

THE SECURITIES ACT) Order No. 4374
)
Section 20 and) January 9, 2004
Section 148

CINAR CORPORATION

WHEREAS:

(A) Application has been made by CINAR Corporation ("CINAR") to The Manitoba Securities Commission (the "Commission") for an order pursuant to subsections 20(1) and 148(1) of *The Securities Act*, R.S.M. 1988, c. S50 (as amended) (the "Act") partially revoking Commission Order No. 2891 dated May 4, 2000, Order No. 2910 dated May 18, 2000 and Order No. 2931 dated June 1, 2000 (collectively the "Cease Trade Order"), which permanently ceased trading in the securities of CINAR, until the Cease Trade Order is revoked by a further order of revocation.

(B) It has been represented to the Commission by the Applicant that:

1. CINAR is a corporation incorporated under the CBCA and a reporting issuer or the equivalent in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and New Foundland (the "Reporting Jurisdictions"). CINAR is not a reporting issuer in any Canadian Jurisdiction other than the Reporting Jurisdictions. CINAR's head office is located at 1055 René-Lévesque Blvd East, Montreal, Québec.

2. CINAR is an integrated entertainment and education company that develops, produces, markets and distributes high-quality, non-violent programming and supplemental education products for children, families and educators world-wide.

3. The authorized share capital of CINAR consists of an unlimited number of Variable Multiple Voting Shares (the "Multiple Voting Shares"), an unlimited number of Limited Voting Shares (the "Limited Voting Shares") and an unlimited number of Preferred Shares, of which 5,233,402 Multiple Voting Shares and 34,735,998 Limited Voting Shares and no Preferred Shares were issued and outstanding as of November 30, 2003, (such outstanding shares collectively referred to as the "CINAR Shares").

4. The CINAR Shares were listed on the Toronto Stock Exchange ("TSX") and quoted on the Nasdaq National Market ("Nasdaq"). The TSX and Nasdaq halted trading in the CINAR Shares in March 2000. As at the close of business on August 30, 2001, the TSX de-listed the CINAR Shares as a result of CINAR's failure to meet its listing requirements. Nasdaq also de-listed the CINAR Shares effective on August 2, 2000.

5. In the United States, the CINAR Shares trade only on the over-the-counter Pink Sheets Market. No securities of CINAR are traded on a marketplace (as defined in National Instrument 21-101 Marketplace Operation) in Canada (a "Marketplace").

6. The Cease Trade Order was issued due to the failure of CINAR to file current financial statements under Part XVIII of the Act. CINAR remains in default of its continuous disclosure obligations under the Act.

7. The CINAR Shares also are currently subject to cease trade orders issued by the securities regulatory authorities in the provinces of Quebec, Ontario, Saskatchewan, Alberta and British Columbia. CINAR has applied for variations of these cease trade orders to permit the completion of the Arrangement (as defined below).

8. On October 30, 2003, CINAR and 4113683 Canada Inc. ("Newco") entered into an agreement (the "Arrangement Agreement") setting out the terms of an arrangement (the "Arrangement") pursuant to section 192 of the *Canada Business Corporations Act* involving the purchase by Newco of all of the issued and outstanding shares of CINAR followed by the amalgamation of Newco and CINAR subject to receiving all required approvals and the satisfaction of certain other conditions.

9. Following the completion of the Arrangement, securities of the corporation ("Amalco") formed by the amalgamation of CINAR and Newco will remain subject to the Cease Trade Order, unless revoked by a further order of revocation.

10. Newco is a wholly owned subsidiary of 3918203 Canada Inc. ("3918203"). 3918203 is a private company with a small number of direct or indirect investors that will include Michael Hirsh, Toper Taylor and TD Capital Canadian Private Equity Partners Fund.

11. CINAR is currently a party to certain litigation (the "Specified Litigation"). Under the Arrangement Agreement, Newco has agreed that an amount equal to the net amount received by CINAR as plaintiff in the Specified Litigation after deducting certain amounts and expenses specified in the Arrangement Agreement (the "Net Litigation Proceeds"), less an amount of \$400,000, is to be distributed to the shareholders of CINAR if all the Specified Litigation is settled prior to the fifth business day prior to the date of the meeting of the holders of CINAR Shares called to approve the Arrangement (the "Settlement Deadline") and certain other conditions specified in the Arrangement Agreement are met.

12. The Arrangement Agreement provides that the consideration for the acquisition of all the CINAR Shares by Newco shall be (a) US\$3.60 per share; (b) the Net Litigation Proceeds, less an amount of \$400,000, if all the Specified Litigation is settled prior to the Settlement Deadline and all of the conditions for the distribution of the Net Litigation Proceeds have been met prior to the Settlement Deadline; and (c) in the event that any of the conditions for the distribution of the Net Litigation Proceeds have not been met prior to the Settlement Deadline, one contingent cash entitlement ("CCE") will be created and allocated by 3918203 for each CINAR Share entitling the recipients thereof to receive a *pro rata* share of 70% of the Net Litigation Proceeds.

13. As soon as practicable, Amalco will make an application to be deemed to cease to be a reporting issuer in each of the Reporting Jurisdictions. Following the completion of the Arrangement, all of the outstanding securities of Amalco will be beneficially owned by 3918203 and no securities of Amalco will be traded on a Marketplace.

14. The Arrangement is subject to, among other things, approval by the holders of two-thirds of the Multiple Voting Shares and Limited Voting Shares, with each class voting separately, as well as court approval and required regulatory approvals in Canada and the United States. Pursuant to the interim order of the Superior Court of Quebec in respect of the Arrangement, CINAR's shareholders will be granted a right of dissent from the arrangement resolution.

15. The Board of Directors of CINAR has unanimously determined that the Arrangement is in the best interests of CINAR and has unanimously approved the Arrangement Agreement and will recommend that shareholders of CINAR vote in favour of the Arrangement.

16. Each CINAR shareholder will receive a management proxy circular (the "Proxy Circular") describing in detail the particulars of the Arrangement. The Proxy Circular will include sufficient information for a holder of CINAR Shares to form a reasoned judgment on the Arrangement and to assess the adequacy of the consideration being offered for the CINAR Shares.

17. If the Specified Litigation is not settled before the Proxy Circular is mailed, the Proxy Circular will disclose that the CCEs may be created and prospectus level disclosure (other than financial statements) regarding the CCEs will be included in the Proxy Circular. The relevant disclosure will focus mainly on the structure of the CCEs including a description of the Specified Litigation, an explanation of the formula to be used to calculate the Net Litigation Proceeds, details of the procedures to be followed to determine and distribute the Net Litigation Proceeds and disclosure related to the measures to be taken to segregate and safeguard any Net Litigation Proceeds pending their distribution to former CINAR shareholders. No financial statements are intended to be included in the Proxy Circular. In addition, since the entity granting the CCEs is to be a newly formed corporation without any material assets or liabilities, disclosure specific to the grantor of the CCEs that does not constitute material facts relating to the CCEs, will not be included in the Proxy Circular.

18. CINAR's financial adviser, Merrill Lynch, Pierce, Fenner & Smith Incorporated, has provided to CINAR's Board of Directors a fairness opinion (the "Fairness Opinion") whereby Merrill Lynch, Pierce, Fenner & Smith Incorporated, stated that based upon and subject to the various considerations set forth in the Fairness Opinion, the aggregate consideration agreed to be paid by Newco for the CINAR Shares is fair from a financial point of view to CINAR's shareholders.

19. The majority shareholders of the Multiple Voting Shares, Micheline Charest, Ronald Weinberg and certain holding companies they control (the "Principal Shareholders"), have entered into a voting support agreement with Newco pursuant to which the Principal Shareholders have undertaken, *inter alia*, to vote or cause to be voted all their shares of CINAR in favour of the Arrangement.

(C) The Commission is of the opinion that it would not be prejudicial to the public interest to grant the order requested.

IT IS ORDERED:

1. THAT, pursuant to subsections 20(1) and 148(1) of the Act, the Cease Trade Order be and is hereby partially revoked to permit the trades necessary to complete the Arrangement, including:

(i) the transfer of the CINAR Shares to Newco;

(ii) the cancellation of CINAR Shares in connection with the amalgamation of Newco and CINAR; and

(iii) all other acts in furtherance of the Arrangement that may be considered to fall within the definition of a "trade" within the meaning of the Act.

BY ORDER OF THE COMMISSION

Deputy Director - Legal