships and selling them to Canadian investors to encourage production in Canada. SHAAELP receives fees for selling these limited partnerships.

Results of Operations

The following table presents a consolidated summary of the Company's operating groups for the years ended March 31, 2001, 2000 and 1999 (in millions of dollars):

							% Increase (Decrease)	
	2001	%(1)	2000	%(1)	1999	%(1)	2001 over 2000	2000 over 1999
Revenue								
Broadcast	114.6	14.2	93.4	12.1	59.6	9.4	22.7	56.7
Motion Picture	221.4	27.5	229.1	29.7	180.4	28.5	(3.4)	27.0
Television	448.1	55.6	412.0	53.4	382.5	60.4	8.8	7.7
Other	22.0	2.7	37.1	4.8	10.9	1.7	(40.7)	240.4
	<u>806.1</u>	<u>100.0</u>	<u>771.6</u>	<u>100.0</u>	<u>633.4</u>	<u>100.0</u>	<u>4.5</u>	<u>21.8</u>
Direct Operating Expenses								
Broadcast	51.2	44.7	39.9	42.7	26.7	44.8	28.3	49.4
Motion Picture	174.0	78.6	183.0	79.9	147.6	81.8	(4.9)	24.0
Television	354.3	79.1	347.1	84.2	323.7	84.6	2.1	7.2
Other	0.8	3.6	22.4	60.4	4.7	43.1	(96.4)	376.6
	<u>580.3</u>	<u>72.0</u>	<u>592.4</u>	<u>76.8</u>	<u>502.7</u>	<u>79.4</u>	<u>(2.0)</u>	<u>17.8</u>
Gross Profit								
Broadcast	63.4	55.3	53.5	57.3	32.9	55.2	18.5	62.6
Motion Picture	47.4	21.4	46.1	20.1	32.8	18.2	2.8	40.5
Television	93.8	20.9	64.9	15.8	58.8	15.4	44.5	10.4
Other	21.2	96.4	14.7	39.6	6.2	56.9	44.2	137.1
	<u>225.8</u>	<u>28.0</u>	<u>179.2</u>	<u>23.2</u>	<u>130.7</u>	<u>20.6</u>	<u>26.0</u>	<u>37.1</u>
Operating Expenses	<u>92.2</u>	<u>11.4</u>	<u>73.0</u>	<u>9.5</u>	<u>71.4</u>	<u>11.3</u>	<u>26.3</u>	<u>2.2</u>
EBITDA(2)	<u>133.6</u>	<u>16.6</u>	<u>106.2</u>	<u>13.8</u>	<u>59.3</u>	<u>9.4</u>	<u>25.8</u>	<u>79.1</u>

- (1) The percentage columns show percentage of total revenue for revenue items, operating expenses and EBITDA, and percentage of group revenue for direct operating expenses and gross profit.
- (2) EBITDA is defined as earnings before interest, income taxes, amortization, minority interests, equity interest in affiliates and investment gains.

Fiscal 2001 Compared to Fiscal 2000

Revenue. Revenue was \$806.1 million for fiscal 2001 compared to \$771.6 million for fiscal 2000, representing an increase of \$34.5 million or 4.5%.

The Broadcast Group's revenue was \$114.6 million in fiscal 2001 compared to \$93.4 million in fiscal 2000, representing an increase of \$21.2 million or 22.7%. This increase was the result of the growth in subscription and advertising revenue in the existing channels and the contribution by three additional channels. Subscription and advertising revenue from existing channels increased by \$12.2 million as the trend of increasing popularity of specialty channels continued in fiscal 2001. The \$9.0 million balance was contributed by Series+ and Historia, which ended their free preview period in fiscal 2001, and Food Network Canada.

The Motion Picture Group's revenue was \$221.4 million in fiscal 2001 compared to \$229.1 million in fiscal 2000, representing a decrease of \$7.7 million or 3.4%. This decrease was primarily due to a

\$26.5 million decrease in motion picture production revenue, which was partially offset by increased revenue from our investment in Momentum Pictures, motion picture distribution and Alliance Atlantis Cinemas. Motion picture production revenue declined because we delivered only two motion pictures (*Marine Life* and *Possible Worlds*) in fiscal 2001, compared to six (*The Five Senses*, *Felicia's Journey*, *A Room for Romeo Brass*, *Stardom*, *Sunshine* and *The Last Witness*) in fiscal 2000. Momentum Pictures' revenue increased by \$12.7 million as fiscal 2001 represented its first full year of operation. Distribution revenue increased modestly as increased domestic distribution was partially offset by a decrease in international distribution. Domestic distribution revenue increased by \$9.8 million primarily due to increased television sales from the motion picture library. International revenue decreased by \$7.0 million due to the smaller number of films delivered by the motion picture production division. The Motion Picture Group also recorded revenue growth of \$2.7 million from Alliance Atlantis Cinemas due primarily to the opening of the Bayview Theater in Toronto in fiscal 2001.

The Television Group's revenue was \$448.1 million for fiscal 2001 compared to \$412.0 million in fiscal 2000, representing an increase of \$36.1 million or 8.8%. The revenue growth was primarily attributable to a \$42.4 million increase in production revenue, offset by a \$6.3 million decrease in distribution revenue. The increase in production revenue resulted from our transition into factual production and our focus on lower volume, higher margin programming. With the consolidation of Great North Communications Ltd. as the result of our purchase of the remaining shares of Great North which we did not already own, a total of 69.5 hours were delivered under the AAC Fact label in fiscal 2001 compared to none in fiscal 2000. The average revenue per hour of programming increased to \$1.3 million per hour in fiscal 2001, compared to \$1.1 million per hour in fiscal 2000. In fiscal 2001 total television series, movies-of-the-week ("MOW"s) and mini-series hours were 240.5 as compared to 277.0 in fiscal 2000.

Other revenue, which includes revenue from SHAAELP and other corporate investments, was \$22.0 million in fiscal 2001. Fiscal 2001 was the first year of operation for SHAAELP as the previous year's revenue of \$37.1 million represented the activities of Alliance Atlantis Equicap Corporation ("Alliance Atlantis Equicap") and other corporate investments. The decrease in revenue is largely due to our recognizing net revenue from SHAAELP on a proportionally consolidated basis versus revenue from Alliance Atlantis Equicap on a fully consolidated basis. This accounting treatment results in lower revenue recognized but significantly higher margins.

Gross Profit. Gross profit was \$225.8 million in fiscal 2001 compared to \$179.2 million in fiscal 2000, representing an increase of \$46.6 million or 26.0%. As a percentage of revenue, gross profit margin increased to 28.0% in fiscal 2001 compared to 23.2% in fiscal 2000. This increase was primarily attributable to an increased contribution from SHAAELP, which generated a gross profit margin of 96.4%, as well as significant improvements in the Television Group's margin.

The Broadcast Group's gross profit margin decreased to 55.3% in fiscal 2001 from 57.3% in fiscal 2000. This decrease related to the lower margin development channels Series+ and Historia.

The Motion Picture Group's gross profit margin increased to 21.4% in fiscal 2001 compared to 20.1% in fiscal 2000. The increase in gross profit margin was achieved on slightly lower revenue for the Motion Picture Group. The increase in gross profit margin resulted from the combination of the inclusion of a full year of operations of Momentum Pictures and increased margins in the domestic distribution business. Momentum Pictures enjoyed strong revenue from DVD sales from its distribution agreements with Studio Canal and Artisan. Domestic distribution margins improved slightly on strong television sales from the motion picture library.

The Television Group's gross profit margin increased to 20.9% in fiscal 2001 compared to 15.8% in fiscal 2000. This increase resulted primarily from the first year of our higher margin AAC Fact division and increased focus on higher margin television series, MOWs and mini-series as we scaled back the number of prime time drama hours produced.

Other gross profit margin was 96.4% in fiscal 2001 and contributed 9.4% of total gross profit in fiscal 2001. The increase in margin is due to our recognizing net revenue from SHAAELP versus gross revenue from Alliance Atlantis Equicap.

Operating Expenses. Operating expenses were \$92.2 million in fiscal 2001 compared to \$73.0 million in fiscal 2000, representing an increase of \$19.2 million or 26.3%. The increase in operating expenses is a direct result of our growth initiatives. Fiscal 2001 represented the first year of consolidation of Great North, and the first full year of operation for each of Tattersall Sound Inc., Momentum Pictures and the development channels Series+ and Historia.

Amortization. Amortization was \$26.7 million in fiscal 2001 compared to \$14.5 million in fiscal 2000, representing an increase of \$12.2 million or 84.1%. Amortization includes amortization of development costs, property and equipment, goodwill, other assets and broadcasting licenses. This increase in amortization resulted primarily from the amortization of development costs and property and equipment.

Interest. Interest was \$61.6 million in fiscal 2001 compared to \$36.3 million in fiscal 2000, representing an increase of \$25.3 million or 69.7%. This increase resulted from sustained higher borrowing levels and a higher effective interest rate due to the issuance of additional senior subordinated notes during fiscal 2001. Total debt at March 31, 2001 was \$615.5 million as compared to \$469.9 million at the start of fiscal 2001.

Total interest expense is net of amounts capitalized to investment in film and television programs of \$22.7 million in fiscal 2001 compared to \$22.0 million in fiscal 2000 and includes \$12.8 million in fiscal 2001 compared to \$15.7 million in fiscal 2000 of amortization of interest previously capitalized to investment in film and television programs. Interest which has been capitalized and not expensed during the year is charged to interest in future periods as the related film and television programs are delivered.

Income Taxes. Our effective income tax rate for fiscal 2001 was approximately 28.0% compared to a rate of 33.1% in fiscal 2000. The reduction in rates is attributable to the incurrence of higher income in lower rate jurisdictions and of lower income in higher rate jurisdictions.

Net Earnings. Net earnings for fiscal 2001 were \$35.0 million as compared to \$39.1 million in fiscal 2000. On a per share fully diluted basis, net earnings were \$1.09 as compared to \$1.25 in fiscal 2000. Included in net earnings for fiscal 2001 and fiscal 2000 were aftertax gains from long-term investments of \$4.3 million and \$1.4 million, respectively.

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 Merger which contributed broadcast revenue for the twelve months in fiscal 2000 compared to only six months in fiscal 1999. To illustrate, broadcast revenue from the channels contributed by Atlantis was \$21.7 million for the six months ended September 30, 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 channels, which has resulted in overall higher subscription and advertising revenue.

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 was achieved both domestically and internationally as the Company continued to grow its program library and broadened its international customer base through long-term distribution output agreements with such companies as

Endemol Entertainment (Europe), Telecinco (Spain), Eagle Pictures (Italy) and TV3 (New Zealand). Television production revenue remained consistent year-over-year at approximately \$285 million as the Company selectively pursued projects with a focus on profitability and reduced 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 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 margin 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 Broadcast, Motion Picture and Television, which generated gross profit margin of approximately 40%.

The Broadcast Group's gross profit 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 profit margin increased to 20.1% in fiscal 2000 compared to 18.2% in fiscal 1999. This increase in gross profit margin resulted primarily from an increase in revenue base on a title-by-title basis. The increase in revenue base was achieved from an expansion of the Company's customer reach obtained through new international distribution agreements. In the U.K., Momentum Pictures entered into distribution agreements with Studio Canal and Artisan. In Canada, the Company entered into a distribution agreement with Destination Films and extended existing distribution agreements with Miramax Films, New Line Cinema and USA Films (formerly October Films). In addition, the Company successfully exploited its library of over 4,400 titles in the new and expanding DVD market.

The Television Group's gross profit 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 Merger 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 our production portfolio which has previously only included dramatic and adventure programming.

Other gross profit 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 revenue, 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 \$14.5 million in fiscal 2000 compared to \$11.4 million in fiscal 1999, representing an increase of \$3.1 million or 27.2%. Amortization includes amortization of development costs, property and equipment, goodwill, other assets and broadcast licenses. This increase in amortization resulted primarily from the amortization of goodwill and broadcast licenses which arose on the Merger.

Interest. Interest was \$36.3 million in fiscal 2000 compared to \$22.9 million in fiscal 1999, representing an increase of \$13.4 million or 58.5%. 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 rate taxable jurisdictions and incurrence of losses in higher taxable 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 pretax) of Merger and restructuring expenses, net earnings for fiscal 1999 were \$21.7 million. On a per share fully diluted basis net earnings were \$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 aftertax gains from the sale of long-term investments of \$1.4 million and \$0.5 million respectively.

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 revenue from these programs and motion pictures, which is earned over an extended period of time after their completion or acquisition. As well, launching new channels is expensive and requires a significant capital investment. This results in significant working capital requirements. Working capital, comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, deferred revenue and investments in film and television programs, net of our senior revolving credit facility, was \$708.7 million at March 31, 2001 compared to \$522.5 million at March 31, 2000, representing an increase of \$186.2 million or 35.6%. In addition, due to the seasonal nature of television production schedules, our debt generally increases substantially over the course of our fiscal first quarter as we produce new series, and declines as these series are delivered later in the year.

Our operating activities are principally financed by cash flow generated from such operating activities which consists of EBITDA, net of interest expense, capital expenditures and net additions to investment in film. For fiscal 2001, these activities generated cash outflow of \$113.3 million as compared to a cash outflow of \$0.9 million in fiscal 2000. This \$112.4 million decrease in cash flow from operations is primarily attributable to our investment in our film library.

The Company's investing activities and shortfalls in cash flow from operations are typically funded by the Company's \$500 million revolving credit facility, \$25 million swing line facility, or by debt or equity issuances. As at March 31, 2001, the Company had committed undrawn credit facilities of \$405.0 million.

Senior Revolving Credit Facility. During the year, we modified our existing credit facility by increasing the authorized principal amount from \$440 million to \$500 million and extending the term to January 2006. The senior revolving credit facility provides up to \$500 million in borrowings bearing interest at rates ranging from, for example, the prime rate to the prime rate plus 1.75%. In addition, the facility includes a revolving swing line facility, due on demand, providing up to \$25 million in borrowings bearing interest at rates ranging from, for example, the prime rate to the prime rate plus 1.75%.

Senior Subordinated Notes. The Company has issued an aggregate of US\$300 million senior subordinated notes bearing interest at 13% per year which mature on December 15, 2009.

Term Loans. Included within term loans are \$28.8 million of loans owing by a wholly owned subsidiary, Equicap Financial Corporation ("EFC"), under a revolving term facility. EFC uses its credit facilities to make loans to producers. Recourse is limited to EFC and the Company's interest in EFC.

We believe that our current 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.

Recent Accounting Pronouncements

For periods prior to and including fiscal 2001, we have prepared our financial statements in accordance with FASB 53, which required that 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 revenue earned in the current period for that title to management's estimate of the total revenue 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 this 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, not exceeding ten years. As a result, our financial results fluctuate from period to period.

In the past, we capitalized production and distribution costs as incurred to investment in motion picture and television programs. Such costs are amortized to direct operating expenses. All costs incurred in connection with an individual motion picture or television program, including production costs, release prints and advertising costs, have been capitalized as investment in motion picture 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 motion picture or television program are amortized in the proportion that revenue relate to management's estimate of the total revenue in the forecast period, not exceeding ten years, expected to be received from such motion picture or television program. As a result, if revenue estimates change with respect to a motion picture or television program, we may be required to write down all or a portion of the unamortized costs of such motion picture or television program. We cannot assure you that a write down will not have a significant impact on our results of operations and financial condition.

In June 2000, the American Institute of Certified Public Accountants issued SOP 00-2, that provides guidance on generally accepted accounting principles to all producers or distributors that own or hold rights to distribute or exploit motion pictures and television programs. The new standard is effective for our current fiscal year which began on April 1, 2001 and will be applied under both Canadian and U.S. GAAP. Some of the differences between FASB 53 and SOP 00-2 are:

- the costs of advertising and marketing for motion pictures and television programs are no longer capitalized, but are expensed as incurred;
- amortization periods for motion pictures and television programs are limited to a maximum of ten years;
- abandoned projects and development expenses for projects not set for production are written off within three years from the time of the first capitalized transaction;
- capitalization of production costs for episodic television series is limited to contracted-for revenue, on an episode-by-episode basis, until the criteria for recognizing forecasted secondary market revenue are met; and
- certain revenue recognition policies for the distribution of motion pictures and television programs are more clearly defined.

U.S. industry participants took material non-cash charges in calendar 2000 as a result of adopting SOP 00-2. We have not yet determined the impact the adoption of SOP 00-2 will have on our financial statements, nor the amount of this one-time non-cash charge, but we expect it to be material.

BUSINESS

Overview

We are a leading vertically integrated Canadian broadcaster, creator and international distributor of filmed entertainment content with significant ownership, either wholly or in part, of 18 complementary specialty television channels.

Broadcast Group

Our Broadcast Group is a leading owner and operator of specialty television channels in Canada through our significant ownership of 18 complementary specialty channels that are focused on three core genres: movies/drama, fact/documentary and lifestyle. We control or are equal partners in 14 of these channels and have minority interests in the other four channels, including a 33% interest in Headline Media Group, a publicly traded Canadian specialty television broadcaster. Of these 18 channels, we currently operate five national, English-language channels which are required to be carried on every major English-language cable system in Canada at a negotiated fee. We are partners in two French-language channels which are required to be carried by cable operators in Quebec at a negotiated fee. Seven of these 18 channels are new digital specialty channels that we intend to launch and operate in the fall of 2001. We have signed key carriage agreements for these channels and continue to pursue agreements with other Canadian cable operators. We also own minority interests in the three other digital channels which are also scheduled for launch in the fall of 2001.

We currently earn revenue from fees paid to us by cable, DTH and other broadband system operators based on fees paid to them by subscribers to our specialty channels, as well as directly from advertisers who purchase advertising on our specialty channels. Most Canadian specialty channels, including our own, have been launched since 1995 and are experiencing significant growth in revenue from both subscription fees and advertising. Our currently available specialty channels are:

- Showcase, a channel featuring critically acclaimed movies and dramatic programs from around the world;
- Life Network, a channel focused on “lifestyle” programming;
- History Television, a channel specializing in documentaries, movies and original historical programming;
- HGTV Canada, a home and garden “do it yourself” channel;
- Food Network Canada, a channel focused on food related programming;
- Series+, a French-language version of Showcase;
- Historia, a French-language version of History Television; and
- The Score, a channel featuring 24-hour sports news, highlights and live sports programming.

In June 2001, we announced that we had signed digital channel carriage agreements with Shaw and Star Choice, in which Shaw and Star Choice agreed to distribute the following new digital services on Shaw’s cable systems and Star Choice’s DTH satellite service:

- Discovery Health Channel, a channel featuring programming about medical science and the human body;
- The Independent Film Channel Canada (pending CRTC approval of our acquisition of Salter Street), a channel featuring independent film and related features from Canada and around the world;
- National Geographic Channel, a channel in partnership with NGC Network International, LLC, featuring programs about some of the world’s most remote destinations;
- BBC Canada, a channel in partnership with the BBC featuring British television programs;
- BBC Kids, a channel featuring children’s programming from the BBC;
- Showcase Diva, a channel featuring motion pictures and television programs about love and romance; and
- Showcase Action, a channel featuring action motion pictures and television programs.

Also in June 2001, we announced that we had entered into a digital channel carriage agreement with Bell ExpressVu for a number of our new digital channels.

In May 2001, we announced our agreement to acquire a 29.9% equity interest (plus an option to increase our total equity to 33.3% of the channel) in One: The Body, Mind and Spirit Channel, which is also expected to launch in the fall of 2001. In April 2001, we completed the acquisition of Salter Street, an integrated entertainment company that develops, produces and distributes filmed entertainment and has been awarded a digital specialty television channel license by the CRTC for The Independent Film Channel Canada. The Independent Film Channel Canada is expected to launch in the fall of 2001. The license for this channel has, in accordance with CRTC requirements, been placed in trust until the CRTC has approved the transfer of the license pursuant to our acquisition of Salter Street. In January 2001, we launched U8TV (majority controlled), an internet television station that has world-wide reach from its downtown Toronto broadcast center.

Headline Media Group, in which we hold a 33% interest, is expected to launch PrideVision in the fall of 2001. We also own a 49% interest in Scream, a horror genre channel that is expected to be launched in the fall of 2001 by Corus Entertainment Inc.

Our expanding broadcast platform is focused on three core genres: movies/drama, fact/documentary and lifestyle. The following table describes our specialty channels:

Specialty Channel	Analog/ Digital	Must Carry	Equity Ownership	Year of Launch	Viewing Subscribers(6) (Millions)	Basic Subscriber Penetration(6)
Movies/Drama						
Showcase	Analog	Yes	100%	1995	5.6	72%
Showcase Diva	Digital	No	100%	2001(3)	—	—
Showcase Action	Digital	No	100%	2001(3)	—	—
The Independent Film Channel Canada(1)	Digital	Yes	95%	2001(3)	—	—
BBC Canada	Digital	No	50%	2001(3)	—	—
BBC Kids	Digital	No	50%	2001(3)	—	—
Series+(2)(4)	Analog	Yes	50%	2000	0.6	22%
Scream(2)	Digital	No	49%	2001(3)	—	—
Fact/Documentary						
History Television	Analog	Yes	88%	1997	4.8	62%
National Geographic Channel	Digital	No	50%	2001(3)	—	—
Historia(2)(4)	Analog	Yes	50%	2000	0.6	22%
The Score(2)(5)	Analog	Yes	33%	1997	4.9	—
Lifestyle						
Life Network	Analog	Yes	100%	1995	5.6	72%
HGTV Canada	Analog	Yes	67%	1997	4.5	58%
Discovery Health Channel	Digital	Yes	65%	2001(3)	—	—
Food Network Canada	Analog	Yes	51%	2000	3.7	55%
Pridevision(2)(5)	Digital	Yes	33%	2001(3)	—	—
One: The Mind, Body and Spirit Channel(2)	Digital	Yes	29%	2001(3)	—	—

- (1) Subject to the approval of the CRTC in connection with our recent acquisition of Salter Street Films Limited.
- (2) Not operated by Alliance Atlantis.
- (3) Proposed launch date in the fall of 2001.
- (4) French language.
- (5) Owned through our 33% interest in Headline Media Group.
- (6) As of March 31, 2001, except for The Score, which is as of February 28, 2001, as reported by Headline Media Group. “Basic subscriber penetration” means the number of cable and DTH subscribers to a channel as a percentage of cable and DTH subscribers who have access to that channel.

Canadian specialty television channels are licensed by the CRTC. Cable, DTH satellite and wireless broadband system operators (“cable operators”) that carry these channels pay a fee based on the number of

subscriptions to the channel. Canadian specialty television channels are relatively new and have been experiencing significant growth in revenue from both subscription fees and advertising.

Motion Picture Group

Motion Picture Distribution

Our Motion Picture Group acquires, creates and distributes theatrical motion pictures world-wide. We are a leading distributor of films in Canada, with approximately 100 motion pictures released in calendar 2000. According to AC Nielsen EDI Inc., we led the Canadian market in the first six months of calendar 2001 with an 18% box office share. We primarily distribute films from leading independent production companies to theaters, video, DVD and on pay-per-view, pay, specialty and free television. We have long-term exclusive Canadian motion picture distribution agreements with New Line Cinema, Miramax Films, USA Films and Artisan Entertainment. We believe that these relationships are based on our ability to generate higher per capita revenue per film due to our extensive knowledge, presence and experience in the Canadian market. Recent films that we distributed from these producers include *Scary Movie 2*, *Blow*, *Bridget Jones's Diary*, *Spy Kids*, *Traffic* and *Chocolat*. Upcoming releases include *Rush Hour 2*, *The Lord of the Rings Trilogy*, *The Shipping News* and Martin Scorsese's *Gangs of New York*, starring Leonardo DiCaprio. We distribute motion pictures in all media in the United Kingdom through our wholly owned subsidiary, Momentum Pictures, and have the right to exploit titles from the Studio Canal library on DVD. We also operate a 24 screen chain of upscale, art-house cinemas in Canada in partnership with Famous Players, a subsidiary of Viacom, Inc.

In fiscal 2001, our Motion Picture Group accounted for 27% of our revenue (\$221.4 million) and 22% of our EBITDA (\$28.9 million).

We also distribute motion pictures directly in the United Kingdom through our wholly owned subsidiary, Momentum Pictures, and to third-party distributors in continental Europe and the rest of the world through our established global distribution network. In fiscal 2002, we expect to distribute approximately 22 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 also have the right to exploit titles from the Studio Canal library on DVD in the U.K.

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 usually pay in several instalments. Our distribution rights to third-party programming typically extend for a term of over 15 years and we earn revenue from 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 2001 we released 163 films on video and 165 films on DVD in Canada. 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 for a specified number of times over a specified time period; and
- *Ancillary Revenue:* 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 independent art-house films that are generally director-driven, and require relatively modest capital investment. Upcoming releases include *51st State*, directed by Ronny Yu and starring Samuel L. Jackson and Robert Carlisle, *Double Down*, starring Nick Nolte and *Owning Mahowny*, starring Minnie Driver and Philip Seymour Hoffman. The 20 films that we produced during the last four fiscal years had an average production budget of approximately \$6.7 million each and we covered, on average, approximately 70% of our production budgets with pre-sales.

Development activities precede the commencement of actual production and include the preparation of 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.

Prior to commencing production, 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. In addition to pre-sales, we minimize our production exposure by focusing on low-to-moderate budget productions and by 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 the Company prior to the Merger, 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 of the Existing Projects and will receive world-wide 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 world-wide 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 our favor 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 increase this number modestly over the next several years.

Television Group

Our Television Group creates, acquires and distributes television series, movies and mini-series and licenses ancillary rights for the global market.

Television Production

Our Television Group is the largest producer and distributor of prime-time dramatic television programs in Canada and among the leading English-language dramatic television producers in the world. This business is geographically diversified, with approximately 30%, 42% and 28% of revenue in fiscal 2001 originating from Canada, the United States and the rest of the world, respectively. In fiscal 2001, we produced and distributed 176 hours of television series (including nine series renewals), 20 hours of television movies and mini-series, 45 hours of children's programming under our AAC Kids label and 70 hours of fact-based documentary programming under our AAC Fact brand. We have produced programming for a broad customer base including ABC, CBS, FOX, NBC, TNN, UPN, HBO, Fox Family, Showtime, TNT, The Disney Channel, The Sci-Fi Channel and USA Network in the United States; CBC, CTV, Global and YTV in Canada; and Channel 5 in the U.K., Studio Canal and TF1 in France and Kirsch Group in Germany. Pre-sales typically cover approximately 80% of our television projects' production budgets and allow us to significantly reduce our production exposure. During the last four fiscal years, we covered, on average, approximately 85% of our television production budgets 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 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 revenue 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 13 successful series that have been renewed by Canadian and U.S. broadcasters:

Program	Genre	Broadcaster/Syndicator	Season
<i>CSI: Crime Scene Investigation</i>	Drama	CBS (U.S.); CTV (Canada)	2 nd
<i>The Industry/Made in Canada</i>	Comedy	PBS (U.S.); CBC (Canada)	4 th
<i>Outer Limits</i>	Sci-Fi	MGM (U.S.); Global (Canada)	6 th
<i>Gene Roddenberry's Earth: Final Conflict</i> ®	Sci-Fi	Tribune (U.S.); CHUM Group (Canada)	5 th
<i>Beastmaster</i>	Sci-Fi	Tribune (U.S.); CHUM Group (Canada)	3 rd
<i>Lexx</i>	Sci-Fi	Sci-Fi Channel (U.S.); CHUM Group (Canada)	4 th
<i>Blue Murder</i>	Drama	Global (Canada)	2 nd
<i>The Associates</i>	Drama	CTV (Canada)	2 nd
<i>Cold Squad</i>	Drama	CTV (Canada)	5 th
<i>Da Vinci's Inquest</i>	Drama	CBC (Canada)	4 th
<i>This Hour Has 22 Minutes</i>	Comedy	CBC (Canada)	9 th
<i>Blackfly</i>	Comedy	Global (Canada)	2 nd
<i>Yvon of the Yukon</i>	Children's	YTV (Canada)	2 nd

In March 2001, TNN (The National Network, a subsidiary of Viacom, Inc.) acquired certain second window United States broadcast rights to the prime time drama series *CSI: Crime Scene Investigation*. Under the agreement, TNN is expected to begin broadcasting episodes of *CSI* once per week (not in prime time) commencing in September 2002 and extending for 104 weeks through September 2004. TNN is then permitted to broadcast episodes of *CSI* daily, Monday through Friday (though not against the network timeslot), commencing in September 2004. The license fee for these U.S. second window rights is in excess of US\$1.6 million per episode, which we believe is a record second window license fee. Pursuant to our co-production agreement with CBS Productions, we share world-wide revenue with CBS Productions on a 50/50 basis after distribution fees and certain third party profit participations. We and CBS Productions have retained the right to sell an additional window for weekend U.S. syndication for the period September 2004 through September 2006. In addition, through our international distribution network, we have sold and will continue to sell, the first and subsequent window broadcast rights of *CSI* to broadcasters around the world. *CSI* ended the 2000/2001 broadcast season as the third highest rated show on U.S. network television after *Survivor II* and *E.R.*, and received four Prime Time Emmy® nominations this year.

In addition, we have produced a number of high-quality, successful movies-of-the-week and mini-series. In February 2001, our production of *Life with Judy Garland: Me and My Shadows*, starring Judy Davis, aired on ABC in the United States. *Me and My Shadows* achieved the highest ratings of any movie on television in the 2000/2001 broadcast season. This production received 13 Prime Time Emmy® Award nominations this year, including best mini-series. In July 2000, our mini-series, *Nuremberg*, aired on TNT and was, at the time, the highest rated mini-series ever broadcast on basic cable in the United States. *Nuremberg*, starring Alec Baldwin, Brian Cox and Jill Hennessy, is a historical drama that 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 and recently received four Prime Time Emmy® Award nominations, including best mini-series.

As part of our strategy to expand our children's programming, we launched the AAC Kids banner. Children's programming has strong and growing world-wide demand and tends to have relatively low production costs and often high library value, as it can often be re-broadcast for each new generation of children.

We have also expanded into the production and acquisition of documentary and fact-based programming under our AAC Fact banner which, like children's programming, tends to have broader appeal, lower production costs and often higher library value.

Television Distribution

Our television distribution business is centered around our new productions and our extensive, valuable library of approximately 15,000 hours of programming rights, including approximately 11,000 hours of Canadian programming rights and approximately 4,000 hours of world-wide programming rights. Our library is comprised of both our own and third-party programming, including television series, movies and mini-series and over 4,400 motion pictures. We distribute 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 revenue from program license fees paid by broadcasters and buyers. In the United States and Canada, programming is delivered by conventional broadcast channels, cable and specialty television channels, individual television stations and DTH delivery services. Our television distribution customers include such conventional broadcast channels 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 channel customers include HBO, Fox Family, The Disney Channel, Lifetime, The Sci-Fi Channel, Showtime, TBS, The Family Channel, TNT, TNN 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 channels in Canada. Approximately 48% and 20% of our programming license revenue in fiscal 2001 was generated from the United States and Canada, respectively.

Our television distribution business also provides us with access to growing markets outside North America, where we generated approximately 32% of our programming license revenue in fiscal 2001. Long-term output agreements, such as those we have entered into with TV-Loonland (Germany), 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 revenue and reduces our production exposure.

Additionally, we seek to leverage our world-wide 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 1997 and recently extended our agreement through 2002. CBS programming that we distribute includes many popular television series such as *Everybody Loves Raymond*, *60 Minutes* and *Touched By An Angel*. Revenue generated from these types of agreements are typically commission-based.

Other Operations

Sentinel Hill Alliance Atlantis Equicap Limited Partnership

SHAAELP, in which one of our subsidiaries has a 30% limited partnership interest, originates and sells structured financing products related to the film and television industries, by packaging items related to production services into limited partnerships, and selling them to Canadian investors to encourage production in Canada. SHAAELP receives fees for selling these limited partnerships.

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. provides computer generated special effects services for our television series, as well as third-party productions, including live-action television series and feature films as well as various types of animation for cartoon series, segments and television commercials. The results of Tattersall and Calibre are included in the results of the Television Group.

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 lends to EFC on a basis which is recourse only to EFC and to Alliance Atlantis Communications Inc.'s interest in EFC. 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.

Recent Developments

In July 2001, we announced a partnership with Discovery Communications to launch Discovery Health Channel in Canada. We will own 65% and Discovery Communications will hold 35% of the equity in this new channel, which is scheduled to launch in the fall of 2001.

In July 2001 we received 27 Primetime Emmy® Award nominations for our television productions. *Life With Judy Garland: Me and My Shadows*, starring Judy Davis, received 13 nominations including best mini-series, the third highest number of any program after *The Sopranos* and *West Wing*. *Nuremberg*, starring Alec Baldwin and Brian Cox, received four nominations, including best mini-series. Our dramatic series, *CSI: Crime Scene Investigation*, received four nominations, our mini-series, *Haven*, received three nominations and our television movie, *When Billie Beat Bobby*, received two nominations. We also received a nomination for *The Awful Truth*, a documentary created by and starring Michael Moore.

In July 2001, we notified the CRTC of our intention to file an application for a conventional television broadcast license to serve the Toronto market. The deadline for making this application is August 8, 2001.

In June 2001, we announced that we had signed digital channel carriage agreements with Shaw and Star Choice, in which Shaw and Star Choice agreed to distribute seven new digital specialty television channels which we plan to launch in the fall of 2001 on Shaw's cable systems and Star Choice's DTH satellite service. We also announced we had entered into a digital channel carriage agreement with ExpressVu for a number of our new digital specialty television channels. According to Shaw, it is Western Canada's largest cable operator with approximately 2.2 million subscribers and Star Choice, which is wholly owned by Shaw, has approximately 560,000 digital DTH subscribers in Canada. According to BCE, ExpressVu's parent company, ExpressVu is Canada's largest DTH provider with approximately 800,000 subscribers. As of March 31, 2001, Shaw, Star Choice and ExpressVu collectively have approximately 1.5 million digital subscribers or approximately 75% of the Canadian digital specialty television market.

In May 2001, we announced our agreement to acquire a 29.9% equity interest in One: The Body, Mind and Spirit Channel, which is also expected to launch in the fall of 2001. We also hold an option to increase our total equity interest to 33.3% of the channel.

In March 2001, TNN (The National Network, a subsidiary of Viacom, Inc.) acquired certain second window United States broadcast rights to the prime time drama series *CSI: Crime Scene Investigation*, a 50/50 co-production between us and CBS Productions. The license fee for these U.S. second window rights is in excess of US\$1.6 million per episode, which we believe is a record fee for such rights. *CSI* ended the 2000/2001 broadcast season as the third highest rated show on U.S. television, after *Survivor II* and *E.R.*

Also in April 2001, we completed the acquisition of Salter Street, an integrated entertainment company that develops, produces and distributes filmed entertainment and has been awarded, in partnership with others, a digital specialty television channel license by the CRTC for The Independent Film Channel Canada. The Independent Film Channel Canada is expected to launch in the fall of 2001. The license for this channel has, in accordance with CRTC requirements, been placed in trust until the CRTC has approved the transfer of the license pursuant to our acquisition of Salter Street.

Our Strategy

Our business strategy is to increase our profitability and improve upon our leading market positions by, among other things, maximizing the vertical integration of our complementary television and motion picture production groups with our focused broadcasting business, as well as growing each of these businesses. The primary elements of our business strategy are as follows:

Leverage Existing Broadcast Platform. With our planned launch of new digital specialty television channels in the fall of 2001 we intend to capitalize on our Broadcast Group's multi-channel platform in order to continue to increase revenue and profitability. These channels target specific audiences and are, we believe, more attractive to advertisers interested in reaching these demographic segments. We believe that adding new channels to our platform will increase our appeal to and cross-selling opportunities with, advertisers. In addition, by adding channels to our existing infrastructure, we expect to achieve greater economies of scale, including overhead synergies and program purchasing efficiencies.

Our Motion Picture and Television groups will supply programming to our movies/drama specialty channels and our Television Group will supply programming to our fact/documentary and lifestyle genre specialty channels, especially through our AAC Fact division.

Continue to Build Strong Relationships with Leading Media Companies. We believe our strong, long-term relationships with leading media companies, coupled with our leading market positions, provide a strong base from which to grow our Broadcast, Motion Picture and Television Groups and expand our international presence. Our Broadcast Group has entered into partnerships with owners of some of the leading channel brands in the world, including the BBC, National Geographic, Discovery Communications and The E.W. Scripps Company. Our Motion Picture Group has had exclusive Canadian distribution agreements with New Line Cinema since 1989 and Miramax Films since 1994. In addition, we have exclusive Canadian distribution agreements with Artisan Entertainment through 2004 and USA Films through March 2002. We also have a long term video and DVD distribution and marketing joint venture with Universal Studios. 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 approximately 1,200 titles from its library and, under a separate agreement, to distribute six motion pictures in the U.K. through Momentum Pictures, our wholly owned motion picture distribution business. In November 1999, Momentum Pictures commenced a three year U.K. distribution agreement with Artisan Entertainment. We began distributing CBS television 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).

Capitalize on Extensive Programming Library. We intend to continue to maximize the long-term value of our library of television and motion picture programming by:

- supplying our expanding platform of specialty television channels;
- continuing to market our library titles in the United States and further penetrating growing international markets;
- pursuing distribution agreements for and acquisitions of third-party television and motion picture programming, such as our recent agreement with France's Studio Canal; and
- producing new, high quality television programs and motion pictures that will increase the depth and breadth of our library.

Expand Motion Picture Distribution and Television Licensing 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 world-wide 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 are leveraging 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, a six picture distribution agreement entered into with Studio Canal in February 2000 and certain video and DVD distribution agreements encompassing more than 400 titles.

We are also seeking additional television production output agreements with international broadcasters and distributors. These agreements typically require the third-party to license a minimum amount of unspecified programming according to a set pricing schedule, which increases the predictability of our future revenue and reduces our production exposure. We have long-term production output agreements with TV-Loonland (Germany), Telecinco (Spain), Eagle Pictures (Italy) and TV3 (New Zealand).

In addition, we intend to capitalize on vertical integration opportunities by prudently expanding our Alliance Atlantis Cinemas in partnership with Famous Players, a subsidiary of Viacom, Inc. We will continue to focus on major urban centers and plan to increase our current number of screens modestly over the next several years. In order to minimize the cost of this expansion we intend to continue to lease existing cinemas rather than purchase them.

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 2001, our aggregate budget overruns were approximately 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 more balanced portfolio of drama, comedy, adventure, children's and fact-based 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, but also have global appeal. Our current slate of programming is being distributed outside of Canada, including six series which have been licensed in the United States.

To better balance our production mix and to take advantage of strong and growing world-wide demand, we are producing more children's programming. We have also expanded into the production and acquisition of documentary and fact-based programming under the banner AAC Fact through our acquisition of the remaining shares of Great North, a Canadian documentary producer and distributor and acquired minority interests in Barna-Alper Productions Ltd. and Associated Producers Inc. In addition to our investments 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.

Capitalize on Favorable Canadian Media 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 (a) Canadian-produced programming is generally English-language and American “style,” which appeals to a broad, international audience; and (b) lower production costs and an established infrastructure, including production facilities and experienced crews.

Industry Overview

Broadcast

According to industry sources, as at September 2000, there were approximately 11.1 million households with televisions in Canada. Of those households with televisions, 10.5 million, or 95%, are passed by cable and 7.7 million, or 69%, have access to digital cable (80 channels or more), making Canada one of the most heavily-cabled countries in the world on a per household basis. According to the same sources, there are approximately 7.7 million cable subscribers and, according to public disclosure documents, 1.4 million DTH subscribers, representing total broadband television penetration of 82% of households with televisions. There are estimated to be approximately 2.0 million digital television subscribers (cable and DTH combined), up from approximately 1.1 million one year earlier.

The Canadian broadband television industry is highly concentrated. According to public disclosure documents, the four largest cable companies in Canada control approximately 86% of total cable subscribers and consist of Rogers Communications Inc. (approximately 2.3 million subscribers), Shaw (approximately 2.2 million subscribers), Quebecor Media Inc. (approximately 1.6 million subscribers) and Cogeco Cable Inc. (approximately 0.9 million subscribers). In addition to the cable providers, there are two principal DTH providers in Canada: ExpressVu (a wholly owned subsidiary of BCE) with approximately 800,000 subscribers, and Star Choice (a wholly owned subsidiary of Shaw) with approximately 560,000 subscribers.

Canadian specialty television channels, which are licensed by the CRTC, have experienced rapid growth since the first licenses were issued in 1982. Specialty television channels are available to those Canadians who subscribe to a particular cable or DTH service package and provide special interest, news, sports, arts and entertainment programming. As of October 2000, there were 49 Canadian specialty services and 13 Canadian pay-TV services available to Canadian subscribers. In November 2000, the CRTC announced its license decisions for new digital specialty television channels. In total, 283 licenses were awarded, of which 21 were Category 1 (mandatory carriage for a negotiated fee by digital services and genre protection) and 262 were Category 2 (optional carriage for a negotiated fee by digital services and no genre protection).

Specialty television channels derive substantially all of their revenue from subscription fees and advertising. Cable, DTH and wireless broadband system operators that carry these channels pay channel owners a subscription fee. Specialty television channels are distributed either as part of a cable operator’s basic service, or as part of an “extended” or “discretionary” tier including other Canadian or non-Canadian specialty television channels. The wholesale subscriber fee payable to a channel owner 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 channel owner’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 channel owners benefit from these stable, recurring subscriber fees, which are also supported by the high level of cable penetration in Canada. Advertising on specialty and pay television channels has been growing, as has the share of total Canadian television viewing enjoyed by specialty and pay television channels. According to industry sources, from 1989 to 1999, Canadian English language specialty and pay television audience share in Canada grew from 14% to 45% (48% in 2001), however, Canadian specialty television channels accounted for only 15% of television advertising revenue in 1999, and we expect their television advertising revenue share to grow significantly. CRTC broadcasting licenses are granted for specified periods and are customarily renewed upon application to the CRTC.

Over the past decade, specialty television channel revenue has grown significantly. For the period from 1990 to 2000, subscription revenue for Canadian specialty television channels grew from \$154 million to \$591 million while advertising revenue grew from \$59 million to \$381 million.

Motion Picture

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, specialty and free television; and other ancillary media. In 2000, North American motion picture distributors earned approximately \$49 billion in revenue. 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 by management 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 in the industry, include: Metro-Goldwyn-Mayer Inc. (including Metro-Goldwyn Mayer Pictures Inc., United Artists Pictures Inc., Orion Pictures Corporation and Goldwyn Entertainment and Motion Picture Corp.), Universal Studios Inc., Warner Bros. (including New Line Cinema and Castle Rock Entertainment Inc.), Twentieth Century Fox Film Corporation, Sony Pictures Entertainment Inc. (including Columbia Tri Star Motion Picture Co.), Paramount Pictures Corporation and The Walt Disney Company (including Buena Vista Pictures Distribution Inc., Touchstone Pictures and Miramax Film). The major studios are typically large, diversified corporations that have global film production and distribution capabilities.

We believe that independent production companies are playing an increasingly important role in the production of motion pictures for the world-wide 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.

Television

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 niche/cable 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 U.S. local 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 revenue, 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 the 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 world-wide 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.

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 Inc. and Lions Gate Entertainment Corp. Our Broadcast Group competes with other operators of television channels, including Global, CTV, CHUM Group, CBC, TV Ontario, Astral Communications Inc. and Corus Entertainment.

In addition, the CRTC and foreign regulatory authorities continue to license additional television channels, thereby further fragmenting the television audience, increasing competition and creating downward pressure on program license fees. In November 2000, for example, the CRTC issued 283 digital specialty television channel licenses. Further, vertical integration of the television broadcast industry and the creation and expansion of new channels which create a substantial portion of their own programming have decreased the number of available time slots for, 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 channels, 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 channels.

On November 24, 2000, the CRTC decided to license new Canadian specialty television channels 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 decided to license 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, at a negotiated fee, for Canadian cable operators with over 2000 subscribers utilizing digital distribution technology as well as for 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 revenue on Canadian programs. In our case, Discovery Health Channel 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. Discovery Health Channel will also be required to expend, from year two onward, 51% of the previous year's revenue on Canadian programs. No less than 25% of all Canadian programs broadcast by a Category 1 service license, 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 voting shares and not less than 66⅔% of the votes. In addition, unless Canadians own and control not less than 80% of the issued and outstanding voting shares and not less than 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 channel, 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 allow the issue or register of 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. See "Description of Our Share Capital."

The CRTC also imposes restrictions on the transfer of ownership and control of specialty television channel licenses. Pursuant to the Specialty Regulations, a holder of a specialty television channel 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 the value of the transaction as accepted by the CRTC.

The terms "networks," "specialty network," "channel," "specialty channel," and "specialty television channel" are frequently used in this document as an informal term to describe specialty television programming services or networks; however these services are not licensed as "channels" or "networks" under the *Broadcasting Act* (Canada), but as "programming undertakings."

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 revenue on local content. Effective September 1, 2000, this requirement was removed for broadcasters in the largest multi-station ownership groups, described above, although certain expenditure requirements continue to apply to these ownership groups by virtue of ownership transfer benefits applicable to them. 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 revenue 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. In October 2000, the Committee released its report, which makes several specific recommendations intended to encourage the production and distribution of Canadian feature films. Based on the recommendations in the report, the Canadian government’s annual financial support to the Canadian motion picture industry has approximately doubled from \$50 million to \$100 million since the release of the report. In addition, the report announced the creation of a permanent advisory group on feature film issues to advise Telefilm Canada on how best to achieve the policy goals.

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. From time to time, various third parties contest or infringe upon our intellectual property rights. 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. We cannot assure you that our actions to establish and protect our trade-marks and other proprietary rights will be adequate to prevent imitation of our filmed entertainment by others or to prevent third parties from seeking to block sales of our filmed entertainment as a violation of their trade-marks and proprietary rights.

Moreover, we can give no assurance that others will not assert rights in, or ownership of, our trade-marks and other proprietary rights, or that we will be able to successfully resolve these conflicts. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States or Canada.

Properties and Facilities

Office Facilities

We lease offices in Toronto, Montreal, Edmonton and Halifax in Canada and Los Angeles, London (England), Sydney (Australia) and occupy space in Shannon (Ireland). Our corporate head office is located at 121 Bloor Street East, Suite 1500, Toronto, Ontario, Canada, which consists of approximately 145,997 square feet of space under leases expiring on various dates beginning October 2005 and through to May 2007. We believe that our properties are in good condition and sufficient for our purposes.

Production Studio Facilities

We own a 50% interest in a production studio in Toronto named Cinevillage, located at 65 Heward Avenue, Toronto, Ontario M4M 2T5 Canada. 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 July 31, 2001, we employed approximately 900 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), 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.

Principal Subsidiaries

The following is a list of our principal subsidiaries as at July 31, 2001, the jurisdiction of incorporation of each subsidiary and the percentage of securities (both voting and non-voting) beneficially owned by us or over which we exercise control or direction.

<u>Subsidiary</u>	<u>Jurisdiction</u>	<u>Percentage of Securities Owned by the Corporation</u>
Alliance Atlantis Broadcasting Inc.	Ontario	100%
Alliance Atlantis Equicap Corporation	Canada	100%
Alliance Atlantis International Television Distribution Limited	Republic of Ireland	100%
Alliance Atlantis Entertainment, Inc.	California	100%
Alliance Atlantis Productions Ltd.	Canada	100%
Alliance Atlantis Motion Picture Distribution Inc.	Canada	100%
Alliance Atlantis Vivafilm Inc.	Canada	100%

Registered Office

Our full name is Alliance Atlantis Communications Inc. and we are incorporated under the *Canada Business Corporations Act*. Our registered and principal executive office is located at 121 Bloor Street East, Suite 1500, Toronto, Ontario M4W 3M5 Canada. We also operate offices in Montreal, Edmonton and Halifax in Canada, Los Angeles, London (England), Sydney (Australia) and Shannon (Ireland).

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	45	Executive Vice-President, Chief Financial Officer and Director
Seaton S. McLean	46	President, Alliance Atlantis Motion Picture Production and Director
Edward A. Riley	49	President, Alliance Atlantis Television Distribution and Director
Peter A. Sussman	43	President, Alliance Atlantis Entertainment
Victor Loewy	55	Chairman, Alliance Atlantis Motion Picture Group and Director
Patrice Theroux	39	President, Alliance Atlantis Motion Picture Distribution
Phyllis Yaffe	52	Chief Executive Officer, Alliance Atlantis Broadcast Group and Director
Mark Rubinstein	43	President and Chief Operating Officer, Alliance Atlantis Broadcast Group
Pierre DesRoches	69	Director
Pierre Y. Ducros	62	Director
Harold P. Gordon	64	Director
Anthony F. Griffiths	71	Director
Ellis Jacob	47	Director
Allen Karp	60	Director
David J. Kassie	46	Director
Rainer Kölmel	54	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	47	Director

Mr. MacMillan has been the Chairman, Chief Executive Officer and a director since September 1998.

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. 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 Cinema. 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 Chief Executive Officer of Alliance Atlantis Broadcast Group in February 2000, having previously held the position of President since May of 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. Rubinstein has been President and Chief Operating Officer of Alliance Atlantis Broadcast Group since April 2001. Prior to that time, he was Managing Director of Yahoo!Canada from 1999 to 2000 and Senior Vice President and General Manager, CHUM Television from 1987 to 1999.

Mr. DesRoches has been a director since 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 Inc., BCE Emergis Inc., Manulife Financial Corporation and Cognos Incorporated.

Mr. Gordon has been a director since 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., Shawcor Inc., Calian Technology Ltd., Brazilian Resources, Inc., Leitch Technology Corp., Lindsey Morden Group Inc., IMI International Medical Innovations Inc. and The Hub Group Limited.

Mr. Jacob has been a director since 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 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 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., Telepanel Systems Inc., MDR Switchview Global Networks Inc., Royal Bank Ventures Inc., 724 Solutions Inc., and the Webhelp group of companies. He serves on, or chairs, senior committees of most of these boards. Mr. Reiter is a partner at the Torsys law firm, Chairman of the Torsys Technology Group and a member of Torsys' executive committee.

Mr. Sobey has been a director since 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., The Toronto-Dominion Bank, Wajax Limited and Trader.com.

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

Mr. Unzeitig has been a director since September 1999. Mr. Unzeitig was Chief Financial Officer and a director of Kinowelt Medien AG from 1997 to August 2001. 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 Leaders Fund, Paragon Trade Brands, Rent-a-Wreck Capital Inc. and American Technical Ceramics Corp.

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.

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 (a) he provides written notice of termination to us at least one year prior to the end of the then-current employment period; (b) we terminate the agreement for cause or disability; or (c) 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.

PRINCIPAL SHAREHOLDERS

As of July 31, 2001, 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.

Kinowelt Medien AG currently holds 479,842 Class A Voting Shares (representing approximately 12.61% of the class) and \$8,794,000 principal amount of 6.50% convertible unsecured subordinated debentures, which are convertible into an additional 462,842 Class A Voting Shares. Assuming the conversion of the debentures and the subsequent conversion of all Class A Voting Shares held by Kinowelt into Class B Non-Voting Shares, after giving effect to this offering, but not the exercise of the overallotment option, Kinowelt would own approximately 2.5% of the Class B Non-Voting Shares outstanding as at July 31, 2001. Kinowelt has not entered into an arrangement not to sell the securities of Alliance Atlantis owned by it. See "Underwriting — No Sales of Similar Securities."

According to public disclosure documents, as at October 31, 2000, Fidelity Management & Research Company and Fidelity Management Trust Company held, as investment manager, approximately 15.27% of the Class B Non-Voting Shares or approximately 4.2 million Class B Non-Voting Shares as at October 31, 2000, which represents approximately 13.69% of the Class B Non-Voting Shares as at July 31, 2001.

DESCRIPTION OF SHARE CAPITAL

The following chart sets out our current authorized share capital and our issued and outstanding shares as at July 31, 2001.

<u>Shares</u>	<u>Authorized</u>	<u>Issued and Outstanding</u>
Class A Voting Shares	Unlimited	3,806,652
Class B Non-Voting Shares	Unlimited	30,689,980
Class C Special Voting Shares	275,000	2,936

Our share capital formerly authorized one Class D Special Non-Voting Share.

For a description of the material changes in our share capital structure, see note 11 and note 25 to the notes to the consolidated financial statements.

The following description refers only to the share capital of Alliance Atlantis Communications Inc. and not to any of our subsidiaries. The shareholders of Alliance Communications Corporation (the predecessor corporation to Alliance Atlantis) approved articles of amendment creating the Class A Voting Shares and the Class B Non-Voting Shares on April 26, 1995 in accordance with applicable law and by way of “minority approval” as that term was defined under applicable securities legislation. The shareholders of Alliance Communications Corporation approved articles of amendment amending the terms of the Class B Non-Voting Shares on September 16, 1998, in accordance with applicable law.

Class A Voting Shares and Class B Non-Voting Shares

Voting Rights. The Class A Voting Shares entitle the holders thereof to one vote per share. The Class B Non-Voting Shares do not entitle the holders thereof to any votes at meetings of our shareholders, subject to the condition that the Class B Non-Voting Shares entitle the holders thereof to one vote per share on any vote in respect of our liquidation, dissolution or winding-up or the sale, lease or exchange of all or substantially all of our property and as otherwise provided by law.

Payment of Dividends. The holders of Class A Voting Shares and Class B Non-Voting Shares participate equally with each other in respect of the payment of dividends, including the amount per share of the dividend.

Distribution of Assets. The Class A Voting Shares and Class B Non-Voting Shares rank equally with each other in respect of the return of capital in the event of the liquidation, dissolution or other distribution of our assets for the purpose of winding up our affairs.

Preservation of Rights. If either of the Class A Voting Shares or Class B Non-Voting Shares are subdivided, consolidated, reclassified or otherwise changed, appropriate adjustments shall be made at the same time to the rights attaching to the shares of the other class to ensure the preservation of the rights of each class in relation to those of the other.

Conversion Rights. Each Class A Voting Share is convertible at any time, at the holder’s option, into one fully paid and non-assessable Class B Non-Voting Share.

If an offer (the “Offer”) is made to purchase Class A Voting Shares and the Offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Class A Voting Shares are then listed, be made to all or substantially all of the holders of Class A Voting Shares in a province of Canada to which the requirement applies, each Class B Non-Voting Share will become convertible at the option of the holder, at any time commencing eight days after the Offer is made and

ending at the expiration of the Offer, into one Class A Voting Share. The conversion right may be exercised only for the purpose of depositing the resulting Class A Voting Shares in response to the Offer and our transfer agent (the “Transfer Agent”) will deposit the resulting Class A Voting Shares on behalf of the shareholder. No share certificates representing the Class A Voting Shares will be delivered to the shareholder.

If (a) Class A Voting Shares resulting from the conversion and deposited pursuant to the Offer are withdrawn by the shareholder or are not taken up by the offeror or (b) the Offer is abandoned or withdrawn by the offeror, the Class A Voting Shares will be re-converted into Class B Non-Voting Shares and a share certificate representing the Class B Non-Voting Shares will be sent to the shareholder by the Transfer Agent.

If the offeror takes up and pays for the Class A Voting Shares resulting from conversion, the Transfer Agent shall deliver to the holders thereof the consideration paid for such shares by the offeror.

There is no right to convert the Class B Non-Voting Shares into Class A Voting Shares in the following cases:

- the Offer is not required under applicable securities legislation or the rules of a stock exchange on which the Class A Voting Shares are then listed to be made to all or substantially all holders of Class A Voting Shares who are resident in a province of Canada to which the legislation applies (that is, the Offer is an “exempt take-over bid” within the meaning of the said securities legislation);
- an offer to purchase Class B Non-Voting Shares is made concurrently with the Offer and the two offers are identical in respect of price per share, percentage of outstanding shares for which the offer is made and in all other material respects. The offer to purchase the Class B Non-Voting Shares must be unconditional, subject to the exception that the offer for the Class B Non-Voting Shares may contain a condition to the effect that the offeror not be required to take up and pay for Class B Non-Voting Shares tendered in response to the offer if no Class A Voting Shares are purchased pursuant to the Offer; or
- holders of Class A Voting Shares representing, in the aggregate, more than 50% of the outstanding Class A Voting Shares (excluding shares owned immediately prior to the Offer by the offeror and any party acting jointly or in concert with the offeror, as defined in the relevant securities legislation) certify to the Transfer Agent and to our Corporate Secretary that they will not tender any shares in response to the Offer and such certificate is not withdrawn during the offer period.

Each Class B Non-Voting Share will be automatically converted into one Class A Voting Share in the event that the Chairman of our board of directors fails to deliver to the Transfer Agent, within 140 days of the end of the immediately preceding fiscal year of the Corporation, a certificate, signed by the Chairman, that an independent committee of our board of directors has determined that it continues to be necessary for us to be Canadian controlled, or that there be limitations on the number of shares held by non-Canadians, for the purposes of determining our eligibility for financial incentives or assistance or licenses from any Canadian federal or provincial government or agency or for any other regulatory purpose. We have delivered a certificate to our Transfer Agent in respect of the fiscal year ended March 31, 2001.

Class C Special Voting Shares

Voting Rights. The Class C Special Voting Shares entitle the holders thereof to one vote per share.

Payment of Dividends. No dividends will be declared or paid in respect of any of the Class A Voting Shares or the Class B Non-Voting Shares unless a dividend is declared and paid at the same time to the holders of the Class C Special Voting Shares, provided that, with respect to the amount per share of such dividend, the holders of the Class A Voting Shares and the Class B Non-Voting Shares shall be entitled to participate equally and the holders of the Class C Special Voting Shares shall be entitled to receive twenty times the fair market value (as determined by our board of directors) of the amount of the dividend received by the holders of the Class A Voting Shares and Class B Non-Voting Shares, on a per share basis.

Distribution of Assets. In the event of the liquidation, dissolution or other distribution of assets of the Corporation for the purpose of winding up its affairs, the holders of the Class A Voting Shares, the Class B

Non-Voting Shares and the Class C Special Voting Shares shall be entitled to receive our remaining property and assets (subject to the prior rights of any holders of shares ranking prior to them) on the basis that for each Class C Special Voting Share held, such holder will be entitled to receive twenty times the fair market value (as determined by our board of directors) of any amount received by the holders of the Class A Voting Shares and the Class B Non-Voting Shares, on a per share basis.

Preservation of Rights. If the Class A Voting Shares or the Class B Non-Voting Shares are subdivided, consolidated, reclassified or otherwise changed, appropriate adjustments shall be made at the same time to the rights attaching to the Class C Special Voting Shares to ensure the preservation of the rights of each class in relation to those of the other.

Conversion Rights. Each Class C Special Voting Share is convertible at any time, at the holder's option, into twenty fully paid and non-assessable Class B Non-Voting Shares.

In addition, upon the earliest of: (a) the receipt by the holders of Class C Special Voting Shares of a notice from us of a proposed Business Combination (as defined below) provided such Business Combination is completed within 180 days from the date of receipt of such notice; (b) a change in the registered holder of all or part of any Class C Special Voting Shares (except in the case of a change of name, amalgamation, merger or reorganization of the registered holder); or (c) September 21, 2001, the outstanding Class C Special Voting Shares (or, in the case of (b), the Class C Special Voting Shares which are the subject of the change) shall automatically convert into fully paid, non-assessable Class B Non-Voting Shares, on the basis of twenty Class B Non-Voting Shares for each Class C Special Voting Share held. For these purposes, "Business Combination" means any amalgamation, merger, liquidation, dissolution or other action by us that is part of a transaction, the purpose of which is to combine substantially all of our business or assets with those of a third party and in respect of which the Class C Special Voting Shares would otherwise have a separate class vote to approve any element of such transaction.

The Class C Special Voting Shares have conversion rights equivalent to those attaching to the Class B Non-Voting Shares described above under the heading "Class A Voting Shares and Class B Non-Voting Shares—Conversion Rights" in the event an Offer is made to purchase Class A Voting Shares. The Class C Special Voting Shares will also be automatically converted into Class A Voting Shares in the circumstances described in the last paragraph under that heading, except that, in each case, each Class C Special Voting Share will become convertible into twenty Class A Voting Shares.

The Class C Special Voting Shares are not listed or quoted on any stock exchange or market.

Class D Special Non-Voting Share

Our share capital authorized one Class D Special Non-Voting Share, which enabled the holder to elect one or two members of our board of directors, provided that the holder held a certain percentage ownership of our Class B Non-Voting Shares. In August 1999, the Class D Special Non-Voting Share was issued to Kinowelt. In January 2001, the Class D Special Non-Voting Share, by its terms, converted into a Class B Non-Voting Share. Consequently, no further Class D Special Non-Voting Shares are permitted to be authorized and issued and Kinowelt no longer has the right to elect directors.

DESCRIPTION OF CERTAIN INDEBTEDNESS

Senior Subordinated Notes

On November 15, 1999, we issued US\$150 million aggregate principal amount, on June 13, 2000 we issued an additional US\$55 million aggregate principal amount and on January 25, 2001, we issued an additional US\$95 million aggregate principal amount of our 13% senior subordinated notes due December 15, 2009 (the "Notes"). The Notes were issued under an indenture dated as of November 15, 1999 between the Company and The Bank of Nova Scotia Trust Company of New York, as trustee (the "Trustee") as supplemented on April 1, 2000, June 13, 2000 and January 25, 2001 (as supplemented, the "Indenture"). For purposes of this description of the Notes, references to the "Company" refer to Alliance Atlantis Communications Inc. only and not to any of its subsidiaries.

The Notes are senior subordinated debt and rank junior to all of the Company's senior indebtedness, including our credit facility. The Notes effectively rank junior to all debt and liabilities of the Company's subsidiaries, including trade payables.

At any time on or after December 15, 2004 we may redeem all or a portion of the Notes at specified redemption prices which are set at a yearly decreasing percentage premium to the principal amount plus accrued interest to the date of redemption. Before December 15, 2002 we may redeem up to 35% of the 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.

Upon the occurrence of a change of control and a decline in the rating of the Notes, or certain types of asset sales, we must offer to purchase the Notes at a purchase price equal to 101% of their principal amount, plus accrued interest to the date of purchase.

The Indenture restricts our ability and the ability of certain of our subsidiaries to: (a) incur more debt; (b) pay dividends, redeem stock, make other distributions or make certain investments; (c) issue capital stock; (d) use assets as security in other transactions; (e) enter into transactions with affiliates; (f) merge or consolidate; and (g) transfer or sell assets. These covenants are subject to important qualifications and limitations set forth in the Indenture.

Events of default under the Indenture include: (a) failure to pay principal, interest or premium, if any, when due; (b) failure to perform any covenant of the Company under the Indenture or the Notes; (c) default under the terms of other material debt for money borrowed by the Company or its subsidiaries (including the credit facility), resulting in the acceleration of such debt; (d) the failure to satisfy certain material judgments against the Company or its subsidiaries; and (e) certain events of bankruptcy, insolvency or reorganization affecting the Company or its subsidiaries.

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

Credit Facility

We have one committed credit facility dated as of January 9, 2001 and entered into with a syndicate of lenders (the "Lenders"). The credit facility consists of the following:

- a revolving facility in the amount of \$500 million in favor of the Company. This facility is used to finance motion picture and television production and distribution costs, the start up costs of our new channels, and for general corporate purposes. It is available until January of 2006 and has no amortization requirements; and
- an overdraft facility of \$25 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 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: (a) declare dividends, redeem or repurchase capital stock or make other distributions to our shareholders; (b) prepay or redeem debt; (c) grant liens; (d) make

loans, acquisitions and investments; (e) incur more debt; (f) amend or otherwise alter debt and other material agreements; (g) make capital expenditures; (h) engage in mergers, reorganizations and asset sales out of the ordinary course of business; (i) change our core business; (j) engage in transactions with related parties; (k) enter into certain sale leaseback transactions; (l) incur development costs and distribution and production expenses not supported by adequate pre-sales; or (m) enter into productions without complying with certain completion bonding requirements.

Events of default under the credit facility include: (a) a change of control of the Company; (b) failure to pay principal, interest or other amounts when due; (c) breach of any covenant or representation and warranty contained in the loan documents; (d) cross-default provisions to other material indebtedness (including, without limitation, the Notes); (e) customary events of bankruptcy, insolvency or dissolution of the Company or its subsidiaries; and (f) the enforcement of certain judgments against the Company, its subsidiaries or their assets or the seizing of material assets by other creditors. 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

EFC, an indirect wholly owned subsidiary of the Company, has up to \$40 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 recourse only to EFC and to Alliance Atlantis Communications Inc.'s interest in EFC 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 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 subsidiaries of Salter Street have indebtedness in respect of production loans and mortgages made by various lenders prior to the date of our acquisition of Salter Street. The production loans are generally secured in a first-ranking position against the assets of the applicable production and, in certain cases, guaranteed by Salter Street. As at March 31, 2001, the total indebtedness of these Salter Street subsidiaries in respect of such loans and mortgages was \$20.4 million.

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 by the Canadian federal government and various provincial governments and are generally made at favorable interest rates and on favorable terms. As at March 31, 2001, total indebtedness of our subsidiaries in respect of such loans was \$20.1 million.

CERTAIN TAX CONSIDERATIONS FOR U.S. SHAREHOLDERS

The following discussion summarizes certain material Canadian and United States federal income tax consequences of the acquisition, ownership and disposition of Class B Non-Voting Shares purchased pursuant to the offering described in this prospectus. This discussion is not intended to be, nor should it be construed to be, legal or tax advice to any particular prospective purchaser. This discussion does not take into account Canadian provincial or territorial tax laws, United States state or local tax laws, or tax laws of jurisdictions outside of Canada and the United States. The following is based upon the tax laws of Canada and the United States as in effect on the date of this prospectus, which are subject to change with possible retroactive effect. Prospective purchasers should consult their own tax advisors with respect to their particular circumstances.

Canadian Federal Income Tax Considerations

The following is a summary of the principal Canadian federal income tax considerations generally applicable to a U.S. Holder who acquires Class B Non-Voting Shares pursuant to this prospectus. As used in this summary of Canadian federal income tax considerations, the term “U.S. Holder” means a holder of Class B Non-Voting Shares who: (1) for the purposes of the *Income Tax Act* (Canada) (the “Tax Act”) (a) will not be or be deemed to be resident in Canada at any time while he or she holds Class B Non-Voting Shares, (b) deals at arm’s length with the Company, (c) holds the Class B Non-Voting Shares as capital property, (d) does not use or hold and will not be deemed to use or hold the Class B Non-Voting Shares in the course of carrying on a business in Canada, and (e) in respect of whom the Class B Non-Voting Shares are not “designated insurance property”; and (2) for the purposes of the Canada-United States Income Tax Convention, 1980 (the “Convention”), will at all relevant times be a resident of the United States, will not be a resident of Canada at any time while he or she holds Class B Non-Voting Shares, will not have at any time a permanent establishment or fixed base in Canada and owns less than 10% of the outstanding voting shares of the Company. Special rules, which are not addressed in this discussion, may apply to a U.S. Holder that is an insurer that carries on an insurance business in Canada and elsewhere, or a “financial institution” for purposes of the “mark-to-market” rules in the Tax Act.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder, the Convention, all specific proposals to amend the Tax Act and regulations announced by the Minister of Finance (Canada) prior to the date of this prospectus and counsel’s understanding of the current published administrative policies and assessing practices of the Canada Customs and Revenue Agency (the “CCRA”). This discussion is not exhaustive of all potential Canadian federal income tax consequences to a U.S. Holder and does not take into account or anticipate any other changes in law, whether by judicial, governmental or legislative decision or action nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction.

Amounts paid or credited or deemed to be paid or credited as, on account or in lieu of payment of, or in satisfaction of, dividends on Class B Non-Voting Shares beneficially owned by a U.S. Holder generally will be subject to Canadian non-resident withholding tax. Under the Convention, the rate of withholding tax generally applicable to dividends paid to U.S. Holders is 15%.

Under the Tax Act, a U.S. Holder generally will not be subject to tax in respect of any capital gain, or entitled to deduct any capital loss, realized on the disposition or deemed disposition of Class B Non-Voting Shares, unless at the time of such disposition such Class B Non-Voting Shares constitute “taxable Canadian property” of the U.S. Holder for the purposes of the Tax Act and the U.S. Holder is not entitled to relief under the Convention. If the Class B Non-Voting Shares are listed on a prescribed stock exchange (which includes The Toronto Stock Exchange and the Nasdaq National Market) at the time they are disposed of, they will generally not constitute “taxable Canadian property” of a U.S. Holder at the time of disposition unless, at any time within the 60 month period immediately preceding the disposition, the U.S. Holder, persons with whom U.S. Holder did not deal at arm’s length for the purposes of the Tax Act, or the U.S. Holder together with such persons, have owned, had an interest in, or had an option in respect of, 25% or more of the issued shares of any class or series of the Company’s shares. In certain circumstances, Class B Non-Voting Shares may be deemed to be taxable Canadian property. A deemed disposition of Class B

Non-Voting Shares will arise on the death of a U.S. Holder. If the Class B Non-Voting Shares are taxable Canadian property of a U.S. Holder, under the Convention any capital gain realized on a disposition or deemed disposition of such shares generally will not be subject to Canadian federal income tax unless the value of the Class B Non-Voting Shares at the time of the disposition or deemed disposition is derived principally from “real property situated in Canada” within the meaning set out in the Convention.

United States Federal Income Tax Considerations

The following discussion sets forth certain material United States federal income tax considerations of an investment in the Class B Non-Voting Shares. As used herein the term “United States Shareholder” means the following persons who invest in and hold Class B Non-Voting Shares as capital assets within the meaning of the Code: (a) citizens or residents (as defined for United States federal income tax purposes) of the United States, (b) corporations (or other entities classified as corporations for United States federal income tax purposes) organized under the laws of the United States or of any state or the District of Columbia, (c) estates, the income of which is subject to United States federal income taxation regardless of its source, and (d) any trust if (x) a United States court is able to exercise primary supervision over the administration of the trust and (y) one or more United States persons have the authority to control all substantial decisions of the trust. A “Non-United States Shareholder” is any beneficial owner of Class B Non-Voting Shares that is not a United States Shareholder.

This discussion does not purport to be a comprehensive description of the tax considerations that may be relevant to an investor’s decision to acquire Class B Non-Voting Shares. In particular, this summary does not address (a) the tax treatment of special classes of United States Shareholders, such as partnerships, banks, insurance companies, tax-exempt organizations or dealers in securities, (b) the tax treatment of United States Shareholders that own (directly or indirectly by attribution) 10% or more of the total combined voting power of all classes of stock of the Company, (c) the tax treatment of United States Shareholders whose functional currency is not the U.S. dollar or United States Shareholders who hold Class B Non-Voting Shares as part of a straddle, conversion transaction or other integrated investment, (d) the tax treatment of United States Shareholders that carry on a business in Canada through a permanent establishment or (e) any aspect of state, local or non-United States tax laws. This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), judicial decisions, administrative pronouncements, and existing and proposed Treasury regulations as of the date hereof, changes to any of which after the date of this prospectus could have retroactive effect. Prospective investors should consult their tax advisors as to the tax consequences of an investment in the Class B Non-Voting Shares in light of their particular circumstances, including the effect of any federal, state, local or foreign tax laws.

United States Shareholders

Taxation of Capital Gains. Subject to the discussion below regarding passive foreign investment companies, gain or loss, if any, realized by a United States Shareholder on the sale or other disposition of Class B Non-Voting Shares generally, will be subject to United States federal income taxation as capital gain or loss in an amount equal to the difference between the United States Shareholder’s adjusted tax basis in the Class B Non-Voting Shares and the amount realized on the disposition. Net capital gains (i.e., capital gain in excess of capital loss) recognized by a non-corporate United States Shareholder (including an individual) upon a sale or other disposition of Class B Non-Voting Shares that have been held for more than one year will generally be subject to a maximum United States federal income tax rate of 20%. In the case of a sale or other disposition of Class B Non-Voting Shares that have been held for one year or less, gain recognized by a United States Shareholder will be subject to tax at ordinary income tax rates. Deductions for capital losses are subject to certain limitations for both corporate and non-corporate United States Shareholders. Such gain or loss generally will be considered United States source gain or loss for United States foreign tax credit purposes.

Dividends on Class B Non-Voting Shares. The gross amount of any actual or deemed distribution by the Company (including any Canadian taxes withheld therefrom) with respect to Class B Non-Voting Shares generally should be included in the gross income of a United States Shareholder as a dividend to the extent such distribution is paid out of current or accumulated earnings and profits of the Company, as determined

under United States federal income tax principles. To the extent that the amount of any distribution exceeds the Company's current and accumulated earnings and profits for a taxable year, the distribution first will be treated as a tax-free return of capital to the extent of the United States Shareholder's adjusted tax basis in the Class B Non-Voting Shares and to the extent that such distribution exceeds the United States Shareholder's adjusted tax basis in the Class B Non-Voting Shares, it will be taxed as a capital gain. In the case of United States Shareholders that are corporations, dividends generally will not be eligible for the dividends received deduction. If a United States Shareholder receives a dividend in Canadian dollars, the amount of the dividend for United States federal income tax purposes will be the U.S. dollar value of the dividend (determined at the spot rate on the date of such payment) regardless of whether the payment is later converted into U.S. dollars. In such cases, the United States Shareholder may recognize additional United States source ordinary income or loss as a result of currency fluctuations between the date on which the dividend is paid and the date the dividend amount is converted into U.S. dollars.

Subject to the limitations set forth in the Code (including the holding period requirements), the foreign tax withheld or paid with respect to dividends on the Class B Non-Voting Shares generally should be eligible for credit against a United States Shareholder's United States federal income tax liability. Alternatively, a United States Shareholder may claim a deduction for foreign taxes paid or withheld, subject to certain requirements. The Code applies various limitations on the amount of foreign tax credit that may be claimed by a United States taxpayer. Because of the complexity of these limitations, United States Shareholders should consult their tax advisors with respect to the availability and amount of a credit or deduction for Canadian or other foreign taxes.

Passive Foreign Investment Company Discussion. If during any taxable year of the Company, 75% or more of the Company's gross income consists of certain types of "passive" income, or if the average value during a taxable year of the Company's "passive assets" (generally, assets that generate passive income) is 50% or more of the average value of all assets held by the Company, the Company will be classified as a "passive foreign investment company" ("PFIC") for such year and in succeeding years. Passive income generally includes interest, dividends and some types of rent and royalties. If the Company is classified as a PFIC, a United States Shareholder holding Class B Non-Voting Shares will be subject to increased tax liability in respect of gains recognized on the sale of the Class B Non-Voting Shares or upon the receipt of certain distributions. Alternatively, if the Company complies with certain notification requirements, a United States Shareholder may elect to treat the Company as a "qualified electing fund" (a "QEF"), in which case the United States Shareholder would include in income each year that the Company is a PFIC its share of the Company's ordinary earnings as ordinary income and its share of the Company's net capital gain as long term capital gain, whether or not distributed. As another alternative to the foregoing rules, a United States Shareholder may make a mark-to-market election to include in income each year as ordinary income an amount equal to the increase in value of its Class B Non-Voting Shares for that year or to claim a deduction for any decrease in value (but only to the extent of previous mark-to-market gains).

Based on its current and projected income, assets and activities, the Company does not believe it will be classified as a PFIC for its current or any succeeding taxable year. No assurance can be provided, however, that the Company will not be classified as a PFIC in the future. If the Company determines that it is a PFIC, the Company will upon reasonable request provide the necessary information to a United States Shareholder to enable such shareholder to make the QEF election.

United States Shareholders should consult their own tax advisors with respect to the PFIC issue and its applicability to their particular situation.

Non-United States Shareholders

Taxation of Capital Gains. A Non-United States Shareholder generally will not be subject to United States federal income tax in respect of gain recognized on a disposition of Class B Non-Voting Shares unless such gain is effectively connected with a trade or business of the Non-United States Shareholder in the United States (and is attributable to a permanent establishment maintained in the United States by such Non-United States Shareholder, if an applicable income tax treaty so requires as a condition for such Non-United States Shareholder to be subject to United States taxation on a net income basis in respect of

gain from the sale or other disposition of Class B Non-Voting Shares), or in the case of an individual Non-United States Shareholder, such Non-United States Shareholder is present in the United States for 183 or more days in the calendar year in which such disposition of Class B Non-Voting Shares takes place and such Non-United States Shareholder either (a) has a tax home (as defined in the Code) in the United States, or (b) such gain is attributable to an office or other fixed place of business in the United States.

Dividends on Class B Non-Voting Shares. A Non-United States Shareholder generally will not be subject to United States federal income or withholding tax on dividends received on Class B Non-Voting Shares, unless such income is effectively connected with the conduct of a trade or business of such Non-United States Shareholder in the United States (and are attributable to a permanent establishment maintained in the United States by such Non-United States Shareholder, if an applicable income tax treaty so requires as a condition for such Non-United States Shareholder to be subject to United States taxation on a net income basis in respect of income from Class B Non-Voting Shares).

Information Reporting and Backup Withholding. In general, information reporting requirements will apply to dividends in respect of the Class B Non-Voting Shares and the proceeds received on the disposition of Class B Non-Voting Shares paid within the United States (and in certain cases, outside the United States) to United States Shareholders, and a backup withholding tax (30.5% for payments made after August 6, 2001 and 30%, for payments made in 2002 and 2003) may apply to such amounts if the United States Shareholder (a) fails to establish properly that it is entitled to an exemption, (b) fails to furnish or certify his correct taxpayer identification number to the payer in the manner required, (c) is notified by the IRS that he has failed to report payments of interest or dividends properly or (d) under certain circumstances, fails to certify that he has been notified by the IRS that he is subject to backup withholding for failure to report interest or dividend payments. The amount of any backup withholding from a payment to a United States Shareholder will be allowed as a credit against the United States Shareholder's United States federal income tax liability.

The preceding discussion of certain United States federal income tax consequences is for general information only and is not tax advice. Accordingly, holders of the Class B Non-Voting Shares should consult their own tax advisors as to the particular tax consequences to them of purchasing, holding and disposing of the Class B Non-Voting Shares, including the applicability and effect of any federal, state, local or foreign tax laws, and of any proposed changes in applicable law.

RELATIONSHIPS BETWEEN THE COMPANY AND CERTAIN OF THE UNDERWRITERS

Five of the underwriters, RBC Dominion Securities Corporation and its Canadian affiliate, RBC Dominion Securities Inc., TD Securities (USA) Inc. and its Canadian affiliate, TD Securities Inc., BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc. and Scotia Capital Inc. are affiliates of Canadian chartered banks which are lenders under our credit facility. See "Description of Certain Indebtedness." The outstanding indebtedness under our credit facility was \$73.9 million as of March 31, 2001. 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 \$28.8 million as of March 31, 2001. We are in compliance with the terms of such credit facilities. The decision of the underwriters 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 offer the Class B Non-Voting Shares and the determination of the terms of the distribution were made through negotiations between the Company and the underwriters. None of RBC Dominion Securities Corporation, and its Canadian affiliate, RBC Dominion Securities Inc., TD Securities (USA) Inc., and its Canadian affiliate, TD Securities Inc., BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc. and Scotia Capital Inc. will receive any benefit from this offering other than their respective portions of the underwriting commission payable by us. The net proceeds from the sale of Class B Non-Voting Shares will be used to repay outstanding indebtedness owed to their affiliates under our credit facility. See "Use of Proceeds."

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman, Sachs & Co., RBC Dominion Securities Corporation and TD Securities (USA) Inc. are acting as representatives of the underwriters named below. Subject to the terms and conditions of a purchase agreement (the “Purchase Agreement”) between the Company and each of the Underwriters named below (the “Underwriters”), the Company has agreed to sell and the Underwriters severally have agreed to purchase from the Company, the number of Class B Non-Voting Shares listed opposite its name below:

<u>Underwriter</u>	<u>Number of Shares</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	2,880,000
Goldman, Sachs & Co.	2,880,000
RBC Dominion Securities Corporation	745,600
TD Securities (USA) Inc.	745,600
BMO Nesbitt Burns Inc.	124,800
Griffiths McBurney & Partners	124,800
HSBC Securities (Canada) Inc.	124,800
Research Capital Corporation	124,800
Scotia Capital Inc.	124,800
Thomson Kernaghan & Co. Limited	124,800
Total	<u>8,000,000</u>

In consideration of their services in connection with the Offering, the Company has agreed to pay the Underwriters a commission of 5% of the gross proceeds of the Offering. In the Purchase Agreement, each of the Underwriters has severally agreed, subject to the terms and conditions set forth therein, to purchase all of the Class B Non-Voting Shares offered hereby if any of such shares are purchased. The obligations of the Underwriters under the Purchase Agreement may be terminated at their discretion upon the occurrence of certain stated events, including on the basis of their assessment of the state of the financial markets. The offering price of the Class B Non-Voting Shares was determined by negotiation between the Company and the Underwriters. Under certain circumstances, the commitments of non-defaulting Underwriters may be increased.

This offering is being made concurrently in all of the provinces and territories of Canada and in the United States, pursuant to the multijurisdictional disclosure system implemented by the securities regulatory authorities in the United States and Canada. The Class B Non-Voting Shares will be offered in the United States and all of the provinces and territories of Canada through the Underwriters, either directly or through their respective U.S. or Canadian broker-dealer affiliates or agents. Subject to applicable law, the Underwriters may offer the Class B Non-Voting Shares outside of Canada and the United States.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the U.S. Securities Act and applicable Canadian securities legislation, and to contribute to payments that the Underwriters may be required to make in respect thereof.

The Underwriters are offering the Class B Non-Voting Shares, subject to prior sale, if, as and when to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Class B Non-Voting Shares, and the conditions contained in the Purchase Agreement, such as the receipt by the Underwriters of officer’s certificates and legal opinions. The Underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part and the right to close the subscription books at any time without notice. It is expected that definitive certificates evidencing the Class B Non-Voting Shares will be available for delivery at closing which is anticipated to occur on or about August 8, 2001, or such other date as the Company and the Underwriters may agree, but in any event not later than September 12, 2001.

The public offering price for Class B Non-Voting Shares offered in the United States is payable in U.S. dollars and the public offering price for Class B Shares offered in Canada is payable in Canadian dollars. The U.S. dollar amount is the equivalent of the Canadian price of the Class B Non-Voting Shares based on the prevailing U.S.-Canadian dollar exchange rate as of the date of this prospectus. See “Exchange Rate Information.”

Commissions and Discounts

The Underwriters have advised the Company that the Underwriters propose initially to offer the Class B Non-Voting Shares to the public at the public offering price set forth on the cover page of this prospectus and to dealers at such price less a concession not in excess of US\$.34 per share. The Underwriters may allow, and such dealers may reallow, a discount not in excess of US\$.10 per share to other dealers. After the public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting commission and proceeds before expenses to the Company. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	<u>Per Share</u>	<u>Without Option</u>	<u>With Option</u>
Public offering price	US\$11.30	US\$90,400,000	US\$103,960,000
Underwriting commission	US\$.565	US\$4,520,000	US\$5,198,000
Proceeds, before expenses, to Alliance Atlantis	US\$10.735	US\$85,880,000	US\$98,762,000

The expenses of this offering, not including the underwriting commission, are estimated at \$2.9 million and are payable by the Company.

Overallotment Option

The Company has granted an option to the Underwriters to purchase up to 1,200,000 additional Class B Non-Voting Shares at the public offering price less the underwriting commission. The Underwriters may exercise this option for 30 days from the date of this prospectus solely to cover any overallotments. If the Underwriters exercise this option, each will be obligated, subject to conditions contained in the Purchase Agreement, to purchase a number of additional Class B Non-Voting Shares proportionate to the Underwriter’s initial amount reflected in the above table.

No Sales of Similar Securities

We and our executive officers and directors and the Alliance Atlantis Principals and their related companies have agreed not to sell or transfer any Class B Non-Voting Shares for 90 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch. Kinowelt Medien AG has not entered into a similar agreement. Specifically, we and these other individuals have agreed not to directly or indirectly:

- offer, pledge, sell or contract to sell any Class B Non-Voting Shares;
- sell any option or contract to purchase any Class B Non-Voting Shares;
- purchase any option or contract to sell any Class B Non-Voting Share;
- grant any option, right or warrant for the sale of any Class B Non-Voting Shares;
- lend or otherwise dispose of or transfer any Class B Non-Voting Shares;
- request or demand that we file a registration statement related to the Class B Non-Voting Shares; or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any Class B Non-Voting Shares whether any such swap or transaction is to be settled by delivery of shares or securities, in cash or otherwise.

This lockup provision applies to Class B Non-Voting Shares and to securities convertible into or exchangeable or exercisable for or repayable with Class B Non-Voting Shares. It also applies to Class B Non-

Voting Shares owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

The Class B Non-Voting Shares are quoted on the Nasdaq National Market under the symbol “AACB” and trade on The Toronto Stock Exchange under the symbol “AAC.B.” We have made an application to quote the Class B Non-Voting Shares sold under this offering on the Nasdaq National Market. The Toronto Stock Exchange has conditionally approved the listing of the Class B Non-Voting Shares distributed under this offering. Listing is subject to our fulfilling all of the requirements of The Toronto Stock Exchange on or before October 18, 2001.

NASD Regulation

Because more than ten percent of the net proceeds of the offering may be paid to members or affiliates of members of the National Association of Securities Dealers, Inc. participating in the offering, the offering will be conducted in accordance with NASD Conduct Rule 2710(c)(8). Pursuant to NASD Conduct Rule 2720(c)(3), the appointment of a qualified independent underwriter is not necessary in connection with this offering, as a *bona fide* independent market (as defined in the NASD Conduct Rule) exists in the Class B Non-Voting Shares.

Price Stabilization and Short Positions

Until the distribution of the Class B Non-Voting Shares is completed, the United States Securities and Exchange Commission rules and applicable securities legislation in Canada may limit the Underwriters and selling group members from bidding for and purchasing the Company’s Class B Non-Voting Shares. However, the representatives of the Underwriters (the “Representatives”) may engage in transactions that stabilize the price of the Class B Non-Voting Shares, such as bids or purchases to peg, fix or maintain that price.

If the Underwriters create a short position in the Class B Non-Voting Shares in connection with the offering, *i.e.*, if they sell more shares than listed on the cover of this prospectus, the Representatives may reduce that short position by purchasing shares in the open market. The Representatives may also elect to reduce any short position by exercising all or part of the overallotment option described above. Purchases of the Class B Non-Voting Shares to stabilize its price or to reduce a short position may cause the price of the Class B Non-Voting Shares to be higher than it might be in the absence of such purchases.

Neither the Company nor any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Class B Non-Voting Shares. In addition, neither the Company nor any of the Underwriters makes any representation that the Representatives or the lead manager will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Passive Market Making

In connection with this offering, underwriters and selling group members may engage in passive market marketing transactions in the Class B Non-Voting Shares on the Nasdaq National Market in accordance with Rule 103 of Regulation M under the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”) during a period before the commencement of offers or sales of Class B Non-Voting Shares and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker’s bid, that bid will then be lowered when specified purchase limits are exceeded.

Pursuant to policy statements of the Ontario Securities Commission and the *Commission des valeurs mobilières du Québec*, the Underwriters may not, throughout the period of distribution, bid for or purchase Class B Non-Voting Shares. The foregoing restriction is subject to certain exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Class B Non-Voting Shares. Such exceptions include a bid or purchase permitted

under the by-laws and rules of The Toronto Stock Exchange relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

Electronic Prospectus

Merrill Lynch, Pierce, Fenner & Smith Incorporated will be facilitating Internet distribution for this offering to certain of its Internet subscription customers. Merrill Lynch intends to allocate a limited number of Class B Non-Voting Shares for sale to their online brokerage customers. An electronic prospectus is available on the Internet website maintained by Merrill Lynch. Other than the prospectus in electronic format, the information on the Merrill Lynch website is not a part of this prospectus.

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by Torys, Toronto, Ontario and New York, New York and for the Underwriters by Goodman and Carr LLP and Skadden, Arps, Slate, Meagher & Flom LLP, Toronto, Ontario.

Barry J. Reiter and Gary Solway, two of our directors, are also partners in the law firm of Torys. As of July 31, 2001, the members of Torys and Goodman and Carr LLP, 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, 2001 and 2000 and for each of the three years in the period ended March 31, 2001 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.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Our auditors are PricewaterhouseCoopers LLP, Suite 3000, Box 82, Royal Trust Tower, TD Centre, Toronto, Ontario, M5K 1G8, Canada.

The transfer agent and registrar for the Class B Non-Voting Shares is Computershare Trust Company of Canada at its principal office in Toronto.

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", "Performance Graph", "Composition of the Governance Committee" and "Report on Executive Compensation;"
- 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 the three years ended March 31, 2001;
- d. Audited consolidated balance sheets of Alliance Atlantis as at March 31, 2001 and 2000 and consolidated statements of operations and retained earnings and cash flows for each of the years in the three-year period ended March 31, 2001 together with the accompanying report of the auditor;

- e. 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;
- f. A material change report filed by Alliance Atlantis dated February 21, 2001 in respect of the proposed acquisition of Salter Street by Alliance Atlantis; and
- g. A material change report filed by Alliance Atlantis dated April 20, 2001 in respect of the completion of the acquisition of Salter Street by Alliance Atlantis.

Any of our documents of the type referred to above, including our unaudited interim financial statements, our management proxy circular, our annual information form 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.

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 our Corporate Secretary at 121 Bloor Street East, Toronto, Ontario M4W 3M5, Canada, telephone: (416) 967-1174. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from our Corporate Secretary at the above-mentioned address and telephone number.

WHERE YOU CAN FIND MORE INFORMATION

Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada (including the permanent information record in the Province of Québec). Copies of this prospectus and the documents incorporated by reference herein may be obtained on request without charge from our Corporate Secretary, at our head office: 121 Bloor Street East, Suite 1500, Toronto, Ontario M4W 3M5 Canada, telephone: (416) 967-1174. Copies of these documents are available on the System for Electronic Document Analysis and Retrieval of the Canadian Securities Administrators, at www.sedar.com. This website address is included in this document as an inactive textual reference only.

We have filed with the U.S. Securities and Exchange Commission (the "Commission") under the United States Securities Act of 1933, as amended, a registration statement on Form F-10 relating to the Class B Non-Voting Shares and of which this prospectus is a part. This prospectus does not contain all of the information set forth in such registration statement, and to which reference is made for further information. For further information about us, and the Class B Non-Voting Shares offered hereby, reference is made to the Registration Statement and to the schedules and exhibits filed therewith. Statements contained in this Prospectus as to the contents of certain documents are not necessarily complete and, in each instance, reference is made to the copy of the document filed as an exhibit to the Registration Statement. Each such statement is qualified in its entirety by such reference.

We are subject to the informational requirements of the Exchange Act, and in accordance therewith file reports and other information with the Commission. Under a multijurisdictional disclosure system adopted by the United States, such reports and other information may be prepared in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. We are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. Under the Exchange Act, we are not required to publish financial statements as frequently or as promptly as U.S. companies. Any information filed with the Commission can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549; and at the Commission's following regional offices: Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60660; and 7 World Trade Center, Suite 1300, New York, New York 10048. Copies of such material can also be obtained from the Commission at prescribed rates through its Public Reference Section at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the public reference facilities may be obtained by calling the Commission at 1-800-SEC-0330. Our Class B Non-Voting Shares are listed on the Nasdaq National Market and reports and other information concerning the Company may be inspected at the offices of the Nasdaq Stock Market at 1735 K Street, N.W., Washington, D.C. 20006-1500.

DOCUMENTS FILED AS PART OF THE U.S. REGISTRATION STATEMENT

The following documents have been filed with the Commission as part of the U.S. Registration Statement of which this prospectus forms a part: (a) the documents listed above under "Documents Incorporated by Reference;" (b) the form of purchase agreement between Alliance Atlantis and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman, Sachs & Co., RBC Dominion Securities Corporation and TD Securities (USA) Inc., as representatives of the several underwriters; (c) the consent of PricewaterhouseCoopers, LLP, Chartered Accountants; (d) the consent of Torys, U.S. and Canadian counsel to Alliance Atlantis; and (e) powers of attorney from certain directors and officers of Alliance Atlantis.

ELIGIBILITY FOR INVESTMENT

In the opinion of counsel, at the date of closing, the purchase of the Class B Non-Voting Shares offered by this short form prospectus will not be prohibited, subject to general investment provisions and, in certain cases, subject to prudent investment requirements and additional requirements relating to investment or lending policies or goals, under or by the following statutes:

Insurance Companies Act (Canada)
Trust and Loan Companies Act (Canada)
Pension Benefits Standards Act, 1985 (Canada)
Insurance Act (Alberta)
Employment Pension Plans Act (Alberta)
Loan and Trust Corporations Act (Alberta)
Pension Benefits Standards Act
 (British Columbia)
Financial Institutions Act (British Columbia)
The Insurance Act (Manitoba)
Pension Benefits Act (Ontario)
Loan and Trust Corporations Act (Ontario)

An act respecting trust companies and savings companies (Quebec) for a trust company investing its own funds and deposits it receives and a savings company (as defined therein) investing its funds
An act respecting insurance (Quebec) for an insurer (as defined therein) incorporated under the laws of the Province of Quebec other than a guarantee fund
Supplemental Pension Plans Act (Quebec), for an insured plan as defined therein
The Pension Benefits Act, 1992 (Saskatchewan)

In addition, in the opinion of such counsel, the Class B Non-Voting Shares will be, at the date of closing, qualified investments under the *Income Tax Act* (Canada) for a trust governed by a registered retirement savings plan, a registered retirement income fund, a registered education savings plan or a deferred profit sharing plan.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

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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, 2001 and 2000 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended March 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount 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, 2001 and 2000 and the results of operations and cash flows for each of the years in the three-year period ended March 31, 2001 in accordance with Canadian generally accepted accounting principles.

/s/ PRICEWATERHOUSECOOPERS LLP
Chartered Accountants
June 12, 2001
Toronto, Canada

ALLIANCE ATLANTIS COMMUNICATIONS INC.

CONSOLIDATED BALANCE SHEETS

As at March 31, 2001 and 2000
(In millions of Canadian dollars)

	<u>2001</u>	<u>2000</u>
Assets		
Cash and cash equivalents	—	1.0
Accounts receivable	461.1	476.8
Loans receivable	35.0	27.2
Investment in film and television programs (<i>note 2</i>)	830.1	591.6
Development costs	47.4	30.7
Property and equipment (<i>note 3</i>)	64.8	53.7
Broadcast licenses	74.5	76.4
Goodwill	91.0	80.0
Investments (<i>note 4</i>)	65.3	38.1
Future income taxes (<i>note 15</i>)	42.8	27.6
Other assets (<i>note 5</i>)	56.9	27.3
	<u>1,768.9</u>	<u>1,430.4</u>
Liabilities		
Senior revolving credit facility (<i>note 6</i>)	73.9	187.7
Accounts payable and accrued liabilities	369.6	274.2
Income taxes payable	20.5	6.6
Deferred revenue	151.9	98.7
Term loans (<i>note 7</i>)	58.8	55.9
Senior subordinated notes (<i>note 8</i>)	474.0	217.5
Convertible debentures (<i>note 10</i>)	8.8	8.8
Minority interest	12.8	9.5
	<u>1,170.3</u>	<u>858.9</u>
Shareholders' equity		
Share capital (<i>note 11</i>)	525.3	521.2
Retained earnings	85.1	50.1
Cumulative translation adjustments (<i>note 12</i>)	(11.8)	0.2
	<u>598.6</u>	<u>571.5</u>
	<u>1,768.9</u>	<u>1,430.4</u>

Commitments and contingencies (*note 21*)

Approved by the Board of Directors

/s/ MICHAEL I.M. MACMILLAN
Director

/s/ ELLIS JACOB
Director

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

ALLIANCE ATLANTIS COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF EARNINGS

**For the years ended March 31,
(in millions of Canadian dollars—except per share amounts)**

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Revenue	806.1	771.6	633.4
Direct operating expenses	580.3	592.4	502.7
Gross profit	225.8	179.2	130.7
Operating expenses	92.2	73.0	71.4
Earnings before undernoted	133.6	106.2	59.3
Amortization	26.7	14.5	11.4
Interest, including amortization of interest previously capitalized (<i>note 13</i>)	61.6	36.3	22.9
Merger and restructuring expenses	—	—	81.4
Investment gains (<i>note 14</i>)	5.9	2.5	0.7
Equity interest in affiliate (<i>note 4</i>)	(1.6)	—	—
Minority interest	1.0	(0.5)	(0.6)
Earnings (loss) before income taxes	48.6	58.4	(55.1)
Provision for (recovery of) income taxes (<i>note 15</i>)	13.6	19.3	(27.8)
Net earnings (loss) for the year	35.0	39.1	(27.3)
Dividends on Preferred Shares	—	(0.5)	(0.5)
Accretion of conversion feature of Preferred Shares	—	(1.6)	(1.6)
Net earnings (loss) available to Common Shareholders	35.0	37.0	(29.4)
Earnings (loss) per Common Share (<i>note 18</i>)			
Basic	\$1.10	\$1.31	\$(1.44)
Fully diluted	\$1.09	\$1.25	\$(1.44)
Weighted average Common Shares outstanding (millions)			
Basic	31.7	28.2	20.4
Fully diluted	32.4	30.8	20.4
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Retained earnings—beginning of year (<i>note 17</i>)	50.1	13.1	78.8
Net earnings (loss) for the year	35.0	39.1	(27.3)
Redemption of Common Shares	—	—	(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	85.1	50.1	13.1

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

ALLIANCE ATLANTIS COMMUNICATIONS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31,
(In millions of Canadian dollars)

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Cash and cash equivalents provided by (used in)			
Operating activities			
Net earnings (loss) for the year	35.0	39.1	(27.3)
Items not affecting cash			
Amortization of film and television programs	557.6	569.7	509.8
Amortization of development costs	9.1	4.5	3.4
Amortization of property and equipment	11.3	7.7	6.6
Amortization of broadcasting licenses	1.9	1.9	1.0
Amortization of goodwill and other assets	10.0	3.6	1.3
Investment gains	(5.9)	(2.5)	(0.7)
Equity interest in affiliate	1.6	—	—
Minority interest	1.0	(0.5)	(0.6)
Future income taxes	(15.2)	12.5	(5.5)
	<u>606.4</u>	<u>636.0</u>	<u>488.0</u>
Net changes in other non-cash balances related to operations (<i>note 19</i>)	80.1	(77.8)	(128.2)
	<u>686.5</u>	<u>558.2</u>	<u>359.8</u>
Investing activities			
Loans receivable	(7.8)	12.7	0.7
Film and television programs	(720.9)	(620.7)	(703.8)
Development costs	(25.5)	(11.8)	(4.5)
Property and equipment	(22.0)	(19.8)	(16.8)
Business acquisitions (<i>note 9</i>)	(6.6)	(1.9)	2.9
Minority interest in acquired businesses	3.0	1.2	7.5
Long term investments	(23.2)	(37.1)	(1.7)
Proceeds from sale of investments	8.3	11.2	0.8
	<u>(794.7)</u>	<u>(666.2)</u>	<u>(714.9)</u>
Financing activities			
Senior revolving credit facility	(114.6)	(251.6)	325.5
Term loans	(3.5)	4.5	(0.1)
Issue of senior subordinated notes	222.7	219.5	—
Redemption of Preferred Shares	—	(51.9)	—
Issue of Share capital	2.5	132.5	84.7
Dividends paid on Preferred Shares	—	(0.5)	(0.5)
	<u>107.1</u>	<u>52.5</u>	<u>409.6</u>
Change in cash and cash equivalents	(1.1)	(55.5)	54.5
Cash and cash equivalents—beginning of year	1.0	56.9	2.4
Effect of exchange rates on cash	0.1	(0.4)	—
Cash and cash equivalents—end of year	—	1.0	56.9

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 vertically integrated Canadian broadcaster, creator and international distributor of filmed entertainment content with significant ownership, either wholly or in part, in eighteen complementary specialty television channels. As described in note 22, the Company's principal business activities are carried out through three operating groups: Broadcast, Motion Picture and Television.

1. Summary of Significant Accounting Policies

Generally accepted accounting principles These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

Principles of consolidation The consolidated financial statements include the accounts of Alliance Atlantis Communications Inc. and all of its subsidiaries with provision for minority interests and its proportionate share of assets, liabilities, revenue and expenses for jointly controlled companies.

Revenue recognition Revenue is recognized as earned when the films or television programs are 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 the fees and commissions from sales to limited partnerships when the investor has irrevocably committed to acquire the related equity.

Fees related to origination of loans to producers, 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 on a monthly basis. Advertising revenue is recognized when advertisements are aired.

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

Cash equivalents Cash equivalents consist of credit-worthy, money market investments with initial maturity terms of 90 days or less, 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 estimated credit losses. The Company conducts ongoing credit assessments of its loan portfolio on an account-by-account basis and establishes specific allowances when doubtful accounts are identified.

Investment in film and television programs Investment in film and television programs represents the unamortized costs of film and television programs which have been produced by the Company or for which the Company has acquired distribution rights. 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 revenue. 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 represent the unamortized fair value since the date of acquisition.

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

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

1. Summary of Significant Accounting Policies (Continued)

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 revenue 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 contract rights 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 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.

Property and equipment Property and equipment are 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

Broadcast licenses In business acquisitions involving the Company's Broadcast group, fair value is assigned to the broadcast licenses acquired. Broadcast licenses are carried at assigned value less accumulated amortization. Amortization is provided on a straight-line basis over a period of forty years. Broadcast 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, 2001 was \$5.1 (2000—\$3.2).

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, 2001 was \$7.9 (2000—\$5.2).

Investments Investments include long-term investments which are accounted for at cost when the conditions for equity accounting are not present and investments which are accounted for on the equity basis when significant influence exists.

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

1. Summary of Significant Accounting Policies (Continued)

Other assets Other assets include deferred financing charges which are amortized on a straight-line basis over the life of each respective debt instrument. Other assets also include unrealized gains and losses arising from the translation of long-term monetary assets and liabilities, which are deferred and amortized on a straight-line basis over the remaining life of the related asset or liability.

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 receivable in respect of production assistance are recorded as revenue when persuasive evidence of an arrangement exists, the production is completed and available for delivery, the amount is fixed or determinable and collection of the amount is reasonably assured. 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 as a reduction of expenses.

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.

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.

Transaction 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 a 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 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 11(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 option cancelled 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 Policies (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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative amounts Certain amounts presented for the years ended March 31, 2000 and 1999 have been reclassified to conform with the presentation adopted in 2001.

2. Investment in Film and Television Programs (net of accumulated amortization)

	<u>Broadcast</u>	<u>Motion Picture</u>	<u>Television</u>	<u>Total</u>
2001				
Produced	—	34.7	229.1	263.8
Acquired	—	256.6	77.6	334.2
Libraries	—	—	38.6	38.6
Programs in progress	—	44.6	76.7	121.3
Broadcast rights	<u>72.2</u>	<u>—</u>	<u>—</u>	<u>72.2</u>
	<u>72.2</u>	<u>335.9</u>	<u>422.0</u>	<u>830.1</u>
	<u>Broadcast</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>

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

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

3. Property and Equipment

	2001		2000	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land	0.8	—	0.8	—
Buildings	3.5	1.6	3.5	1.5
Furniture and other equipment	27.6	11.6	21.5	7.8
Computer equipment	29.2	15.7	23.4	11.4
Leasehold improvements	33.5	8.5	27.1	6.4
Broadcasting equipment	13.6	6.0	9.1	4.6
	<u>108.2</u>	<u>43.4</u>	<u>85.4</u>	<u>31.7</u>
Net book value		<u>64.8</u>		<u>53.7</u>

4. Investments

	2001	2000
Long-term investments, at cost	34.6	38.1
Long-term investments on equity basis	30.7	—
	<u>65.3</u>	<u>38.1</u>

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 attained significant influence and accordingly began accounting for its 39% interest, on a prospective basis, using the equity method. (Also see note 25.)

5. Other Assets

	2001	2000
Deferred financing costs and foreign exchange (net of accumulated amortization of \$11.2 (2000—\$4.3))	44.5	19.7
Broadcast license costs	3.6	1.3
Prepaid expenses and other	8.8	6.3
	<u>56.9</u>	<u>27.3</u>

Deferred financing costs include costs incurred in the issuance of the senior subordinated notes and the senior revolving credit facility. These costs are amortized over the term of the debt with which they are associated. Deferred foreign exchange represents the unrealized revaluation of US dollar denominated senior subordinated notes. (See note 8). The unrealized exchange losses are being amortized over the term of the senior subordinated notes.

Costs to obtain approval from the Canadian Radiotelevision Telecommunications Commission (CRTC) in respect of new digital broadcast licenses are deferred until such time as the license has been secured. These costs will be transferred to Broadcast licenses upon the license being secured by the Company.

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

6. Senior Revolving Credit Facility

	<u>2001</u>	<u>2000</u>
Senior revolving credit facility—drawn	73.9	187.7

During 2001, the Company modified its existing credit facility by increasing the authorized principal amount from \$440.0 to \$500.0 and extending the term to January 2006. The senior revolving credit facility provides up to \$500.0 in borrowings bearing interest at rates ranging from, for example, the prime rate to the prime rate plus 1.75%. In addition, a revolving swing line facility, due on demand, provides up to \$25.0 in borrowings bearing interest at rates ranging from, for example, the prime rate to the prime rate plus 1.75%.

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

As at March 31, 2001, the Company had unused credit facilities aggregating \$405.0 (2000—\$218.8) after giving effect to the letters of credit outstanding. (See note 21(c)).

The availability of the senior revolving credit facility is subject to the Company's maintaining interest and consolidated indebtedness coverage ratios.

7. Term Loans

	<u>2001</u>	<u>2000</u>
Limited-recourse term loans bearing interest at rates between the commercial prime rate plus 0.75% to plus 0.88%.	28.8	30.8
Mortgages payable, collateralized by certain property, bearing interest at 9.99% and the commercial prime rates plus 3%, repayable over terms extending to October 15, 2005	2.7	3.0
Industry and other term loans which are unsecured and have no fixed terms of repayment, bearing interest at various rates	20.1	17.7
Obligations under capital lease	7.2	4.4
	<u>58.8</u>	<u>55.9</u>

Assets with a carrying value of \$42.5 have been pledged as security for borrowing under the term loans.

Required principal repayments are as follows:

2002	18.2
2003	16.5
2004	9.4
2005	4.9
2006	—
Due Subsequent	9.8
	<u>58.8</u>

8. 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

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

8. Senior Subordinated Notes (Continued)

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 Common Shares. The notes are subordinated to substantially all indebtedness of the Company and all debt and liabilities of the Company's subsidiaries, including trade payables. The Company received proceeds of \$210.9, net of \$8.6 of expenses which have been included in deferred charges. (See note 5.)

On June 13, 2000 and January 25, 2001, the Company issued an additional US\$55.0 and US\$95.0 senior subordinated notes. The US\$95.0 issuance was issued at a 1% discount. The notes have the same terms and conditions as the senior subordinated notes issued on November 15, 1999. The Company received total proceeds of \$212.6 from these transactions net of \$10.1 of expenses and discount which have been included in deferred charges. (See note 5.)

9. Business Acquisitions

(a) During fiscal 2001, the following acquisitions occurred:

In June 2000, the Company purchased 100% of the outstanding shares of Tattersall Sound Inc. (Tattersall) in exchange for 100,000 Class B Non-Voting Shares valued at approximately \$1.6. 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 earnings from the date of acquisition. The Tattersall transaction resulted in goodwill of \$1.4.

In June 2000, the Company purchased the remaining 61% of the outstanding shares of Great North Communications Ltd. (Great North), an Alberta based producer and distributor of factual programming, in exchange for cash of \$6.1. The acquisition has been accounted for as a step acquisition and the results of operations of the acquired company have been included in the consolidated statement of earnings from the date of acquisition of the remaining interest. The Great North transaction resulted in goodwill of \$9.4.

In February 2001, the Company purchased 100% of the outstanding shares of Café Productions Limited (Café), a U.K. based producer of factual programming, in exchange for the assumption of debt of \$2.8. 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. The Café transaction resulted in goodwill of \$2.8.

In September 2000, the Company purchased the remaining 25% minority interest in Odeon Films Inc. for cash consideration of \$0.9. The acquisition has been accounted for by the purchase method.

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

9. Business Acquisitions (Continued)

The purchase consideration for each acquisition was allocated as follows:

	<u>Tattersall</u>	<u>Great North</u>	<u>Café</u>
Identifiable assets acquired			
Cash	0.2	0.2	—
Accounts receivable	0.2	13.6	—
Investment in film and television programs	—	10.6	—
Development costs	—	0.3	—
Property and equipment	0.2	0.2	—
Goodwill and other assets	<u>1.4</u>	<u>9.6</u>	<u>2.8</u>
	2.0	34.5	2.8
Liabilities assumed	<u>0.4</u>	<u>28.4</u>	<u>2.8</u>
Net assets acquired	<u><u>1.6</u></u>	<u><u>6.1</u></u>	<u><u>—</u></u>

(b) 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.

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.

(c) 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:

	<u>1999</u>
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	<u>50.9</u>
	<u><u>81.4</u></u>

As at March 31, 2001, 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.

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

9. Business Acquisitions (Continued)

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.

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.

10. 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. On October 28, 1999, 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, 2001, 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.

11. Share Capital

(a) The authorized share capital of the Company consists of Common Shares comprised of:

Class A Voting Shares	— unlimited
Class B Non-Voting Shares	— unlimited
Class C Special Voting Shares	— 275,000

The Class A Voting Shares and the Class B Non-Voting Shares have identical attributes except that the Class B Non-Voting Shares are non-voting and each of the Class A Voting Shares are convertible at any time at the holder's option into one fully paid and non-assessable Class B Non-Voting Share. The Class B

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

11. Share Capital (Continued)

Non-Voting Shares may be converted into Class A Voting Shares only in certain circumstances. Each of the Class C Special Voting Shares is 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. Our share capital formerly authorized one Class D Special Non-Voting Share.

(b) During fiscal 2001, the following transactions occurred:

In June 2000, 100,000 Class B Non-Voting shares were issued in connection with the acquisition of Tattersal Sound Inc. valued at \$1.6.

In January 2001, the Class D Special Non-Voting Share was converted into one Class B Non-Voting Share.

During fiscal 2001, 1,038,350 Class A Voting Shares and 60,035 Class C Special Voting Shares with paid in value of \$14.5 and \$30.9 respectively were converted into 2,239,047 Class B Non-Voting Shares. In addition, 6,500 Class A Voting Shares and 165,270 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 for cash of \$2.5.

(c) 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.

(d) 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 was accreted from retained earnings to the Preferred Shares from the date of issue to the date the Preferred Shares were 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.

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

11. Share Capital (Continued)

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.

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.

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

	<u>2001</u>	<u>2000</u>
Class A Voting Shares, 3,806,452 (2000—4,838,302)	53.2	67.6
Class B Non-Voting Shares, 27,888,342 (2000—25,384,025)	470.5	421.1
Class C Special Voting Shares, 3,025 (2000—63,060)	1.6	32.5
Class D Special Non-Voting Share, nil (2000—1)	<u>—</u>	<u>—</u>
	<u>525.3</u>	<u>521.2</u>

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

11. Share Capital (Continued)

(f) The Company has Employee Stock Option Plans which provide for the issuance of up to 21,012 Class A Voting Shares and 4,873,979 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. Stock option activity for 1999, 2000 and 2001 is as follows:

	Number of Shares			Weighted average exercise price
	Voting	Non-Voting	Total	
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
Forfeited	—	(73,750)	(73,750)	25.95
Expired	—	(7,109)	(7,109)	29.00
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	—	—
Forfeited	—	(278,650)	(278,650)	18.64
Expired	—	(108,442)	(108,442)	21.18
Outstanding at March 31, 2000	26,700	2,490,445	2,517,145	23.50
Granted	—	510,500	510,500	20.43
Exercised	(5,563)	(165,582)	(171,145)	14.49
Forfeited	(125)	(290,459)	(290,584)	24.86
Expired	—	(9,175)	(9,175)	20.19
Outstanding at March 31, 2001	21,012	2,535,729	2,556,741	23.31
Exercisable at March 31, 2001	21,012	1,618,173	1,639,185	23.87
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

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

11. Share Capital (Continued)

At March 31, 2001, 2,556,741 options were outstanding with exercise prices ranging from \$11.70 to \$32.00 and with a weighted average remaining contractual life of 6.57 years. The options are distributed by exercise price as follows:

<u>Weighted average range of exercise price</u>	<u>Number of options</u>	<u>Weighted average contractual life</u>	<u>Weighted average exercise price</u>
\$11.70 to 17.99	346,091	5.45	14.76
\$18.00 to 27.00	1,841,900	7.05	23.80
\$27.01 to 32.00	368,750	5.23	28.86

<u>Weighted average range of exercise price</u>	<u>Number of exercisable options</u>	<u>Weighted average exercise price</u>
\$11.70 to 17.99	245,708	13.98
\$18.00 to 27.00	1,046,394	24.50
\$27.01 to 32.00	347,083	28.95

12. Cumulative Translation Adjustments

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

	<u>2001</u>	<u>2000</u>
Balance at beginning of year	0.2	3.4
Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations	7.5	(1.2)
Effect of exchange rate variation on translation of items designated as hedges of net investments in self-sustaining foreign operations	(19.5)	(2.0)
Balance at end of year	(11.8)	0.2

13. Interest

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Senior revolving credit facility	21.9	29.2	25.8
Limited-recourse term loans	3.4	3.2	2.8
Senior subordinated debt	41.5	10.8	—
Convertible debentures	0.6	0.6	0.8
Interest income	(1.5)	(4.4)	(1.0)
Interest capitalized during the year	(22.7)	(22.0)	(17.0)
Amortization of interest previously capitalized	12.8	15.7	10.6
	56.0	33.1	22.0
Amortization of deferred financing costs	5.6	3.2	0.9
	61.6	36.3	22.9

The weighted average interest rate for the year ended March 31, 2001 was 11.0% (2000—9.0%; 1999—8.1%).

During the year ended March 31, 2001, the Company paid interest of \$61.4 (2000—\$33.4; 1999—\$29.5).

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

14. Investment Gains

During the year ended March 31, 2001, the following transactions occurred:

The Company sold its interest in one of its investments for cash proceeds of \$8.3, realizing a net pretax gain on sale of \$3.3.

In November 2000, the Company's interest in Headline Media Group Inc. was reduced from 48% to 39% due to third party investments in Headline Media Group, resulting in a gain on dilution of \$0.8 on the Company's investment. In March 2001, the Company transferred its interest in Pride Vision Inc. to Headline Media Group Inc. in exchange for 593,882 Class A Subordinate Voting Shares of Headline Media Group Inc. and recorded a gain of \$1.8. In addition, the Company recorded equity losses of \$1.6 in 2001.

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 pretax gain on sale of \$2.5.

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 pretax gain on sale of \$0.7.

15. 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:

	2001 %	2000 %	1999 %
Corporate statutory rate of income tax (recovery)	43.3	44.6	(44.6)
Adjusted for the effect of:			
Foreign operations subject to different income tax rates	(19.0)	(18.2)	(14.1)
Expenses not deductible for income tax purposes	1.7	1.2	0.2
Restructuring provision	—	—	7.0
Change in tax rate for future income taxes	(1.8)	—	—
Other	3.8	5.5	1.1
	<u>28.0</u>	<u>33.1</u>	<u>(50.4)</u>

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

15. Income Taxes (Continued)

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

	<u>2001</u>	<u>2000</u>
Future income tax assets:		
Property and equipment	0.6	0.5
Loss carryforwards	19.6	8.8
Investment in film and television programs	44.7	38.8
All other	5.3	8.6
	<u>70.2</u>	<u>56.7</u>
Future income tax liabilities:		
Broadcasting licenses	19.5	23.9
Capitalized interest	5.8	4.8
All other	2.1	0.4
	<u>27.4</u>	<u>29.1</u>
Net future income taxes	<u>42.8</u>	<u>27.6</u>

The Company has Canadian income tax losses available for carryforward which expire as follows:

2003	5.7
2004	2.5
2005	0.3
2006	12.1
2007	3.4
2008	25.7
	<u>49.7</u>

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

The provision for (recovery of) income taxes is comprised of:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Current income taxes	28.8	6.8	(22.3)
Future income taxes	(15.2)	12.5	(5.5)
	<u>13.6</u>	<u>19.3</u>	<u>(27.8)</u>

During the year ended March 31, 2001, the Company paid income taxes of \$16.7 (2000—\$11.5; 1999—\$24.3).

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

16. Joint Ventures

The Company has investments in joint ventures for jointly controlled enterprises in certain broadcast businesses and the Structured filmed entertainment financing business. The joint ventures are reflected in the consolidated financial statements using the proportionate consolidation method.

The Company's proportionate share of the total assets, liabilities and results of operations of the joint ventures for the years ended March 31, 2001, 2000 and 1999 are as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Assets	45.3	13.7	4.4
Liabilities	26.2	11.6	5.2
Revenue	28.2	2.3	1.2
Net income	8.3	(1.2)	0.2
Cash flow from operating activities	2.7	(2.4)	(0.7)
Cash flow from investing activities	(10.6)	(7.1)	(3.9)
Cash flow from financing activities	7.5	6.1	4.8

17. Retained Earnings

Opening retained earnings for the year ended March 31, 1999 were restated in 1999 to reflect changes in accounting policies and the adoption of new accounting standards as described below. Opening retained earnings for the year ended March 31, 1999 were previously reported as \$85.2.

Effective January 1, 1999, the Company changed its accounting policies as follows with the effect of the change in accounting policy reflected retroactively and the results of comparative prior periods presented at the time restated accordingly:

- a) 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. As a result of the restatement of prior periods, fiscal 1999 opening retained earnings was reduced by \$1.3.
- b) 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. As a result of the restatement of prior periods, the fiscal 1999 opening retained earnings was reduced by \$2.9.
- c) 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. As a result of the restatement of prior periods, fiscal 1999 opening retained earnings was reduced by \$2.2.

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.

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

18. Earnings Per Share

Earnings (loss) per common share is calculated on the basis of 31,674,332 (2000—28,151,767; 1999—20,406,308) weighted average common shares outstanding.

For the year ended March 31, 2001, the fully diluted earnings per share were calculated using the imputed interest method on the basis of 32,389,765 (2000—30,765,916; 1999—20,406,308) weighted average common shares outstanding. The effects of the employee stock options and convertible debentures increase the earnings available to common shareholders by \$0.5 (2000—\$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.

19. Statement of Cash Flows

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Change in			
Accounts receivable	29.8	(7.2)	17.7
Accounts payable and accrued liabilities	28.8	(3.3)	(36.6)
Deferred revenue	45.6	(50.7)	(56.4)
Income taxes payable	14.1	11.0	(62.9)
Other	(38.2)	(27.6)	10.0
Net change in other non-cash balances related to operations	<u>80.1</u>	<u>(77.8)</u>	<u>(128.2)</u>

20. Government Financing and Assistance

Revenue includes \$18.8 of production financing obtained from government agencies for the year ended March 31, 2001 (2000—\$21.1; 1999—\$26.9). This financing is related to equity participation by government agencies and is repayable from distribution revenue of the specific productions for which the financing was made. The maximum amount repayable over the six year period of forecast revenue for amortization purposes is estimated to be \$7.2. In addition, revenue includes \$15.6 (2000—\$20.8; 1999—\$23.3) of government grants and \$51.4 (2000—\$57.4; 1999—\$57.3) of tax credits relating to production activities. Government grants and tax credits are not repayable.

Investment in film and television programs includes a reduction of \$19.6 (2000—\$9.1; 1999—\$8.5) with respect to government assistance for distribution of certain programs. Government assistance may be repayable in whole or in part depending upon future revenue generated by certain individual film and television programs. The maximum amount repayable over the four year period of forecast revenue for amortization purposes is estimated to be \$8.2. In addition, net earnings include \$1.3 (2000—\$0.4; 1999—\$0.8) of government grants relating to distribution activities which are not repayable.

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

21. 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:

2002	10.4
2003	10.2
2004	9.8
2005	9.6
2006	7.3
Due subsequent	9.3
	<u>56.6</u>

Rent expense for fiscal 2001 is \$8.6 (2000—\$5.5; 1999—\$3.7).

- (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 \$46.1 outstanding at March 31, 2001 (2000—\$28.4; 1999—\$62.9).
- (d) The Company has entered into various foreign exchange forward contracts to buy Australian dollars at various rates and increments aggregating AUS\$21.1 (2000—buy US\$5.0, sell US\$1.4; 1999—sell US\$7.5). The contracts mature at various dates up to March 2002. The unrealized gains and losses arising from the contracts are not significant.
- (e) The Company has entered into various agreements for the right to broadcast or distribute certain films and television programs in the future. These agreements, which range in term from one to five years, generally commit the Company to acquire specific films and television programs or certain levels of future productions. The acquisition of these broadcast and distribution rights is contingent on the actual production and/or the airing of the films and television programs. Management estimates that these agreements will result in future program and film expenditures of approximately \$85.8 million.
- (f) In September 1998, the Company agreed to finance up to \$100.0 of production costs for feature films in exchange for world-wide distribution rights. As at March 31, 2001, the Company had provided letters of credit totaling \$33.5 for projects with principal photography scheduled to commence in fiscal 2002.

22. Segmented Information

The Company's principal business activities are conducted through three reportable segments: Broadcast, Motion Picture and Television. The Broadcast Group consists of the Company's specialty television channels which include lifestyle, drama and documentary programming. The Motion Picture and Television groups involve the development, production, acquisition, distribution and financing of motion pictures and live action dramatic television and animation, respectively. Other activities are primarily comprised of the Structured filmed entertainment financing business and corporate functions. Management measures the results of operations based on the earnings before undernoted as defined on the Company's consolidated statements of earnings provided by each business segment.

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

22. Segmented Information (Continued)

(a) Information on the reportable operating segments is as follows:

	<u>Broadcast</u>	<u>Motion Picture</u>	<u>Television</u>	<u>Other</u>	<u>Total</u>
2001					
Revenue	114.6	221.4	448.1	22.0	806.1
Gross profit	63.4	47.4	93.8	21.2	225.8
Earnings (loss) before undernoted	40.8	28.9	72.1	(8.2)	133.6
Total assets	193.3	501.4	831.8	242.4	1,768.9
Capital expenditures	9.7	1.1	5.7	5.5	22.0
2000					
Revenue	93.4	229.1	412.0	37.1	771.6
Gross profit	53.5	46.1	64.9	14.7	179.2
Earnings (loss) before undernoted	29.7	34.2	49.2	(6.9)	106.2
Total assets	141.8	347.4	760.5	180.7	1,430.4
Capital expenditures	5.3	7.3	1.3	5.9	19.8
1999					
Revenue	59.6	180.4	382.5	10.9	633.4
Gross profit	32.9	32.8	58.8	6.2	130.7
Earnings (loss) before undernoted	12.9	18.3	32.0	(3.9)	59.3
Total assets	112.5	336.9	710.6	206.1	1,366.1
Capital expenditures	0.5	6.3	6.6	3.4	16.8

(b) Geographic information is as follows:

	<u>Revenue</u>		
	<u>Year ended March 31</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Canadian	461.9	443.2	353.1
U.S.	193.7	103.7	128.5
Other Foreign	150.5	224.7	151.8
Total	806.1	771.6	633.4

The majority of the Company's long lived assets are in Canada.

23. Financial Instruments

- (a) **Fair values of financial instruments** The estimated fair values of financial instruments as at March 31, 2001 and March 31, 2000 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 and term loans

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

23. Financial Instruments (Continued)

approximate the fair values of these financial instruments. Financial instruments with carrying values different from their fair values include:

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Accounts receivable	461.1	460.0	476.8	475.8
Financial liabilities				
Senior subordinated notes	474.0	510.1	217.5	218.2
Convertible debentures	8.8	9.5	8.8	9.5

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. Included in accounts payable and accrued liabilities is US\$17.4 of production financing. The non-interest bearing financing is unsecured and repayable in installments beginning with fiscal 2002 to fiscal 2004 with interest imputed at 13.0% and was recorded at fair value.

- (b) **Concentration of credit risk** Accounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 19% (2000—30%) of total accounts receivable at March 31, 2001. 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 of \$9.9 (2000—\$8.7) for potential credit losses.

24. Related Party Transactions

A loan of \$1.7 at March 31, 2001 (2000—\$1.6) is due from a senior officer in respect of the acquisition of Common Shares of the Company. The loan is repayable on demand and bears interest at the Corporation's weighted average cost of debt.

25. Subsequent Events

In April 2001, the Company purchased 100% of the issued and outstanding shares of Salter Street Films Limited, a Nova Scotia based entertainment company that develops, produces and distributes original film and television programming as well as Internet products and services. Total consideration of \$82.3 was in the form of 3,040,336 Class B Non-Voting Shares and \$24.6 cash. The acquisition will be accounted for under the purchase method and the results of operations will be included in the consolidated statement of earnings from the date of acquisition.

In April 2001, the Company's interest in Headline Media Group Inc. was reduced from 39% to 33% due to third party investments in Headline Media Group Inc.

**REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS ON RECONCILIATION TO GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES**

To the Board of Directors
of Alliance Atlantis Communications Inc.

Our audits of the consolidated financial statements referred to in our report dated June 12, 2001 appearing on page F-2 of this prospectus also included an audit of the Reconciliation to Generally Accepted Accounting Principles in the United States that is presented commencing on page F-27 of this prospectus. In our opinion, this Reconciliation to Generally Accepted Accounting Principles in the United States presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP
Chartered Accountants
Toronto, Canada
June 12, 2001

ALLIANCE ATLANTIS COMMUNICATIONS INC.

Reconciliation to Generally Accepted Accounting Principles (GAAP) in the United States

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 earnings (loss) and earnings (loss) per common share figures for the years ended March 31, 2001, 2000 and 1999 and the shareholders' equity as at March 31, 2001 and 2000 would be adjusted as follows (in millions of Canadian dollars, except per share amounts):

	Net Earnings (loss)			Shareholders' Equity	
	2001	2000	1999	2001	2000
Canadian GAAP	35.0	39.1	(27.3)	598.6	571.5
Adjustment to development costs and investment in scripts, net of income taxes of \$3.1 (2000—\$7.8; 1999—\$3.9) (a)	(4.1)	(9.6)	(4.9)	(20.6)	(16.5)
Adjustment to revenue with respect to television license agreements, net of income taxes of \$0.3 (2000—\$1.7; 1999—\$(0.8)) (b)	2.0	8.2	(4.6)	—	(2.0)
Adjustment to restructuring provisions (c)	—	(1.0)	1.0	—	—
Adjustment to reclassify related party loan to equity (d)	—	—	—	(1.7)	(1.6)
Adjustment to include foreign exchange gains and losses in income, net of income taxes of \$5.7 (e)	(7.2)	—	—	(7.2)	—
Adjustment to equity accounting for long term investment (f)	(3.9)	(1.3)	—	(5.2)	(1.3)
Gain on dilution of investments in affiliated companies net of income taxes of \$0.3 (g)	(0.5)	—	—	—	—
Income taxes recorded at enacted rates (h)	(1.7)	—	—	(1.7)	—
Benefits realized on production financing arrangements net of income taxes of \$0.2 (i)	(1.8)	—	—	(1.8)	—
United States GAAP excluding cumulative effect adjustment	17.8	35.4	(35.8)	560.4	550.1
Cumulative effect of change in accounting policy, net of income taxes of nil (2000—nil; 1999—\$2.3) (j)	—	—	(2.9)	—	—
United States GAAP	17.8	35.4	(38.7)	560.4	550.1
Earnings (loss) per common share based United States GAAP (n)					
Basic	<u>0.56</u>	1.18	(1.89)		
Diluted	<u>0.56</u>	1.13	(1.89)		

The accompanying notes form an integral part of this reconciliation.

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Numerator for basic earnings per share:			
Net earnings (loss) in accordance with US GAAP	17.8	35.4	(38.7)
Accretion of Preferred Share conversion feature	—	(1.6)	—
Dividends on Preferred Shares	—	(0.5)	—
Earnings (loss) used in computing basic earnings per share	17.8	33.3	(38.7)
Denominator used for basic earnings per share:	31.7	28.2	20.4
Basic earnings per share—US GAAP	0.56	1.18	(1.89)
Numerator for diluted earnings per share:			
Earnings used in computing basic earnings per share	17.8	33.3	(38.7)
Imputed interest on convertible debentures	0.4	0.4	—
Preferred share dividends	—	0.5	—
Earnings used in computing diluted earnings per share	18.2	34.2	(38.7)
Denominator for diluted earnings per share:			
Weighted average number of shares	31.7	28.2	20.4
Preferred Shares	—	0.8	—
Warrant	—	0.8	—
Convertible debentures	0.5	0.5	—
Stock options	0.1	0.1	—
Shares used in computing diluted earnings per share	32.3	30.4	20.4
Diluted earnings per share—US GAAP	0.56	1.13	(1.89)

(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 and original screenplays 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 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, revenue from license agreements for television programs was 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.

(c) **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.

(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 (see note 24 of the consolidated financial statements).

(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. Canadian GAAP requires the amortization of foreign exchange gains and 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 attained significant influence 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) Gain on Dilution of Investments in Affiliated Companies Under Canadian GAAP, the Company accounts for the gain on the issuance of shares by Headline Media Group Inc., as a component of earnings. Under United States GAAP, the dilution gain is reflected as an equity transaction in the Company's shareholders' equity.

(h) Income taxes at enacted rates Under Canadian GAAP, future tax assets and liabilities are recorded using the substantively enacted rates in effect for the periods in which it is expected that they will be realized. Under United States GAAP, the effects of changes in rates are not recognized until that date of enactment. Accordingly, the tax provision under United States GAAP has been adjusted for this difference which has resulted in an additional deferred tax expense.

(i) Production financing arrangements Under Canadian GAAP, the value of the partial sale of participation rights in conjunction with certain production financing arrangements was valued using the residual method and applied to reduce the investment in film. Under United States GAAP, the relative fair value method must be used. Accordingly, a portion of the value assigned to the sale of the participation rights would be reassigned to the loan as the value of the loan discount. Such an amount will reverse as revenue is recognized over the next two years.

(j) 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.

(k) Accounting for tax credits Under Canadian GAAP, tax credits earned are included in revenue. Accounting Principles Board Opinion No. 4, "Accounting for the Investment Credit" requires tax credits to be presented as a reduction of income tax expense. The corresponding impact would be a reduction of revenue and credit to income tax expense by \$51.4 (2000—\$57.4; 1999—\$57.3).

(l) Interest Under Canadian GAAP, amortization of interest previously capitalized is included in interest. Under United States GAAP amortization of interest previously capitalized is included in operating expenses.

(m) Discount on senior subordinated notes Under Canadian GAAP this discount of approximately \$1.4 is included in other assets. Under United States GAAP it is included as a reduction to the senior subordinated notes.

(n) 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.

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.

(o) Accounting for investments For the purpose of reporting under United States GAAP, companies are required to equity account for joint ventures and investments over which they have significant influence. As disclosed in note 16 Joint Ventures, the Company proportionately consolidates its joint ventures under Canadian GAAP. In accordance with SEC Release 33-7053, the Company has omitted the differences in classification that result from using proportionate consolidation in the reconciliation to United States GAAP. Refer to note 16 of the consolidated financial statements, Joint Ventures, for the Company's proportionate share of the total assets, liabilities and results of operation of these joint ventures.

(p) 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:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net earnings for the year reported under United States GAAP	17.8	35.4	(38.7)
Other comprehensive earnings:			
Unrealized losses on portfolio investments, net of tax of \$1.8	(2.2)	—	—
Foreign currency translation adjustment, net of tax of \$5.3 (2000—\$1.4; 1999—\$1.3)	(6.7)	(1.8)	1.6
Comprehensive earnings (loss)	<u>8.9</u>	<u>33.6</u>	<u>(37.1)</u>

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Balance, beginning of year	0.1	1.9	0.3
Change for the year	(8.9)	(1.8)	1.6
Balance, end of year	<u>(8.8)</u>	<u>0.1</u>	<u>1.9</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 concept of comprehensive income does not exist under Canadian GAAP.

(q) Accounting for stock options and share issuances The Company follows the disclosure only principles of Statement of Financial Accounting Principles No. 123 "Accounting for Stock-Based Compensation" (SFAS 123). 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% (2000—0.0%; 1999—0.0%), expected volatility of 50% (2000—50%; 1999—40%), risk-free interest rate of 5.69% (2000—6.1%; 1999—4.9%) and expected life of 5.0 years (2000—5.0 years; 1999—5.3 years). Therefore, the resulting compensation expense in 2001 would have been \$4.1 (2000—\$4.3; 1999—\$4.7), and the resulting basic and fully diluted earnings per share would have been \$0.43 (2000—\$1.03; 1999—\$(2.13)); and \$0.43 (2000—\$0.98; 1999—\$(2.13)) respectively.

(r) **Consolidated statements of cash flows** The Company's cash flows determined in accordance with United States GAAP and calculated with differences outlined in the reconciliation to United States GAAP would be as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Operating activities	686.5	544.0	351.5
Investing activities	(794.7)	(652.0)	(706.6)
Financing activities	107.1	52.5	409.6
Effect of exchange rates on cash	0.1	(0.4)	—
(Decrease)/increase in cash and cash equivalents	<u>(1.0)</u>	<u>(55.9)</u>	<u>54.5</u>

(s) **Continuity of qualifying reserves** In accordance with Article 12 of Regulation S-X, the Company has set out details of the following reserves:

Reserve for Investment in Film and Television Programs

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Balance beginning of year	73.2	59.5	41.3
Change during year	11.2	13.7	18.2
Balance end of year	<u>84.4</u>	<u>73.2</u>	<u>59.5</u>

Reserve for Accounts Receivable and Loans Receivable

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Balance beginning of year	8.7	3.2	0.6
Change during year	1.2	5.5	2.6
Balance end of year	<u>9.9</u>	<u>8.7</u>	<u>3.2</u>

(t) **New accounting standards**

SOP 00-2 Accounting by producers or distributors of films In June 2000, the American Institute of Certified Public Accountants 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. This new standard is effective for the fiscal year beginning April 1, 2001 and will be applied both for Canadian and United States GAAP. The Company has not yet determined the impact the adoption of SOP 00-2 will have on its financial statements, but expects the effect to be material.

CICA Section 3500—Earnings 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 the fiscal year beginning April 1, 2001. The Company does not expect that the adoption of the new standard will have a material impact 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 SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, as amended by SFAS No. 138 in June 2000, is effective for fiscal year ends beginning after June 15, 2000. SFAS No. 133 requires all derivatives, including those embedded in other contracts, to be recorded on the balance sheet at fair value. Changes in the fair values of derivatives are recorded either in current earnings or other comprehensive income, depending on whether or not the derivative is designated as a part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recorded in current earnings.

The Company plans to adopt SFAS No. 133 effective April 1, 2001 and accordingly, the Company will be required to periodically revalue any derivative instruments to fair values and record any resulting gains or losses to current earnings or other comprehensive income, as appropriate. The Company has not yet

determined the impact the adoption of SFAS No. 133 will have on its financial statements. The Company enters into hedging arrangements through the use of the forward currency exchange contracts to reduce its exposure to currency and interest rate fluctuations.

SFAS No. 140—Accounting for transfers and servicing of financial assets and extinguishment of liabilities In September, 2000, Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, was issued to replace Statement of Financial Accounting Standards No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. FAS 140 is applicable for certain transactions on or after March 31, 2001. FAS 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. As the company currently does not transfer or service any financial assets, the new standard is not expected to have any effect on the Company.

SFAS No. 141—Business combination; SFAS No. 142—Goodwill and other intangible assets In June 2001, the Financial Accounting Standards Board approved Statement No. 141, Business Combinations (FAS 141), and Statement No. 142, Goodwill and Other Intangible Assets (FAS 142). Those Statements will change the accounting for business combinations and goodwill. FAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of that Statements. FAS 142 will be applicable for fiscal years beginning after December 15, 2001; however, earlier adoption is permitted for companies with fiscal years beginning on or after March 15, 2001. The Company has not yet determined the effects of the new standards as the full text of the standards have not yet been published or when it will adopt FAS 142.

SFAS No. 143—Accounting for asset retirement obligations In June 2001, the Financial Accounting Standards Board approved Statement No. 143, Accounting for Asset Retirement Obligations. That standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. FAS 143 is applicable for years beginning after June 15, 2002. The Company has not yet determined the effects to this new standard as the full text of the standard is not yet available.

CERTIFICATE OF THE COMPANY

Dated: August 2, 2001

This short form prospectus, together with the documents and information incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required under the securities legislation of each of the provinces and territories of Canada. For the purpose of the Province of Québec, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation likely to affect the value or the market price of the securities to be distributed.

(Signed) MICHAEL I.M. MACMILLAN
Chief Executive Officer

(Signed) W. JUDSON MARTIN
Executive Vice-President and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) HAROLD GORDON
Director

(Signed) ANTHONY GRIFFITHS
Director

CERTIFICATE OF THE UNDERWRITERS

Date: August 2, 2001

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces and territories of Canada. For the purpose of the Province of Québec, to our knowledge, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation likely to affect the value or the market price of the securities to be distributed.

MERRILL LYNCH CANADA INC.

GOLDMAN SACHS CANADA
(by Goldman Sachs Canada Inc.)

(Signed) ERIK CHARBONNEAU

(Signed) GEORGE ESTEY

RBC DOMINION SECURITIES INC.

TD SECURITIES INC.

(Signed) ROSEMARIE N. BAKER

(Signed) PATRICK MENELEY

BMO NESBITT BURNS INC.

GRIFFITHS MCBURNEY & PARTNERS

(Signed) BRUCE WALTER

(Signed) EUGENE C. MCBURNEY

HSBC SECURITIES (CANADA) INC.

RESEARCH CAPITAL CORPORATION

(Signed) BRADLEY J. GOLDHAR

(Signed) DOUGLAS F. PARKHILL

SCOTIA CAPITAL INC.

THOMSON KERNAGHAN & CO. LIMITED

(Signed) SHUBO S. RAKHIT

(Signed) LIONEL F. CONACHER

The following includes the name of every person or company having an interest, either directly or indirectly, to the extent of not less than 5%, in the capital of:

MERRILL LYNCH CANADA INC.: an indirect wholly owned subsidiary of Merrill Lynch & Co., Inc.;

GOLDMAN SACHS CANADA INC.: a wholly owned subsidiary of The Goldman Sachs Group Inc.;

RBC DOMINION SECURITIES INC.: a wholly owned subsidiary of a Canadian chartered bank;

TD SECURITIES INC.: a wholly owned subsidiary of a Canadian chartered bank;

BMO NESBITT BURNS INC.: a wholly-owned subsidiary of BMO Nesbitt Burns Corporation Limited, an indirect majority owned subsidiary of a Canadian chartered bank;

GRIFFITHS MCBURNEY & PARTNERS: Eugene C. McBurney, Kevin M. Sullivan, Michael A. Wekerle, Thomas A. Budd, Paul Pew, J. Robert Fraser;

HSBC SECURITIES (CANADA) INC.: a wholly-owned subsidiary of a Canadian chartered bank;

RESEARCH CAPITAL CORPORATION: Ian G. Griffin, Robert S. Leopold, Andrew C. Selbie, and Patrick G. Walsh;

SCOTIA CAPITAL INC.: a wholly owned subsidiary of a Canadian chartered bank; and

THOMSON KERNAGHAN & CO. LIMITED: a wholly-owned subsidiary of T.K. Holdings Inc.

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the shipping news

johnny depp/penelope cruz
BLOW
based on a true story



RUSH HOUR
2



SPY kids



WHEN
BILLIE
BEAT
BOBBY



BEASTMASTER



THE
ASSOCIATES

A MARTIN SCORSESE PICTURE
GANGS OF NEW YORK



