ALLIANCE ATLANTIS COMMUNICATIONS INC.

2002 ANNUAL INFORMATION FORM

August 16, 2002

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ALLIANCE ATLANTIS COMMUNICATIONS INC.
2002 ANNUAL INFORMATION FORM
TABLE OF CONTENTS

This annual information form 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; 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 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 this annual information form are subject to risks, uncertainties and assumptions about Alliance Atlantis Communications Inc and its direct and indirect subsidiaries. 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 labor 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 A Voting Shares and our Class B Non-Voting Shares. 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 annual information form might not occur.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference in this annual information form (the "2002 Annual Information Form") of Alliance Atlantis Communications Inc.:

(a) our management's discussion and analysis of financial condition and results of operations for the fiscal years ended 2002, 2001 and 2000 (the "MD&A") found at pages 26 to 35, inclusive, of our annual report (the "Annual Report") for fiscal 2002 and our audited consolidated balance sheets as at March 31, 2002 and March 31, 2001 and the audited consolidated statements of earnings, retained earnings and cash flows for each of the years in the three year period ended March 31, 2002, including the auditors' report therein (collectively, the "2002 Financial Statements") found at pages 36 to 58, inclusive, of the Annual Report; and

(b) our management information circular dated August 15, 2002 (the "Circular") prepared in connection with the September 25, 2002 annual meeting of the shareholders of Alliance Atlantis Communications Inc., other than the sections entitled "Composition of the Governance Committee", "Report on Executive Compensation" and "Performance Graph".

The MD&A and the 2002 Financial Statements, in their entirety, are incorporated by reference in, and form part of, this 2002 Annual Information Form. Specific portions of the Circular are incorporated by express reference in, and form part of, this 2002 Annual Information Form. Those portions of the Circular not so incorporated by express reference do not form part of this Annual Information Form.

Unless the context indicates otherwise, the information appearing herein is stated as at March 31, 2002, all dollar amounts referred to in this document are references to Canadian dollars and references in this 2002 Annual Information Form to "Alliance Atlantis", "we", "us" and "our" and similar expressions, mean Alliance Atlantis Communications Inc. together with its direct and indirect subsidiaries.

INCORPORATION

Alliance Atlantis Communications Inc. is incorporated under the *Canada Business Corporations Act* (the "CBCA"). Our articles have been changed from time to time to make certain changes, including changes to our share structure.

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

Alliance was formed under the CBCA by articles of incorporation on June 27, 1985. On May 5, 1995, the articles of Alliance were amended to create the Class A Voting Shares and the Class B Non-Voting Shares, to convert each of the outstanding common shares into one-half of one Class A Share and one-half of one Class B Non-Voting Share, to cancel the existing class of common shares and to provide to the board of directors of Alliance the authority to appoint additional directors. The amendment to the articles was approved by the shareholders on April 26, 1995 in accordance with applicable law and by way of "minority approval" as that term was defined under applicable securities legislation.

On September 21, 1998, in addition to changing our name to "Alliance Atlantis Communications Inc.", our articles were amended to create the Class C Special Voting Shares and the Preferred Shares, and to provide that the board of directors must have a minimum of three and a maximum of 20 directors. The Preferred Shares were redeemed in September of 1999 in accordance with their terms and no Preferred Shares are authorized. On September 21, 2001, in accordance with the Class C Special Voting Share provisions, all of the outstanding Class C Special Voting Shares were automatically converted into fully paid, non-assessable Class B Non-Voting Shares on the basis of 20 Class B Non-Voting Shares for each Class C Special Voting Share held. No further Class C Shares are permitted to be authorized and issued.

On September 23, 1999, our shareholders voted to amend our articles to amend the number of directors to a minimum of 10 and a maximum of 20, to empower the directors to determine their number and to create a new class of share, a Class D Special Non-Voting Share, which entitled the holder, subject to holding a certain percentage ownership of our Class B Non-Voting Shares, to nominate and elect up to two members of our board of directors. 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.

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

Our registered and principal office is located at 121 Bloor Street East, Suite 1500, Toronto, Ontario M4W 3M5. We also operate offices in Montreal, Edmonton, and Halifax in Canada, Los Angeles (United States), London (England), Sydney (Australia) and Dublin and Shannon in Ireland.

Principal Subsidiaries

The following is a list of our principal subsidiaries as at March 31, 2002, 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.

Subsidiary	Jurisdiction	Percentage of Securities Owned by the Corporation
Alliance Atlantis Broadcasting Inc.	Ontario	100%
Alliance Atlantis Motion Picture Distribution Inc.	Canada	100%
Alliance Atlantis Productions Ltd.	Canada	100%
Alliance Atlantis Entertainment, Inc.	California	100%
Alliance Atlantis International Distribution Ltd.	Republic of Ireland	100%

GENERAL DEVELOPMENT OF THE BUSINESS

The Company

We are a leading, vertically integrated Canadian television broadcaster, creator and distributor of filmed entertainment content with significant ownership interests in the Canadian specialty broadcast industry. Our principal businesses activities are conducted through three Operating Groups: the Broadcast Group, the Motion Picture Distribution Group and the Entertainment Group.

Broadcast Group

The Broadcast Group is a leading owner and operator of specialty cable television channels in Canada through our significant ownership in 18 complementary specialty channels. These channels are focused on three core genres – lifestyle, drama and documentary – that align strategically with the films distributed by the Motion Picture Distribution Group and the production focus of the Entertainment Group. Our programmers work closely with the production and distribution arms of the business to ensure that we have access to our content, and we air many Alliance Atlantis-produced programs on our channels.

Canadian specialty television channels are niche programming services, centered around a specific genre or theme, that are available to viewers via cable, direct-to-home satellite ("DTH") and other broadband system operators ("distribution undertakings") upon payment of a subscription fee. Specialty channels are licensed by the Canadian Radio-television and Telecommunications Commission ("CRTC"). These channels primarily earn revenue from fees paid by distribution undertakings based on the number of subscriptions to the channel, as well as directly from advertisers who purchase advertising on the channel. Most Canadian specialty channels, including our own, have been launched since 1995.

We control or are equal partners in 14 of our 18 channels. Of these 14, we classify seven as Operating Channels for financial reporting purposes. We currently own a majority interest in and operate five national, English-language analog channels that are required to be carried by every major English-language distribution undertaking in Canada at a negotiated fee. We are equal partners in two French-language analog channels that are required to be carried by distribution undertakings in Quebec at a negotiated fee. These channels are:

- Showcase, a channel featuring critically acclaimed movies and dramatic programs from around the world;
- Life Network, a channel focused on lifestyle and reality programming;
- History Television, a channel specializing in documentaries, movies and original historical programming;
- HGTV Canada, a channel focused on gardening and "do-it-yourself" programming;
- Food Network Canada, a channel featuring food-related programming;

- Series+, a French-language version of Showcase; and

- Historia, a French-language version of History Television.

The remaining seven channels, which we classify as Developing Channels for financial reporting purposes, are English-language digital specialty channels that we launched in the fall of 2001. Two of these channels are "Category 1" services that are required to be carried by every major English-language digital distribution undertaking in Canada. We have signed key carriage agreements for these new digital channels to reach approximately 91% of digital households. The early results show that our channels are meeting a receptive audience, with up to six ranking among the top 20 digital channels among adults aged 25 to 54 during 2002. These seven digital channels are:

- Discovery Health Channel, a Category 1 channel featuring programming about medical science and the human body;

- The Independent Film Channel Canada, a Category 1 channel featuring independent films as well as documentaries about the film-making process;

- National Geographic Channel, a channel in partnership with NGC Network International, LLC, featuring National Geographic's programming about geography, cultures of the world, anthropology, nature, conservation and geopolitics;

- BBC Canada, a channel in partnership with the BBC featuring British television programs;

- BBC Kids, a channel featuring programming for children and youth, primarily from the BBC;

- Showcase Diva, a dramatic channel featuring motion pictures and television programs with female protagonists; and

- Showcase Action, a dramatic channel featuring action motion pictures and television programs.

We also have a minority interest in four other channels. Headline Media Group, in which we hold a 33% interest, operates The Score, an English-language analog channel featuring 24-hour sports news, highlights and live sports programming. Headline Media Group also launched the Category 1 digital service, PrideVision, a service focusing on the gay and lesbian community, in the fall of 2001. In May 2001, we announced our acquisition of 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, a Category 1 digital channel which focuses on lifestyle and health related programming. In March 2002, we acquired a further option to increase our total equity in ONE to 36%. ONE was launched in the fall of 2001 by the operators of Vision TV. We also own a 49% interest in Scream, a digital channel dedicated to the horror genre that was launched in the fall of 2001 by Corus Entertainment Inc.

In April 2001, we completed the acquisition of Salter Street Films Limited, a Nova Scotia-based integrated entertainment company that develops, produces and distributes filmed entertainment. In December 2001, the CRTC approved our acquisition of certain of Salter Street's television properties, including the Independent Film Channel Canada and licenses for 20 other digital networks. In January 2002, we acquired the remaining equity interest in History Television that we did not already own, making History Television a wholly owned subsidiary of Alliance Atlantis.

The following table describes all of the specialty channels in which we hold an interest:

Specialty Channel	Analog/ Digital	Must Carry[4]	Equity Interest	Year of Launch	Viewing Subscribers[5] (Millions)	Basic Subscriber Penetration[5]
Lifestyle						
Life Network	Analog	Yes	100%	1995	5.7	71%
HGTV Canada	Analog	Yes	67%	1997	4.8	62%
Discovery Health Channel	Digital	Yes	65%	2001	0.4	16%
Food Network Canada	Analog	Yes	51%	2000	3.9	52%
PrideVision[1][3]	Digital	Yes	33%	2001	0.02	—
ONE: The Body, Mind and Spirit Channel[1]	Digital	Yes	29.9%	2001	0.5	—
Drama						
Showcase	Analog	Yes	100%	1995	5.6	70%
Showcase Diva	Digital	No	100%	2001	0.5	18%
Showcase Action	Digital	No	100%	2001	0.7	24%
The Independent Film Channel Canada	Digital	Yes	95%	2001	0.5	17%
BBC Canada	Digital	No	50%	2001	0.4	16%
BBC Kids	Digital	No	50%	2001	0.2	11%
Series+[1][2]	Analog	Yes	50%	2000	0.9	23%
Scream[1]	Digital	No	49%	2001	0.6	—
Documentary						
History Television	Analog	Yes	100%	1997	5.0	61%
National Geographic Channel	Digital	No	50%	2001	0.4	15%
Historia[1][2]	Analog	Yes	50%	2000	0.9	24%
The Score[1][3]	Analog	Yes	33%	1997	5.3	71%

Notes:

(1) Not operated by Alliance Atlantis.

(2) French language.

(3) Owned through our 33% interest in Headline Media Group.

(4) Major distribution undertakings in the applicable language (either English or French) are required by regulation to carry for a negotiated fee; for digital services, the "'must carry requirement' applies to digital distribution undertakings only.

(5) As of June 30, 2002, except for The Score and PrideVision, which is as reported by Headline Media Group in its Q3 unaudited financial statements dated May 31, 2002. "Basic subscriber penetration" means the number of residential cable and DTH subscribers to a channel as a percentage of total residential cable and DTH subscribers who have access to that channel. Numbers rounded to the nearest percentage point.

Motion Picture Distribution Group

Motion Picture Distribution

We are a leading distributor of motion pictures in Canada. Due to a strong theatrical release slate (including *The Lord of the Rings: Fellowship of the Ring*), fiscal 2002 represented the most successful year ever for our motion picture distribution business. During fiscal 2002, we released 83 theatrical motion pictures, 192 videos and 200 DVDs in Canada. 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, Universal Focus (formerly 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 *The Lord of the Rings: Fellowship* *of the Ring, Gosford Park, Amélie, In the Bedroom* and *Life as a House*. The current slate of fiscal 2003 releases includes *The Lord of the Rings: The Two Towers, Austin Powers in Goldmember, Gangs of New York* and *Spy Kids 2*.

We also distribute motion pictures directly in the United Kingdom through our wholly owned subsidiary, Momentum Pictures. Momentum Pictures is in its third year of operations and in fiscal 2002 released 14 films theatrically, 52 videos and 61 DVDs in the United Kingdom. We intend to look for opportunities to expand Momentum Pictures and our motion picture distribution presence in continental Europe.

We typically acquire distribution rights for a motion picture in all distribution channels and in one or more geographic areas in exchange for a non-refundable advance, which we 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 2002 we released 192 films on video and 200 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 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.

Entertainment Group

On January 9, 2002 we announced a consolidation of our existing television production and distribution activities with our in-house motion picture production and related distribution activities, into a new operating group called the Entertainment Group. Accompanying the consolidation was a realignment of senior management within the Entertainment Group. This initiative is expected to generate operating cost savings of at least $7 million, on an annualized basis, beginning in fiscal 2003. The Entertainment Group is comprised of television and in-house motion picture production and worldwide distribution activities related to these production activities.

Television Production

Our ability to capitalize on the "hit" status of *CSI: Crime Scene Investigation* was an important achievement for Alliance Atlantis this year. *CSI* ended the 2001/2002 broadcast season as the highest rated drama show on U.S. network television, with audiences that topped the 25 million mark. On the strength of that success, and together with our partner CBS Productions, we are moving ahead on a spin-off series, *CSI: Miami*, which will premiere on CBS this fall.

In fiscal 2002, we made progress in our effort to improve our margin and profitability by adjusting the volume of our output to better align with the reduced global demand for drama. We increased our margin in fiscal 2002 largely by reducing our production of higher cost, lower margin television series and increasing our focus on higher return drama, lifestyle and documentary programming. Even with our shift in focus, our Entertainment Group remains the largest producer and distributor of prime-time dramatic television programs in Canada and is among the leading English-language dramatic television producers in the world. This business is geographically diversified, with approximately 29%, 40% and 31% of revenue in fiscal 2002 originating from Canada, the United States and the rest of the world, respectively. In fiscal 2002, we produced, acquired and distributed 167 hours of primetime television series, 22 hours of television movies and mini-series, 49 hours of children's programming under our AAC Kids label, 24 hours of comedy programming and 94 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; Channel 5 in the U.K.; and Studio Canal and TF1 in France. Pre-sales typically cover approximately 80% of our television projects' production budgets and allow us to significantly reduce our production exposure.

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 six successful series that have been renewed by Canadian and U.S. broadcasters:

Program	Genre	Broadcaster/Syndicator	Season
CSI: Crime Scene Investigation	Drama	CBS (U.S.); CTV (Canada)	3rd
The Industry/Made in Canada	Comedy	PBS (U.S.); CBC (Canada)	5th
Blue Murder	Drama	Global (Canada)	3rd
Cold Squad..	Drama	CTV (Canada)	6th
Da Vinci's Inquest..................................	Drama	CBC (Canada)	5th
This Hour Has 22 Minutes	Comedy	CBC (Canada)	10th

We have been successful at licensing broadcast rights of CSI around the world. 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.

In addition, we have produced a number of high-quality, successful movies-of-the-week and mini-series. In July 2001 our television productions received 27 Primetime Emmy® nominations and went on to win seven Primetime Emmy® awards, including five for *Life With Judy Garland: Me and My Shadows* starring Judy Davis. Judy Davis also received a Golden Globe Award, AFI Award and SAG Award for her performance in this acclaimed production. Also in 2001, the Entertainment Group received 14 Gemini Awards in Canada, including four for *Nuremberg*, starring Alec Baldwin and Brian Cox.

In July 2002, we received seven Primetime Emmy® Award nominations for our television productions. *CSI: Crime Scene Investigation* received six nominations including Outstanding Drama Series. We also received a nomination for *The Matthew Shepard Story*.

In fiscal 2002, as part of our continuing strategy to expand our children’s programming, we continued our focus on the development, financing, production, distribution and marketing of both live-action and animated children’s programming from around the world under our 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 continued to expand our 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. In fiscal 2002, we produced and distributed 94 hours of fact-based documentary programming under our AAC Fact brand as compared to 70 hours in fiscal 2001.

Television Distribution

Our television distribution business is centered around our growing program library of approximately 15,000 hours comprised of 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. Our current year’s slate and content from our library is licensed 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 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, W and our own specialty channels in Canada.

Our television distribution business also provides us with access to growing markets outside North America. 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. CBS programming that we distribute includes many popular television series such as *Survivor, Everybody Loves Raymond* and *60 Minutes*. Revenue generated from these types of agreements is typically commission-based.

Motion Picture Production

Our Entertainment Group produces a small number of independent art-house films that are generally director-driven, and require relatively modest capital investment. In fiscal 2002, we produced two theatrical motion pictures. From the beginning of fiscal 1998 to the end of fiscal 2001, we produced 20 films. Prior to commencing productions, we typically cover approximately 70% of our production budgets through "pre-sales", which allows us to significantly reduce our production exposure. Upcoming releases include *Formula 51* (formerly *51st State*), directed by Ronny Yu and starring Samuel L. Jackson and Robert Carlisle, *Owning Mahowny*, directed by Richard Kwietniowski and starring Minnie Driver and Philip Seymour Hoffman, and *The Good Thief*, written and directed by Neil Jordan and starring Nick Nolte and Tcheky Karyo.

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 notable 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 Serendipity Point

We have a production agreement for up to five years from September 21, 1998 with Serendipity Point Projects Inc. ("Serendipity Point"). The production agreement was entered into with Robert Lantos, the former Chairman and Chief Executive Officer of Alliance Communications Corporation prior to the Merger and subsequently assigned to Serendipity Point by Mr. Lantos. Pursuant to the production agreement, we conveyed to Serendipity Point seven feature film projects and two television movies (the "Existing Projects") for which Serendipity Point 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, Serendipity Point 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 Serendipity Point 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 the compensation under this agreement Serendipity Point 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 Serendipity Point's motion pictures, subject to individual budget caps on each film. We are required to finance Serendipity Point's feature films on a "negative pick-up" basis whereby we will cause to be issued in Serendipity Point's 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 Serendipity Point's 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 Serendipity Point an amount equal to 10% of the budget for such project, payable out of a $10 million standby letter of credit, provided to Serendipity Point 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.

Other Operations

Sentinel Hill Alliance Atlantis Equicap Limited Partnership

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. We continue to expand the non-Canadian component of this business in the U.K. and abroad. Commencing in fiscal 2003, we expect earnings derived from Canadian sources to be significantly less than in prior years based on changes to the matchable expenditure rules of the *Income Tax Act* (Canada).

Post-Production Services

We operate three 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. Salter Street Digital Limited provides full service audio post production services and full service video post production services. The results of Tattersall Casablanca, Calibre and Salter Street Digital are included in the results of the Entertainment Group.

In July 2002, we granted Point.360 a six-month option to purchase our post-production subsidiaries. Point.360 is a NASDAQ listed company that provides media asset management services with facilities in Los Angeles, New York, Chicago, Dallas and San Francisco. As consideration for the option, Point.360 issued a warrant to Alliance Atlantis to purchase 500,000 shares of Point.360 common stock for U.S.$2.00 per share. The warrant has a maximum term of five years.

Equicap Financial Corporation

Equicap Financial Corporation ("EFC") provides high yield 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 Distribution Group. EFC did not originate any new loans in fiscal 2002. We have been winding down this business and we will continue to do so in fiscal 2003 and beyond.

Recent Developments

In July 2002, we received seven Primetime Emmy ® Award nominations for our television productions. *CSI: Crime Scene Investigation* received six nominations including Outstanding Drama Series. We also received a nomination for *The Matthew Shepard Story*.

In May 2002, our documentary feature *Bowling for Columbine* was awarded the Prix Spécial du 55ème Anniversaire (55th Anniversary of the Festival Award) at the Cannes Film Festival. *Bowling for Columbine*, the only documentary to be invited into official competition at Cannes in over four decades, was produced by our wholly owned subsidiary Salter Street Films, Michael Moore's company Dog Eat Dog Films and VIF2. We are the exclusive worldwide distributor of the film.

Also in May 2002, CBS confirmed that it will add *CSI: Miami*, a spin-off series from the top-rated *CSI: Crime Scene Investigation*, to its fall schedule.

In January 2002, we consolidated our existing television production and distribution activities with our in-house motion picture production and related distribution activities, into a new operating group called the Entertainment Group. This reorganization was accompanied by a realignment of senior management within the Entertainment Group. We expect to generate operating cost savings of at least $7 million, on an annualized basis, beginning in fiscal 2003.

Also, in January 2002, we purchased the remaining equity interest in History Television that we did not own for $21.5 million to make History Television a wholly owned subsidiary.

In December 2001, we received approval from the CRTC for our acquisition of the Independent Film Channel Canada. The Independent Film Channel Canada was acquired through our purchase of Salter Street Films Limited in April 2001.

In November 2001, we received seven Primetime Emmy Awards, a record number, including five Emmy Awards for the top-rated miniseries *Life with Judy Garland: Me and My Shadows* and two awards for the critically acclaimed miniseries *Nuremberg*.

Effective October 2001, we adopted Statement of Position 00-2 "Accounting by Producers and Distributors of Films" which established new film accounting standards, including changes in revenue recognition, capitalization and amortization of costs of films and television programs and accounting for development, overhead and other exploitation costs, including advertising and marketing expenses. The adoption has been accounted for retroactively to April 1, 2001, without restatement of the prior year.

In August 2001, we completed a public offering in the United States and Canada of 8 million Class B Shares at a price of US $11.30 or Cdn $17.30 per share for aggregate gross proceeds of Cdn $138.4 million.

Our Strategy

We are a leading vertically integrated entertainment company, with each of our three Operating Groups striving to deliver strong results and solid returns to shareholders. We have three key elements to our business strategy: (i) achieving financial strength; (ii) executing with discipline; and (iii) seizing opportunities.

Achieving Financial Strength. During fiscal 2002, we believe we made significant progress in strengthening our balance sheet to ensure that we have long-term financial flexibility. We completed a public offering in the U.S., Canada and Europe of 8.0 million Class B Non-Voting Shares to generate net proceeds of approximately $128.6 million. We believe this further diversification of our shareholder base has resulted in improved liquidity in our stock. The proceeds were used to repay short term indebtedness under our committed senior revolving credit facility.

Disciplined Execution. In every decision we make, we seek to maintain a keen focus on our objectives, we strive to maximize our efficiency and deliver a quality product in all areas of our business. For example, in fiscal 2002 we consolidated our in-house television and motion picture production and related distribution activities into one Operating Group – the recently created Entertainment Group. We believe that this strategic decision allows us to reap the operating and financial synergies that arise from combining the talents of people skilled in both television and motion picture development, distribution, production, financing and marketing.

Seizing Opportunities. We have transformed Alliance Atlantis into a leading vertically integrated entertainment company largely due, we believe, to our ability to anticipate changes in our business and our environment and to take decisive action. Throughout our history, we have evolved and expanded our focus from our initial emphasis on production to now include broadcasting and distribution. Seizing opportunities today in order to secure a solid future is a fundamental part of our business strategy.

Broadcast Group

We are committed to expanding and growing our broadcast presence by focusing on three key areas: strong channel brands, innovative programming, and exceptional sales and marketing. Our specialty channels have well-developed, recognized brands, which have distinguished them in the expanding digital universe. We believe we provide exciting and innovative programming to attract viewers and in turn seek to lever our sales and marketing expertise to deliver these audiences to our advertisers which in turn is expected to generate strong advertising sales.

Disciplined Execution

- ***Launching digital channels***. In fiscal 2002, we launched seven well-branded digital specialty channels – Showcase Action, Showcase Diva, The Independent Film Channel Canada, Discovery Health Channel Canada, BBC Canada, BBC Kids and National Geographic Channel. We have secured carriage agreements to reach approximately 91% of digital households in Canada. The early results show that our channels are meeting a receptive audience, currently with up to six ranking among the top 20 digital channels during 2002.

- ***Continuing Operating Channel growth***. Our established Operating Channels – including Showcase, Life Network, History Television, HGTV Canada and Food Network Canada – continue to deliver strong results.

- ***Building on brand strength***. Our Broadcast Group has entered into partnerships with owners of some of the leading channel brands in the world, including those owned by the BBC, National Geographic, Discovery Communications and the E.W. Scripps Company. Our channel brands are supported by programming designed to attract optimal audiences and advertisers. These brands align with the content available from our ongoing acquisition and production efforts and the Alliance Atlantis motion picture and television library.

- ***Strong marketing and sales***. We believe we have a strong sales team that provides clients with effective and innovative solutions.

Seizing Opportunities

- ***Deepening our relationships with distribution partners***. We have strong relationships with our distribution partners in Canada – including Bell ExpressVu, Starchoice, Shaw, Rogers, Videotron, Cogeco and others. Beyond the carriage agreements we have in place today, we are also alert to new possibilities, such as video-on-demand.

- ***Selectively growing our broadcast presence***. We launched seven digital channels in fiscal 2002 and our focus will continue to be on growing the audience and profile of each channel. We continue to assess the broadcast landscape with a view to launching further digital channels as and when appropriate. We believe that by adding channels to our existing infrastructure, we can achieve greater economies of scale, including overhead synergies and program purchasing efficiencies.

- ***Demonstrating leadership in programming***. We believe that our brands have allowed us to attract strong audience levels, and our innovative programming has helped us to grow viewership on our channels. By seeking out and delivering high quality programming from around the world our programming has consistently delivered the kind of audience support that successfully attracts advertisers. Going forward, we will continue to seek ways in which to further leverage our reputation for excellent programming.

- ***Leveraging alignment with production and distribution businesses***. Our broadcast channels focus on three core content genres – lifestyle, drama and documentary. These core genres align with the production focus of the Entertainment Group and the distributed films of the Motion Picture Distribution Group. Our programmers work closely with the production side of the business to ensure that we have access to this attractive content, and we air many highly successful Alliance Atlantis produced programs on our channels.

Motion Picture Distribution Group

We are committed to sustaining our strong position in Canadian film distribution and to continuing the growth of Momentum Pictures, our U.K. subsidiary, through its theatrical releases and its growing video/DVD library.

Disciplined Execution

- ***Leveraging quality product for maximum return***. With our release of *The Lord of the Rings: The Fellowship of the Ring,* we combined our knowledge of the Canadian marketplace with our marketing and publicity strength. Our Canadian box office results for a *The Lord of the Rings* have now surpassed $53.0 million, representing 17% of the North American market – a disproportionately greater share than Canada's actual market size.

- ***Enhancing distribution of Canadian films***. We delivered strong box office results in the distribution of Canadian films. The critically acclaimed Inuit-language film *Atanarjuat - The Fast Runner* surpassed the $1.0 million mark in Canadian box office receipts. *Men With Brooms* became the top grossing English-language Canadian film in the past two decades with over $4.1 million in box office receipts.

- ***Capitalizing on our library***. We have been actively seeking ways to capitalize on our strong Canadian motion picture library. During fiscal 2002, we delivered very strong broadcast sales to the pay television market as well as both traditional and specialty broadcast channels. Going forward, we intend to continue to leverage this valuable asset through increased broadcast sales, as well as video/DVD distribution and licensing agreements with broadcasters in Canada and the U.K.

- ***Growing our U.K. business***. Momentum Pictures experienced strong growth in fiscal 2002. This reflects our local management team's focus on increasing our presence in the U.K. We believe that the U.K. is a significantly underserved, fragmented market with substantial growth opportunities. We also extended our agreement with Studio Canal to distribute the Canal Plus video/DVD library.

Seizing Opportunities

- ***Strengthening existing partnerships***. We have exclusive long-term Canadian motion picture distribution agreements with New Line Cinema, Miramax, Artisan Entertainment and Universal Focus (formerly USA Films). The historical strength of these relationships is based on our ability to generate higher per capita revenue per film due to our extensive knowledge, presence and experience in the Canadian market. We work closely with these studios to ensure we deliver maximum returns through a well-thought out and tailored approach to marketing each film. We also have a long term video and DVD distribution and marketing joint venture with Universal Studios.

- ***Expanding distribution opportunities***. Though video-on-demand remains relatively new in terms of technology and audience acceptance, we are the first company in Canada to move ahead with providing content for this service. We believe this forward-looking approach will leverage the Alliance Atlantis library and has strong potential for future expansion.

- ***Maximizing our release slate***. Our theatrical release slate for fiscal 2002 was very strong and we anticipate solid results in fiscal 2003 with the video/DVD releases of these films. We are also focusing our efforts on maximizing the box office results of our current theatrical release slate for fiscal 2003 which features franchise films like *Austin Powers in Goldmember*, *Spy Kids 2*, and *The Lord of the Rings: The Two Towers* as well as *Gangs of New York*.

Entertainment Group

We are committed to producing and selling high quality, commercially appealing content and are reducing high cost production and delivering higher margin projects, as well as leveraging appropriate content through Alliance Atlantis's other divisions.

Disciplined Execution

- ***Realigning production focus***. In an effort to improve our margin and profitability, as well as to better align our output with the reduced global demand for drama, we are continuing to deliver on our commitment to substantially reduce the output of high cost primetime television drama hours, to limit the number and size of in-house motion picture productions and to decrease the amount of capital invested in both of these activities. This has allowed us to step up our efforts in areas like documentary programming and other higher margin areas. Our efforts in this area have already increased our margins.

- ***Aligning production content with broadcast channels***. The realignment of our production efforts corresponds with the focus of our broadcast channels. The Entertainment Group produces many programs – such as *Confessions of a Germ*, *Medical Profiles*, *Everest: The Dark Side*, *Things We Do for Love*, *Timelines* and *Uncorked in Italy* – for our broadcast channels Discovery Health Channel, National Geographic Channel, History Television, Life Network and Food Network Canada.

- ***Maximizing the value of the CSI franchise***. Our ability to capitalize on the success of *CSI* was an important achievement for us in fiscal 2002. By the end of the 2001/2002 U.S. television season, *CSI* had become the most watched drama series with audiences that topped the 25 million mark. On the strength of that success, and together with our partner CBS Productions, we are moving ahead on a spin-off series, *CSI: Miami*. Both the original *CSI* and *CSI: Miami* are featured in the CBS schedule for fall 2002.

- ***Managing production risk through pre-sales***. 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. Since most of our costs are covered before we start production on a project, we ensure that there is demand for our productions, allowing further sales to generate profits.

Seizing Opportunities

- ***Continuing focus on margin improvement***. We expect to make continued progress in our effort to improve our margin and profitability by rebalancing our mix of productions. We increased our margin in fiscal 2002 largely by reducing the production of higher cost, lower margin television series and increasing our focus on lifestyle, higher return drama and documentary programming. We anticipate continuing this trend in fiscal 2003 and beyond.

- ***Licensing CSI internationally***. We have had success licensing broadcast rights of *CSI* around the world with *CSI* sold to more than 65 countries including major markets like Canada, the U.K., France, Germany and Australia. We will continue this international sales focus into fiscal 2003 with both the original *CSI* and the new *CSI: Miami*.

- ***Building market penetration***. We have raised our international profile through successful television programs like *CSI* and multi-award winning event mini-series like *Nuremberg* and *Life with Judy Garland: Me and My Shadows*. We have long-term production output agreements with TV-Loonland (Germany), Telecinco (Spain), Eagle Pictures (Italy) and TV3 (New Zealand). We have also achieved significant sales milestones through our successful sale to major studios of U.S. rights for our recent slate of motion pictures.

- ***Leveraging technology***. We are constantly striving to take advantage of the quality improvements and cost benefits offered by new technology. For instance, we were an early adopter of shooting with digital and high definition technology. Going forward, we will continue to seek ways in which to embrace new technology, especially when it reduces costs, creates efficiencies and encourages creativity.

Industry Overview

Broadcast

According to industry sources, as at September 2001, there were approximately 11.6 million households with televisions in Canada. Of those households with televisions, 10.6 million, or 91%, are passed by cable and 7.8 million, or 70%, 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 recent industry sources, as of March 2002 there are approximately 7.5 million cable subscribers and 1.9 million DTH subscribers, representing total broadband television penetration of 89% of the estimated 10.6 million television subscribers. As of March 2002, according to industry sources, there are estimated to be nearly 3.0 million digital television subscribers, with DTH accounting for roughly 63% of this total.

The Canadian broadband television industry is highly concentrated. In 2001, according to public disclosure documents, the four largest cable companies in Canada controlled approximately 86% of total cable subscribers. These companies (with their 2001/2002 approximate subscriptions in brackets) are Rogers Communications Inc. (approximately 2.4 million subscribers), Shaw (approximately 2.2 million subscribers), Quebecor Media Inc. (approximately 1.5 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: Bell ExpressVu (a wholly owned subsidiary of BCE) with approximately 1,145,000 subscribers (as of March 2002), and Star Choice (a wholly owned subsidiary of Shaw) with approximately 726,000 subscribers (as of March 2002). Bell ExpressVu and Star Choice, between them, control 62% of existing digital television subscribers in Canada.

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 August 2001, 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). In the fall of 2001, 47 new digital-only specialty channels were launched, bringing the total number of Canadian specialty services to 96.

Specialty analog and digital 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. Analog specialty television channels are distributed either as part of a signal distributor'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. Digital specialty services are offered as part of a new discretionary tier of digital only theme packs or individual pick and pay services. The wholesale subscriber fee for carriage of digital services is not regulated. Regardless, the subscriber fee is specified in the specialty television channel owner's agreement with the signal distributor. 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, or individual pick and pay. With respect to analog channels, specialty channel owners benefit from these stable, recurring subscriber fees, which are also supported by the high level of cable and satellite penetration in Canada. Advertising on analog specialty 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 2002, Canadian English language specialty and pay television audience share in Canada grew from 14% to 52%, however, Canadian specialty television channels accounted for only 18% of television advertising revenue in 2001, 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 1991 to 2001, subscription revenue for Canadian specialty television channels grew from $172 million to $736 million while advertising revenue grew from $70 million to $438 million. In 2001, specialty television reported total revenues of $1.2 billion, up nearly 14% from the prior year. This level represented more than one quarter (27%) of total television industry revenues, up from just 19% in 1998. The strongest growth in airtime sales occurred in the specialty segment, where sales jumped 15% to $438 million. These results are consistent with the growth that we have seen in both audience levels and advertising revenues from our Operating Channels, and we believe it is a strong leading indicator for the future of our further expansion into digital specialty channels during fiscal 2003.

Motion Picture Distribution

Motion picture 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. 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.

Entertainment – Television and Motion Picture Production

Television – Production and Distribution

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

Motion Picture Production

Motion picture production involves the development, financing and production of feature-length motion pictures. 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.), Vivendi Universal, 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 Films). 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 worldwide market. Industry consolidation has created a significant demand for independently produced, high quality motion pictures from under-supplied independent distributors. Independently produced motion pictures typically have lower production budgets and are not as widely released as those produced and distributed by the major studios. Unlike us, many independent production companies have limited or no internal distribution capabilities and thus rely on the major studios and, to a lesser extent, independent distributors, to distribute their motion pictures.

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, Vivendi Universal, Dreamworks, Warner Bros., Twentieth Century Fox Film Corporation, Sony Pictures Entertainment Inc., Paramount Pictures Corporation, The Walt Disney Company, Hallmark Entertainment, and Pearson plc, 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 had broad jurisdiction over Canadian domestic communications since 1968. Broadcasting undertakings, including specialty television channels are 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 of up to seven years to eligible entities to operate television channels. It also has the power to renew, suspend or revoke licenses and to consider amendments to license conditions upon renewal.

Two of the analog specialty channels we operate, Life Network and Showcase, had their licenses renewed in 2001 for six-year terms. The conditions of license for these services can be found in Decision CRTC 2001-152 and Decision CRTC 2001-153. HGTV Canada and History Television are both up for renewal in 2003. The license for Food Network runs to 2006. All of our analog networks and Category 1 digital services have minimum Canadian content exhibition and Canadian expenditure requirements.

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 were chosen for their ability to make a strong contribution to the development, diversity and distribution of Canadian programs and are licensed for specific genres of programming. 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. As with analog licenses, 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. Alliance Atlantis Broadcasting Inc. owns and operates two Category 1 licenses, Discovery Health Channel and the Independent Film Channel Canada, and has ownership interests in two other Category 1 services, PrideVision and ONE: the Body, Mind and Spirit Channel. Category 2 services, which are not directly competitive with analog or Category 1 digital services, are subject to less regulation although they must broadcast a minimum of 35% Canadian content by the third year of operation. These services do not have guaranteed carriage. Alliance Atlantis Broadcasting Inc. currently operates five Category 2 digital channels and has an ownership interest in one other Category 2 service.

Analog services and Category 1 digital services also have obligations as to how much programming, 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).

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 $66^2/_3$% of the issued and outstanding voting shares and not less than $66^2/_3$% 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, 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, conventional 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.

Canadian 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, including specialty channels, are currently required to spend a certain percentage of their revenue on Canadian 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, Alliance Atlantis Vivafilm, Momentum Pictures, Alliance Atlantis Broadcasting, Alliance Atlantis Releasing, Alliance Atlantis Home Video, Showcase, Showcase Diva, Showcase Action, The Independent Film Channel Canada, 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. Through our partnerships with owners of some of the leading channel brands in the world, we have licensed the use of certain trademarks and related intellectual property rights for our Developing Channels from National Geographic, the BBC and Discovery Communications.

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 can give no assurance 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 have offices in Toronto, Montreal, Edmonton, Vancouver and Halifax in Canada, and Los Angeles (U.S.), London (England), Sydney (Australia) and Dublin and Shannon in Ireland.

Our corporate head office is located at 121 Bloor Street East, Suite 1500, Toronto, Ontario, Canada, which consists of approximately 152,582 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.

We lease the following properties:

Address	Square Feet	Expiration Date
22 Boston Avenue Toronto, Ontario M4M 2T9 Canada	53,410	July 2004
175 Bloor Street East Toronto, Ontario M4W 3V3 Canada	65,644	October 2005 — December 2006
332 Richmond Street West Toronto, Ontario M4M 2T5 Canada	7,600	February, 2003
257 Adelaide Street West, Suite 600 Toronto, Ontario M5H 1X9 Canada	6,700	September, 2004
5 Place Ville Marie, Suite 1435 Montreal, Quebec H3B 2G2 Canada	8,473	September, 2003
3720-76 Avenue Edmonton, Alberta T6B 2N9 Canada	21, 760	February, 2003
560 Beatty Street, Unit 305 Vancouver, British Columbia V3B 2C3 Canada	8,500	May, 2004

Address	Square Feet	Expiration Date
5091 Terminal Road Halifax Nova Scotia B3J 2A2 Canada	66,415	December, 2007
808 Wilshire Blvd., Suite 400 Santa Monica, California 90401-1810 U.S.A.	32,027	February, 2006
Second Floor 184-192 Drummond Street London NW1 3HP England	6,820	January, 2008
Capital Court Capital Interchange Way Kew Bridge Interchange Way Middlesex, TW8 DEX England	1,149	Month to month
40 Westland Row Dublin, Ireland	5,000	February, 2006
Block l, Unit C Shannon Business Park Shannon, Co. Clare, Ireland	2,000	Month to month
401 Darling Street, Suite 2 Balmain, Sydney NSW 2041 Australia	1,535	August 2004

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. Approximately 94% of Cinevillage is occupied by us and the remainder is leased to third party production companies.

In addition, Alliance Atlantis Cinemas, which we operate in partnership with Famous Players, leases cinemas at the following locations:

Address	Square Feet	Expiration Date
1651 Queen Street East Toronto, Ontario M4L 1G5 Canada	30,132	June, 2019
2901 Bayview Avenue Toronto, Ontario M2K 1E6 Canada	17,965	September, 2007
159 Cumberland Street Toronto, Ontario M5R 1A2 Canada	16,765	December, 2005
3980 Shelbourne Street Unit 100 Victoria, British Columbia V8N 6J1 Canada	15,656	June, 2012
3440 Cambie Street Vancouver, British Columbia V5Z 2W8 Canada	9,020	March, 2004
2110 Burrard Street Vancouver, British Columbia V6K 3H5 Canada	18,103	April, 2006

We also own the following properties:

Address	Square Feet	Comments
1668 Barrington Street Suite 500 Halifax, Nova Scotia B3J 2A2 Canada	26,003	Approximately 57% of the premises is occupied by us and the remainder is leased to third parties.
1649 Brunswick Street Halifax Nova Scotia B3J 2G3 Canada	4,681	Approximately 60% of the premises is occupied by us and the remainder is leased to third parties.
2507 Brunswick Street Halifax Nova Scotia B3K 2Z5 Canada	4,000	The entire building is occupied by us.

Employees

As at August 15, 2002, we employed approximately 850 employees in Canada, the United States, Europe and Australia. In addition, like any entertainment company, from time to time we employ the services of a variety of individuals, many of whom are engaged under collective bargaining agreements negotiated with various guilds and unions. The key guilds and unions which negotiate on behalf of individuals engaged by production companies include:

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

Legal Proceedings

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

MANAGEMENT

Executive Officers and Directors

Our board currently consists of ten directors, each of whom holds office until the next annual meeting of our shareholders or until a successor is elected or appointed. At our annual meeting of shareholders, to be held on September 25, 2002, our current board of directors has been proposed for re-election. Our board of directors has established an audit committee, an executive committee and a human resources and corporate governance committee. Particulars relating to each of our ten current directors as well as their memberships on various committees are set out below.

Name and Place of Residence	Office	Principal Occupations and Positions During the Last Five Years	Director Since
Current Directors—Nominated for Re-election			
Pierre DesRoches[3] Saint Lambert, Quebec, Canada	Director	Business Consultant	September 19, 1995
Harold P. Gordon, Q.C.[2][3] Sunny Isles, Florida, U.S.A.	Director	Chairman, Dundee Bancorp Inc. (*merchant banking, wealth management and financial services)*, Formerly Vice Chairman, Hasbro Inc. (*children's and adult entertainment products*)	December 18, 1992
Anthony F. Griffiths[1][2][7] Toronto, Ontario, Canada	Director	Consultant, Corporate Director.	January 17, 1996[4]

Name and Place of Residence	Office	Principal Occupations and Positions During the Last Five Years	Director Since
Ellis Jacob[1] Toronto, Ontario, Canada	Director	Chief Executive Officer, Galaxy Entertainment Inc., Formerly Consultant to Alliance Atlantis Communications Inc. and Executive Vice President and Chief Operating Officer, Cineplex Odeon Corporation. (*feature film exhibitor*)	December 18, 1992
Allen Karp[2][3][6] Toronto, Ontario, Canada	Director	Chairman of the Board and Chief Executive Officer, Cineplex Odeon Corporation. (*feature film exhibitor*)	March 25, 1992
David J. Kassie[1] Toronto, Ontario, Canada	Director	Chief Executive Officer, CIBC World Markets. (*investment banking*)	December 18, 1992
Michael I.M. MacMillan Toronto, Ontario, Canada	Chairman and Chief Executive Officer and Director	Formerly Chairman and Chief Executive Officer, Atlantis Communications Inc.	June 1, 1989[4]
Dr. Margot Northey Kingston, Ontario, Canada	Director	Corporate Director, Formerly Dean and Professor Queen's School of Business Queen's University (*university*)	September 26, 2001
Barry J. Reiter[2][3][5] Toronto, Ontario, Canada	Director	Chairman, Technology Group and Partner, Torys LLP (*law firm*)	September 27, 1993[4]
Donald R. Sobey[1] Pictou County, Nova Scotia, Canada	Director	Chairman, Empire Company Limited. (*diversified operating and investment company*)	September 19, 1996

Notes:

(1) Member of the Audit Committee.

(2) Member of the Executive Committee.

(3) Member of the Human Resources and Corporate Governance Committee.

(4) The date provided indicates the date on which the director was first elected as a director of Atlantis Communications Inc. The director became a director of the Corporation on September 21, 1998.

(5) Barry Reiter was a director of LAVA Systems Inc. In 1999, LAVA's common shares were the subject of a cease trade order for a period exceeding 30 consecutive days, which is currently in effect. In addition, in that year LAVA had a receiver appointed to hold and dispose of its assets.

(6) Allen Karp was a member of the board of directors of Cineplex Odeon Corporation and Loews Cineplex Entertainment Corp. which filed for bankruptcy protection in 2001.

(7) Anthony Griffiths was a member of the boards of directors of Peoples Jewellers Ltd., Confederation Life Insurance Company and Consumers Packaging Inc., all of which were or are subject to arrangement proceedings with creditors. In 1994, Confederation Life Insurance Company's shares were the subject of a cease trade order for a period exceeding 30 consecutive days, which is currently in effect.

The names of the officers of the Corporation (other than officers who are also directors) as at August 15, 2002, their municipality of residence, their current offices and other principal occupations during the last five years are set out below:

Name and Municipality of Residence	Office	Principal Occupations and Positions During the Last Five Years
Susan Berger Toronto, Ontario	Treasurer	Formerly Treasurer, Atlantis Communications Inc.; Director, Cash and Treasury Management, Canadian chartered bank
Heather E. Conway Toronto, Ontario	Executive Vice President, Corporate Communications	Formerly Executive Vice President Corporate and Public Affairs, Canadian chartered bank
Paul Laberge Toronto, Ontario	Senior Vice President, Corporate Development, General Counsel and Corporate Secretary	Formerly Vice President, Corporate Development of the Corporation; Vice President, General Counsel and Corporate Secretary, Alliance Communications Corporation
W. Judson Martin	Executive Vice President and Chief Financial Officer	Formerly Senior Executive Vice President, Chief Financial Officer and a director of MDC Corporation Inc.
Rita A. Middleton	Senior Vice President, Corporate Finance	Formerly Senior Vice President Finance and Corporate Development, Broadcast Group

As of August 15, 2002, the directors and officers of Alliance Atlantis Communications Inc. beneficially owned, directly or indirectly, or exercised control or direction over approximately 2,725,554 Class A Shares, representing approximately 72.19% of the outstanding Class A Shares and approximately 64,113 Class B Shares representing approximately 0.16% of the outstanding Class B. The foregoing ownership figures have been provided to us by the individuals indicated and have not been independently verified by us.

DESCRIPTION OF SHARE CAPITAL

The following chart sets out our authorized share capital.

Shares	Authorized
Class A Voting Shares	Unlimited
Class B Non-Voting Shares	Unlimited

Our share capital formerly authorized 275,000 Class C Special Voting Shares and one Class D Special Non-Voting Share.

The following description refers only to the share capital of Alliance Atlantis Communications Inc. and not to any of our subsidiaries.

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, 2002.

Class C Special Voting Shares

Our share capital authorized 275,000 Class C Special Voting Shares which entitled the holders thereof to one vote per share. Each Class C Special Voting Share was convertible into 20 fully paid and non-assessable Class B Non-Voting Shares. In September 1998, 206,272 Class C Special Voting Shares were issued and in September 2001, each of the Class C Special Voting Shares, which remained outstanding, by its terms, was converted into 20 fully paid and non-assessable Class B Non-Voting Shares. Consequently, no further Class C Special Voting Shares are permitted to be authorized and issued.

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 and 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.

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 Alliance Atlantis Communications Inc. 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 costs associated with our specialty 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.

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

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 Alliance Atlantis, has up to $7 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

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, 2002, total indebtedness of our subsidiaries in respect of such loans was $15.9 million, down from $20.1 million in fiscal 2001.

FOREIGN REVENUE

A significant portion of the our revenues and expenses are in currencies other than Canadian dollars, and, therefore, subject to fluctuations in exchange rates. Approximately 41.4% of our revenue for the year ended March 31, 2002 was derived from our foreign operations. Exchange rates are determined by market factors beyond our control and may vary substantially and have a material adverse effect on our results of operations. For significant transactions, we have occasionally purchased future currency contracts in order to minimize the risk of currency fluctuation. At present, we are not aware of any existing currency or exchange control regulations in any country in which we currently contemplate exploiting our properties which would have an adverse effect on our ability to repatriate such funds.

SEASONAL FLUCTUATIONS

Results of operations for any period are significantly dependent on the number, timing and commercial success of television programs and motion pictures delivered or made available to various media, none of which can be predicted with certainty. Consequently, our results of operations may fluctuate materially from period to period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition. A large percentage of a television program's revenues is recognized when the program is delivered pursuant to a non-cancellable agreement, provided the applicable broadcast season has commenced. Minimum guaranteed revenues from license agreements typically are recognized when the license period begins and the program is delivered. Revenues from subsequent licensing of delivered product, including rerun strip syndication *(i.e.* sales of previously-aired episodes licensed for broadcast in a five-day-a-week format) are recognized on the commencement of the license agreement.

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

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data for the previous three fiscal years has been derived, in part, from, and should be read in conjunction with the 2002 Financial Statements, including the notes thereto.

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

	Years ended March 31		
	2002	**2001**	**2000**
Revenues	$959.9	$806.1	$771.6
Net earnings (loss)	47.3	35.0	39.1
Basic earnings (loss) per common share	1.20	1.10	1.31
Diluted earnings (loss) per common share	1.19	1.09	1.25
Total Assets	1,718.8	1,768.9	1,430.4
Loans payable	129.6	132.7	243.6
Senior subordinated notes	477.0	474.0	217.5
Dividends per common share	-------	-------	-------

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

	March 31, 2002	December 31, 2001	September 30, 2001[(1)]	June 30, 2001[(1)]	March 31, 2001	December 31, 2000	September 30, 2000	June 30, 2000
Revenues	$256.7	$297.4	$221.5	$184.3	$259.2	$247.3	$194.0	$105.6
Earnings before income taxes	16.9	24.8	8.6	5.6	9.7	22.6	14.8	1.5
Net earnings	12.8	21.7	6.2	6.6	8.2	15.8	9.6	1.4
Basic earnings per common share	0.30	0.51	0.16	0.19	0.25	0.50	0.30	0.04
Diluted earnings per common share	0.30	0.51	0.16	0.19	0.25	0.49	0.30	0.04

Note:
(1) On October 1, 2001, the Company retroactively adopted SOP 00-2 effective as of April 1, 2001. Results for the quarter ended June 30, 2001 and for the quarter ended September 30, 2001, have been restated to reflect the effect of this change in accounting policy.

DIVIDENDS

We have not paid any dividends on our Class A Voting Shares or Class B Non-Voting 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.

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

See the MD&A.

MARKET FOR SECURITIES

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

Security	Symbol	Stock Exchange
Class A Shares	**AAC.A**	The Toronto Stock Exchange
Class B Shares	**AAC.B**	The Toronto Stock Exchange
	AACB	Nasdaq National Market

ADDITIONAL INFORMATION

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

Additional financial information is provided in the 2002 Financial Statements.

Copies of:

(a) the Circular;

(b) the 2002 Financial Statements and our most recent unaudited financial statements that have been filed, if any, for any period subsequent to March 31, 2002;

(c) this 2002 Annual Information Form and any document or the pertinent pages of any document incorporated by reference in this 2002 Annual Information Form; and

(d) when the securities of Alliance Atlantis are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus, one copy of any other documents that are incorporated by reference into the short form prospectus or preliminary short form prospectus otherwise not referred to herein,

may be obtained upon request from the Corporate Secretary of Alliance Atlantis, 121 Bloor Street East, Suite 1500, Toronto, Ontario, M4W 3M5 Canada. If the securities of Alliance Atlantis are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus, copies of the foregoing documents are available free of charge. At all other times, a reasonable fee may be charged if the request for copies is made by a person who is not a security holder of Alliance Atlantis.