

PEACE ARCH ENTERTAINMENT GROUP INC
Form F-3/A
October 31, 2006

As filed with the Securities and Exchange Commission on October 31, 2006

Registration Statement No. 333-137055

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 2 to
FORM F-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

PEACE ARCH ENTERTAINMENT GROUP INC.

(Exact name of registrant as specified in its charter)

Ontario, Canada

(State or other jurisdiction of incorporation or
organization)

Not Applicable

(I.R.S. Employer Identification Number)

124 Merton Street, Suite 407

Toronto, ONT M4S 2Z2

Canada

(416) 487-0377

(416) 487-6141 (facsimile)

(Address, including zip code, and telephone number, including area code,

of registrant's principal executive offices)

National Registered Agents, Inc.

1090 Vermont Avenue, NW, Ste. 910

Washington, D.C. 20005

(202) 371-8090

(Name, address, including zip code, and telephone number,

including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. / /

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: /X /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement of the earlier effective registration statement for the same offering. / /

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. / /

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. / /

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered ⁽¹⁾	Proposed maximum aggregate price per share ⁽²⁾	Proposed maximum aggregate offering price	Amount of registration fee ⁽⁴⁾
Common Shares, without par value	24,978,219 shares	\$1.03 ⁽³⁾	\$25,727,565.57	\$2,752.85
Common Shares to be issued upon exercise of warrants	1,769,000 shares	\$1.03 ⁽³⁾	\$1,822,070.00	\$194.96
Common Shares to be issued upon exercise of stock options	618,667 shares	\$1.03 ⁽³⁾	\$637,227.01	\$68.18
Common Shares to be issued upon conversion of preferred shares	8,695,654 shares	\$1.03 ⁽³⁾	\$8,956,523.62	\$958.34
Total	36,061,540 shares		\$37,143,386.20	\$3,974.33

(1) Pursuant to Rule 416 under the Securities Act of 1933, as amended, this registration statement shall also cover any additional common shares issuable by reason of any future stock dividend, stock split, recapitalization or other similar

transaction effected without receipt of consideration that increases the number of outstanding common shares of registrant.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) and (g) under the Securities Act of 1933, as amended.

(3) Based upon the average high and low price of the Common Shares on the American Stock Exchange as of October 26, 2006, a date within five business days of the filing of this Registration Statement.

(4) Of this amount the Registrant has previously paid \$3,674.91 in connection with its original filing on September 1, 2006.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a) MAY DETERMINE.

The information in this prospectus is not complete and may be changed. The selling shareholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS, SUBJECT TO COMPLETION DATED October 31, 2006.

Organized under the Laws of Ontario

36,061,540 Common Shares

This prospectus relates to the resale of up to 36,061,540 common shares, no par value, of Peace Arch Entertainment Group Inc., or Peace Arch, issued to certain shareholders of Peace Arch, whom we refer to in this prospectus as the selling shareholders. Of the common shares offered hereby, as of August 28, 2006, 24,978,219 common shares were issued and outstanding, 8,695,654 common shares were issuable upon conversion of preferred shares that were issued to selling shareholders listed herein, 1,769,000 common shares were issuable upon exercise of warrants that were issued to the selling shareholders listed herein, and 618,667 common shares were issuable upon exercise of stock options that were issued to the selling shareholders listed herein. The common shares are being registered for resale by the selling shareholders.

The selling shareholders may offer the common shares from time to time, sell any or all of their common shares on any stock exchange, market or trading facility on which the shares are traded or in privately negotiated transactions at market prices prevailing at the time of sale, at negotiated prices, or at fixed prices which may be changed. See Plan of Distribution beginning on page 29.

Our common shares are listed for trading on The American Stock Exchange (commonly known as the AMEX) under the symbol PAE and on The Toronto Stock Exchange (commonly known as the TSX) under the symbol PAE . As of October 26, 2006, the closing price for the common shares on the AMEX was US\$1.04 and on the TSX was Cdn\$1.15.

It may be risky to purchase the common shares. See Risk Factors beginning on page 10.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

* * *

The date of this prospectus is October 31, 2006.

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ABOUT THIS PROSPECTUS

We are registering up to 36,061,540 common shares of Peace Arch Entertainment Group Inc. for resale by the selling shareholders.

On June 7, 2006, in connection with a private placement, we issued warrants to purchase up to 269,000 common shares to Westwind Capital Inc. for its services as lead agent in Canada for a private placement. Each warrant is exercisable for one common share in the capital of Peace Arch at any time within 48 months following the closing date of the private placement at an exercise price of Cdn\$1.21. If these warrants are exercised in full, we would receive proceeds of Cdn\$325,490. We will use the proceeds from any exercise of these warrants for general working capital purposes consistent with our business strategy. If Westwind Capital Inc. exercises the warrants, the common shares underlying the warrants will be issued in private placements pursuant to exemptions from the registration requirements of the Securities Act. We have agreed to include the shares issuable upon exercise of these warrants in any short form registration statement we file while the warrants or the shares issuable upon exercise of these warrants are outstanding. The warrants themselves are not being offered by this prospectus.

On February 7, 2006, we issued warrants to purchase up to 1,500,000 common shares exercisable at US\$0.54 per share with a three-year term, as compensation for services. The Company issued these warrants in a private placement pursuant to exemptions from the registration requirements of the Securities Act. The closing price of our common shares on the AMEX on February 7, 2006 was US\$0.58. If the warrants are exercised in full, we would receive proceeds of US\$810,000. We will use the proceeds from any exercise of warrants for general working capital purposes consistent with our

business strategy. If the selling shareholders exercise the warrants, the common shares underlying the warrants will be issued in private placements pursuant to exemptions from the registration requirements of the Securities Act. We have agreed to include the shares issuable upon exercise of these warrants in any short form registration statement we file while the warrants or the shares issuable upon exercise of these warrants are outstanding. The warrants themselves are not being offered by this prospectus.

On July 29, 2005, we issued convertible preferred shares with preferred share purchase warrants in a private placement pursuant to exemptions from the registration requirements of the Securities Act. The convertible preferred shares were issued at a price of US\$0.46 per share. Each preferred share has attached a preferred share purchase warrant exercisable at US\$0.50 with a four-year term. The closing price of our common shares on the AMEX on July 29, 2005 was US\$0.44. As of August 28, 2006, 2,661,929 of the preferred share purchase warrants have been exercised. If the remaining 1,685,898 preferred share purchase warrants are exercised in full, we would receive proceeds of US\$842,949. We will use the proceeds from any exercise of warrants for general working capital purposes consistent with our business strategy. We will not receive any proceeds from the conversion of the preferred shares. If the selling shareholders exercise the preferred share purchase warrants, the preferred shares underlying the warrants will be issued in private placements pursuant to exemptions from the registration requirements of the Securities Act. If the selling shareholders convert the preferred shares into common shares, the issuance of such common shares will be executed pursuant to exemptions from the registration requirements of the Securities Act. The common shares issuable upon conversion of these convertible preferred shares are included in the short form registration statement. Neither the preferred share purchase warrants nor the preferred shares are being offered by this prospectus.

As of August 28, 2006, an aggregate of 5,851,133 common shares were reserved for issuance pursuant to our Share Option Plan (amended as of February 8, 2006). From February 28, 2005 to March 3, 2006, we issued stock options exercisable for up to 618,667 common shares to affiliates who are listed as selling shareholders herein. These stock options have exercise prices ranging from Cdn\$0.47 to Cdn\$1.38 and expiry dates ranging from February 28, 2008 to August 31, 2010. If these stock options are exercised in full, we would receive proceeds of Cdn\$434,827. We will use the proceeds from any exercise of these stock options for general working capital purposes consistent with our business strategy. If the option holders exercise the options, the common shares underlying the options will be issued pursuant to a registration statement on Form S-8. The stock options themselves are not being offered by this prospectus.

This prospectus is part of a registration statement on Form F-3 that we filed with the Securities and Exchange Commission (the SEC). This prospectus does not contain all of the information included in the registration statement and the related exhibits. Statements included in this prospectus as to the contents of any contract or other document that is filed as an exhibit to the registration statement are not necessarily complete and you should refer to that agreement or document for a complete description of these matters. You should read this prospectus together with the additional information described under the heading "Where You Can Find Additional Information."

You should rely only on the information contained in this prospectus and not upon anything else in deciding whether to purchase the common shares offered through this prospectus. Neither Peace Arch nor any of the selling shareholders will authorize providing you with any other information in connection with your purchase. This prospectus does not offer to sell or solicit an offer to buy any security other than the common shares that this prospectus offers. In addition, this prospectus does not offer to sell or solicit any offer to buy any common shares to any person in any jurisdiction where it is unlawful to make this offer to or solicit an offer from a person in that jurisdiction.

You should not assume that the information contained in this prospectus remains correct after the date of this prospectus.

The securities offered hereby have been qualified for public distribution under the securities laws of each province and territory of Canada with the exception of the 7,500,000 offering in a private placement that closed on June 7, 2006. Those shares carry a four-month restriction in Canada. The securities may be offered or sold, directly or indirectly, in Canada or to any resident thereof in accordance with the securities laws of the provinces and territories of Canada.

In this prospectus, the terms the "Company", we, us, our and "Peace Arch" mean Peace Arch Entertainment Group Inc., an Ontario corporation, and includes, unless the context otherwise requires, all consolidated subsidiaries.

PRESENTATION OF INFORMATION

Unless we indicate otherwise, financial information in this prospectus has been prepared in accordance with Canadian generally accepted accounting principles, or Canadian GAAP. Canadian GAAP differs in some respects from United States generally accepted accounting principles, or U.S. GAAP, and thus our financial statements may not be comparable to the financial statements of U.S. companies. The principal differences as they apply to us are summarized in note 27 to our August 31, 2005 consolidated financial statements included in Item 18 of our Annual Report on Form 20-F for the year ended August 31, 2005 incorporated herein by reference and summarized in note 23 to our May 31, 2006 consolidated financial statements filed on Form 6K on August 31, 2006 (Film No. 061068148).

We present our financial information in Canadian dollars. In this prospectus, except where we indicate, all dollar amounts are in Canadian dollars. References to "\$" or "Cdn\$" are to Canadian dollars and references to "US\$" are to U.S. dollars. This prospectus contains a translation of some Canadian dollar amounts into U.S. dollars at specified exchange rates solely for your convenience.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, or the PSLRA. Forward-looking statements in this prospectus are being made pursuant to the PSLRA and with the intention of obtaining the benefits of the safe harbor provisions of the PSLRA.

Forward-looking statements are those that do not relate solely to historical fact. They include, but are not limited to, any statement that may predict, forecast, indicate or imply future results, performance, achievements or events. You can identify these statements by the use of words like intend, believe, anticipate, may, will, could, and various other similar words.

these words or comparable words or phrases of similar meaning. They may relate to, among other things:

our ability to repay indebtedness;

our ability to maintain listing standards;

our ability to operate profitably;

external factors in the motion picture and television industry;

fluctuations in our revenues and results of operations;

our substantial capital requirements and financial risks;

fluctuations in our revenues and results of operations;

our ability to maintain effective systems of disclosure controls and internal controls;

our ability to manage production costs and expenses;

our competition;

piracy of motion pictures;

protecting and defending against intellectual property claims; and

our ability to meet certain Canadian regulatory requirements.

These forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties, including, but not limited to, economic, competitive, governmental and technological factors outside of our control, that may cause actual results to differ materially from trends, plans or expectations set forth in the forward-looking statements. These risks and uncertainties may include those discussed in Risk Factors. We cannot assess the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in forward-looking statements. Given these risks and uncertainties, we urge you to read this prospectus completely and with the understanding that actual future results may be materially different from what we plan or expect. Also, these forward-looking statements present our estimates and assumptions only as of the date of this prospectus. Except for our obligation to disclose material information as and when required by federal securities laws, we do not intend to update you concerning any future revisions to any forward-looking statements to reflect events or circumstances occurring after the date of this prospectus.

PROSPECTUS SUMMARY

This summary highlights some information from this prospectus. It may not contain all of the information that is important to you. To understand this offering fully, you should read the entire prospectus carefully, including the "Risk Factors" section, together with our Annual Report on Form 20-F for the year ended August 31, 2005 and other documents which are incorporated by reference into this prospectus. See Incorporation of Information by Reference beginning on page 32.

THE OFFERING

Common shares offered by the selling shareholders:	up to 36,061,540 shares (1)
Offering price:	Determined at the time of sale by the selling shareholders
Common shares outstanding prior to the offering as of August 28, 2006:	31,308,665 shares
Common shares outstanding after the offering if all shares included in this prospectus are sold:	42,391,986 shares (2)
Use of Proceeds:	We will not receive any of the proceeds from the sale of our common shares by the selling shareholders. See Use of Proceeds . (3)
Risk factors:	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common shares.
American Stock Exchange symbol:	PAE
Toronto Stock Exchange symbol:	PAE

(1)

1,500,000 of these shares are issuable upon exercise, at the option of the holders, of warrants exercisable at US\$0.54 per share (subject to customary antidilution rights) until February 6, 2009. 8,695,654 of these shares are issuable upon conversion, at the option of the holders, of convertible preferred shares. Of such convertible preferred shares, 1,685,898 shares are issuable upon exercise, at the option of the holder, of preferred share purchase warrants at an exercise price of US\$0.50 per share (subject to customary antidilution right). 269,000 of these shares are issuable upon exercise, at the option of Westwind Capital Inc., of warrants issued to it exercisable at Cdn\$1.21 per share (subject to customary antidilution rights) until June 6, 2010. 618,667 of these shares are reserved for issuance to affiliates, upon exercise, of stock options issued pursuant to our Share Option Plan (Amended as of February 8, 2006)

at varying exercise prices and expiry dates.

(2)

This figure is based on the number of common shares outstanding as of August 28, 2006, and assumes full exercise of the warrants , full conversion of the convertible preferred shares and full exercise of the stock options by selling shareholders in described in footnote 1. The selling shareholders are not required to sell their outstanding shares or any shares issuable upon conversion of the convertible preferred securities , upon exercise of their warrants or upon exercise of their stock options .. See Plan of Distribution .

(3)

We will receive certain proceeds if warrants and stock options are exercised.

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Peace Arch Entertainment Group Inc.

We develop, produce and distribute high-quality, proprietary feature films for markets worldwide. We take ideas, storylines and other creative concepts developed by us or acquired from independent sources and convert those concepts into films. Recent films include *Tornado*, *Fire*, *Earthquake*, *American Soldier*, *Our Fathers*, and *Sha the Sun*.

We reported revenues of \$13.4 million for the nine month period ended May 31, 2006 compared to \$9.1 million for the comparable period in fiscal 2005 representing an increase of \$4.3 million or 47.3% increase compared the same period of the prior year. The following table presents revenues earned in each of our business segments;

Segmented Information	Nine Months Ended May 31	
	2006	2005
	Restated	
(Canadian dollars in millions)		
Motion Picture	\$4,659	\$7,406
Television	2,324	1,689
Home Entertainment	6,411	-
Total	\$13,394	\$9,095

Motion Picture revenue for the nine month period ended May 31, 2006 was \$4.7 million representing a decrease of \$2.7 million, or a 37.1% decrease compared to revenue of \$7.4 million for the comparable period in fiscal 2005. The decrease in revenues primarily reflects the lower number of projects produced by Peace Arch and is associated with Peace Arch's strategy to prioritize the packaging, financing, and distribution of projects. This strategy results in lower presale revenues at the time a project is completed and delivered. The revenues for the nine month period arose from sales of distribution rights on programs acquired during the nine months ended May 31, 2006 and on products completed and delivered in prior years.

Television revenue for the nine month period ended May 31, 2006 was \$2.3 million representing an increase of \$0.6 million from \$1.7 million for the same period of the prior year or a 37.6% increase compared to the same period of the prior year. The increase is mainly attributable to sales made on the TV movie acquisition and TV episodes during the period compared with sales on TV episodes only for the same period of the prior year.

Home Entertainment revenue of \$6.4 million for the nine month period ended May 31, 2006 represents the revenue recognized from the new kaBOOM business from the date of acquisition. There was no Home Entertainment revenue in the comparable period of the prior year.

For the nine months ended May 31, 2006, Peace Arch has reported a loss of \$1.9 million or \$0.10 diluted loss per share compared to earnings of \$1.6 million for the comparable period in fiscal 2005 or \$0.09 diluted earnings per share.

Diluted loss per share is calculated on 22,074,000 weighted average shares outstanding at May 31, 2006 and 18,693,000 weighted average shares outstanding in the prior year.

Our films are distributed primarily in North America and Europe, directly and through distributors such as Motion Picture Distribution LP in Canada and the UK; BAC Films and TF 1 in France; Telemunschen and Telepool in Germany; and Eagle and Creative Filmhouse in Italy.

As a Canadian-based producer, we benefit from a number of competitive advantages over producers outside of Canada, including favorable Canadian tax and other business incentives. We believe we will continue to qualify for these tax and business incentives.

We are a modular company, with personnel able to handle production, post-production and almost all of the other aspects of the production and distribution process. We retain the services and facilities of third parties as necessary and appropriate to each production.

We have offices in Vancouver, British Columbia, Toronto, Ontario, Los Angeles, California and London, England. Our principal executive office and registered office is located at 124 Merton Street, Suite 407, Toronto, Ontario M4S 2Z2, telephone number (416) 487-0377.

RECENT DEVELOPMENTS

Business Acquisitions

On April 13, 2006, the Company entered into a binding letter of agreement, as amended on July 7, 2006, to acquire all of the outstanding shares of Castle Hill Productions Inc. and Dream LLC, which hold the rights to a library of approximately 500 films with a stated minimum purchase price of US\$8,000,000, which is subject to be increased upon completion of the purchase documentation. The closing of the acquisition has been extended to October 27, 2006.

On August 1, 2006, the Company entered into a financing agreement for a US\$20 million senior secured revolving credit facility with the interest rate based upon either the bank's Adjusted LIBO Rate plus 2.5% per annum or the bank's Alternate Base Rate plus 1.5% per annum. The credit facility matures on July 31, 2010.

RISK FACTORS

You should carefully consider these risk factors and the other information in this prospectus and our filings with the Securities and Exchange Commission, including our Annual Report on Form 20-F for the year ended August 31, 2005, which is incorporated in this prospectus by reference, and the other documents incorporated by reference in this prospectus, before making investment decisions involving our common shares. The risks described below are not the only ones facing Peace Arch. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business operations.

We may be delisted from the American Stock Exchange (AMEX)

On February 10, 2004, we had received notice from AMEX indicating that we were in breach of AMEX's continued listing standards of maintaining a shareholders' equity value greater than US\$2,000,000 and sustaining losses in two of our three most recent fiscal years; and in breach of maintaining a shareholders' equity value greater than US\$4,000,000 and sustaining losses from continuing operations and/or net losses in three out of our four most recent fiscal years, all as set forth in Section 1003(a)(i) and Section 1003 (a)(ii) respectively, of the AMEX Company Guide.

Over the past two fiscal years we have increased our shareholders' equity through a combination of an equity issuance and reported profitability for the year ended August 31, 2005.

For the nine months ended May 31, 2006, we reported a net loss of \$1,881,000. We increased our capital stock by \$2,793,000 through the issuance of common shares and the exercise of 2,661,929 Series II

Preference Share warrants so that the total of our shareholders' equity remains in excess of US\$8,000,000, thereby complying with the AMEX listing standard of maintaining equity greater than US\$4,000,000. There is no guarantee that we will be able to continue reporting profitability and that our shareholders' equity will not decrease again below the AMEX threshold amount. If we incur losses and the losses are significant enough that our shareholders' equity value declines below the AMEX threshold we could, once again, be in breach of the AMEX listing requirements, which could result in our shares being delisted from the AMEX.

We have had losses, and we cannot assure future profitability

We cannot assure you we will be able to operate profitably. In four of our last five years we have reported losses. We reported profit of \$1,449,000 for the year ended August 31, 2005, which was primarily the result of a \$2,560,000 one time gain on the settlement of obligations and a \$679,000 foreign exchange gain. For the nine months ended May 31, 2006 we reported a loss of \$1,881,000. If we continue to have losses in the future, we may not be able to generate positive cash flows sufficient to finance continuing activities. Our inability to meet those needs could have a material adverse effect on our business, results of operations and financial condition.

Our success depends on factors in the motion picture and television industry.

The business of producing and distributing film and television programming is highly competitive and involves a substantial degree of risk. Revenues derived from the production and distribution of film and television programming depend primarily upon acceptance by the public, which is difficult to predict. Each film and television program is an individual artistic work, and unpredictable audience reactions primarily determine commercial success. Generally, the popularity of our productions depends on many factors, including the critical acclaim they receive, the actors and other key talent, their genre and their specific subject matter. The commercial success of our productions also depends upon the quality and acceptance of productions that our competitors release into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure activities, general economic conditions and other tangible and intangible factors, many of which we do not control and all of which may change. We cannot predict the future effects of these factors with certainty, any of which factors could have a material adverse effect on our business, results of operations and financial condition. Some or all of our proprietary film and television programs may not be commercially successful, resulting in Peace Arch's failure to recoup its investment or realize its anticipated profits.

Our revenues and results of operations may fluctuate significantly.

Results of operations for any period depend on a number of factors such as on the number of film and television programs that are delivered, the price at which Peace Arch is able to sell them and when the cost of the productions are within budget. Consequently, results may vary from period to period, and the results of any one period may not indicate results for future periods. In particular, results of operations in any period depend to a large extent upon our production and delivery schedule for television programs and motion pictures. As a result of the production cycle, our revenues are not recognized evenly throughout any given year. Cash flows may also fluctuate and may not directly correspond with revenue recognition.

Our business requires a substantial investment of capital.

Our ability to maintain and expand our development, production and distribution of proprietary programming and to cover our general and administrative expenses depends upon our ability to obtain financing through equity financing, debt financing (including credit facilities) or the sale or syndication of some or all of our interests in certain projects or other assets. If our access to existing credit facilities is

not available, and if other funding does not become available to replace existing credit facilities should they not be available, there could be a material adverse effect on our business.

We are subject to risks associated with possible acquisitions, business combinations, or joint ventures.

From time to time we engage in discussions and activities with respect to possible acquisitions, business combinations, or joint ventures intended to complement or expand our business. We may not realize the anticipated benefit from any of the transactions we pursue. Regardless of whether we consummate any such transaction as well as the integration of the acquired business could require us to incur significant costs and cause diversion of management's time and resources. Events and circumstances subsequent to such transaction could also result in impairment of goodwill and other intangibles, development write-offs and other related expenses. Any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to comply in a timely manner with the requirements of the Sarbanes-Oxley Act relating to the assessment by us of the effectiveness of our internal controls over financial reporting, and our assessment may identify material weaknesses and may result in an attestation with an adverse opinion from our auditors, each of which could adversely affect our reputation and share price.

Section 404 of the Sarbanes-Oxley Act 2002 and related regulations presently requires that for the year ended August 31, 2007, we will be required to perform an evaluation of our internal controls over financial reporting and have our auditors attest to such evaluations on an annual basis. We have been and still are evaluating our internal control systems to allow our management to report on, and our auditors to attest to our internal control over financial reporting. As a result, we have incurred additional expenses in fiscal 2006 and a diversion of our management's time. The SEC has proposed an extension of the compliance date for non-accelerated foreign private issuers to the first fiscal year following December 15, 2007. This proposal has not been finalized as of the date of this document.

There can be no assurance that we will complete the necessary work to comply with all aspects of Section 404 and related regulations in a timely manner.

Weaknesses in our internal controls over financial reporting may cause us to be unable to prevent or detect material misstatements in a timely manner. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations. If the assessment of our internal control over financial reporting identifies material weaknesses that must be disclosed, we may receive an attestation with an adverse opinion from our auditors as to the adequacy of our internal control over financial

reporting. Furthermore, potential acquisitions of businesses that are currently not in compliance with Section 404 requirements could lead to disclosures on currently unforeseen deficiencies in our internal control over financial reporting. This could adversely affect our ability to comply with business combinations accounting procedures in preparing our consolidated financial results. Each of these consequences could reduce the market's confidence in our financial statements and negatively affect the price of our shares.

While we believe that we will be able to meet the required deadlines, no assurance can be given that this will be the case. If we fail to complete this evaluation within the required time frame, or fail to remedy any identified material weakness or if our auditors render an adverse attestation, we may be subject to regulatory scrutiny and loss of public confidence in our internal controls. All of these factors may cause our stock price to decline.

The potential for budget overruns and other production risks are difficult to predict

Actual production costs may exceed budget, perhaps significantly, due to factors within or beyond our control. These factors may delay or prevent completion of a production. If there are significant cost overruns, we may have to seek additional financing to complete the production. Financing on terms acceptable to us may not be available. We may be unable to recoup the additional costs, which could have a material adverse impact on operating results and liquidity. Productions are bonded and, if necessary, calling upon the bonder to complete can mitigate any significant cost overrun or risk of completion.

We rely on a few key customers

Revenue of Peace Arch is generated in part due to production activities in numerous countries. We have several primary customers who purchase distribution rights to the filmed product we sell. We also have several large customers through which we distribute our home entertainment product. The percentages of total revenues from each primary customer can be seen in our Annual Report on Form 20-F for the year ended August 31, 2005 incorporated herein by reference and our consolidated financial statements and Management Discussion & Analysis filed on Form 6K on August 31, 2006 (Film No. 061068148) for the period ended May 31, 2006.

Sales of outstanding shares may hurt our stock price.

A substantial number of our outstanding shares are held by a relatively small number of shareholders. There will be 42,391,986 common shares, including 1,769,000 shares issuable upon exercise of warrants, 8,695,654 shares issuable upon conversion of preferred shares and 618,667 shares issuable upon exercise of stock options, outstanding as of August 28, 2006, eligible for sale after the effective date of this prospectus. If the warrants and stock options that are registered in this prospectus and the underlying common shares sold, the market price for our common shares could fall substantially if our selling shareholders sell our common shares in the public market. In addition, such sales may create the perception by the public of difficulties or problems with our products and services or management. Sales of these shares could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Management's forecasts for future revenues supporting film book values may not be achieved.

Investments in film and television programming are amortized against revenues in the ratio that current revenues bear to management's estimate of ultimate revenues for each program pursuant to the Statement of Position (SOP-002) issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants.

As a result of our policy we typically amortize a minimum of 80% of the costs over a three-year period. Management periodically reviews its estimates and adjusts the amortization of our programming accordingly. In the event that management should determine that the capitalized costs for a program exceed its fair value, capitalized costs would be written down in the current period, resulting in a corresponding decrease in earnings.

We could lose certain benefits by failing to meet certain government incentive programs

We currently finance a portion of our production budgets through Canadian and United States government agencies and incentive programs, including federal and provincial tax credits, as well as through similar international arrangements in the case of our international co-productions. These tax credits combined can represent approximately 20% of an individual production budget. We will continue to qualify for these tax credits if, among other things, Canadians beneficially own or control a majority of the voting rights of Peace Arch. If Canadians fail to beneficially own or control a majority of our voting

rights at any time, we could lose such tax incentives and the costs of our productions would increase substantially. Canadian law requires Canadian conventional, specialty, pay and pay-per-view television services to devote a certain amount of their programming schedules, including prime time, to Canadian productions. If we fail to qualify as a Canadian producer, it would be more difficult to obtain time slots in Canada for our programming, a "slot" being a broadcast time period for a program. We believe we will continue to qualify as a Canadian producer for this purpose as long as, among other things, Canadians beneficially own or control a majority of our voting rights. These incentive programs, including federal and provincial tax credit programs, may be amended or eliminated in the future, which could result in a material increase in the effective cost of our productions. The loss or elimination of these tax and business incentives would have a material adverse effect on our results of operations and financial condition.

We are smaller and less diversified than many of our competitors.

Although we are an independent distributor and producer, we compete with major U.S. and international studios. Most of the major U.S. studios are part of large diversified corporate groups with a variety of other operations, including television networks and cable channels that can provide both means of distributing their products and stable sources of earnings that may allow them better to offset fluctuations in the financial performance of their film and television operations. In addition, the major studios have more resources with which to compete for ideas, storylines and scripts created by third parties as well as for actors, directors and other personnel required for production. The resources of the major studios may also give them an advantage in acquiring other businesses or assets, including film libraries, that we might also be interested in acquiring. The foregoing could have a material adverse effect on our business, results of operations and financial condition.

Our revenues and results of operations are vulnerable to currency fluctuations.

Peace Arch receives a portion of its revenues from U.S. and international sources in U.S. dollars while its operating costs and production costs of film and television programming is primarily denominated in Canadian dollars. Accordingly, results of operations can be affected by fluctuations in the U.S. dollar exchange rate. The results of these fluctuations may be material. To date, we have not entered into any material currency hedging instruments. In addition, we have not maintained significant amounts of U.S. dollar balances in order to reduce the risk of exchange rate fluctuations.

Our revenues and results of operations are subject to interest rate fluctuations.

Peace Arch borrows funds from banks and other financial institutions to finance the production costs of its film and television programming that is generally incurred in advance of contracted receipts and revenues from these programs.

These loans usually bear interest at rates that change as market interest rates fluctuate. A rise in interest rates would cause an increase in costs to produce film and television programs and an adverse effect on our results of operations and financial condition.

The loss of key personnel could adversely affect our business.

Our success depends to a significant degree upon the services of certain key personnel, particularly Gary Howsam, our Chief Executive Officer. Because we are a relatively small company, these members of management are involved in many aspects of the production process and virtually all significant decisions are made or significantly influenced by these individuals. The loss of the services of any one or more of our key personnel could have a material adverse effect on our business. Although we have obtained and intend to maintain "key man" life insurance coverage with respect to these personnel, there is no assurance that the proceeds would be sufficient to compensate fully for the loss of the services of any of these individuals if they were to die. The loss of services of any of these employees could have a material adverse effect on our business, results of operations or financial condition.

We could be adversely affected by strikes or other union job actions.

The film and television programming produced by us generally employ actors, writers and directors who are members of the Screen Actors Guild, Writers Guild of America and Directors Guild of America, respectively, pursuant to industry-wide collective bargaining agreements. The collective bargaining agreement with the Writers Guild of America was successfully renegotiated and became effective as of November 1, 2004 for a term of three years. The collective bargaining agreements with the Screen Actors Guild and Directors Guild of America were each successfully renegotiated and became effective as of July 1, 2005 for a term of three years. Many productions also employ members of a number of other unions, including, without limitation, the International Alliance of Theatrical and Stage Employees, the Teamsters and the Alliance of Canadian Cinema, Television and Radio Artists. A strike by one or more of the unions that provide personnel essential to the production of motion pictures or television programs could delay or halt our ongoing production activities. Such a halt or delay, depending on the length of time, could cause a delay or interruption in our release of new motion pictures and television programs, which could have a material adverse effect on our business, results of operations or financial condition.

Piracy of motion pictures, including digital and internet piracy may reduce the gross receipts from the exploitation of our films.

Motion picture piracy is extensive in many parts of the world, including South America, Asia, the countries of the former Soviet Union and other former Eastern bloc countries. Additionally, as motion pictures begin to be digitally distributed using emerging technologies such as the internet and online services, piracy could become more prevalent, including in the U.S., because digital formats are easier to copy. As a result, users can download and distribute unauthorized copies of copyrighted motion pictures over the internet. In addition, there could be increased use of devices capable of making unauthorized copies of motion pictures. As long as pirated content is available to download digitally, many consumers may choose to download such pirated motion pictures rather than pay for motion pictures. Piracy of our films may adversely impact the gross receipts received from the exploitation of these films, which could have a material adverse effect on our business, results of operations or financial condition.

We face additional risks from doing business internationally.

We distribute our film and television programming outside the United States and Canada through third party licensees and derive revenues from these sources. As a result, our business is subject to certain risks inherent in international business, many of which are beyond our control. In addition to the currency fluctuation risks described above, these additional risks include: changes in local regulatory requirements, including restrictions on content; changes in the laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of

funds and to withholding taxes); differing degrees of protection for intellectual property; instability of foreign economies and governments; cultural barriers; and wars and acts of terrorism. Any of these factors could have a material adverse effect on our business, results of operations or financial condition.

Protecting and defending against intellectual property claims may have a material adverse effect on our business.

Our ability to compete depends, in part, upon successful protection of our intellectual property. We do not have the financial resources to protect our rights to the same extent as major studios. We attempt to protect proprietary and intellectual property rights to our productions through available copyright and trademark laws and licensing and distribution arrangements with reputable international companies in specific territories and media for limited durations. Despite these precautions, existing copyright and trademark laws afford only limited practical protection in certain countries. We also distribute our

products in other countries in which there is no copyright and trademark protection. As a result, it may be possible for unauthorized third parties to copy and distribute our productions or certain portions or applications of our intended productions, which could have a material adverse effect on our business, results of operations or financial condition.

Litigation may also be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and the diversion of resources and could have a material adverse effect on our business, results of operations or financial condition. We cannot assure you that infringement or invalidity claims will not materially adversely affect our business, results of operations or financial condition. Regardless of the validity or the success of the assertion of these claims, we could incur significant costs and diversion of resources in enforcing our intellectual property rights or in defending against such claims, which could have a material adverse effect on our business, results of operations or financial condition.

Because we are a Canadian corporation, it may be difficult to sue us or to enforce a judgment against us

We are a Canadian corporation with our principal place of business in Toronto, Ontario. Substantially all of our directors and executive officers and some of the experts named in this report are not residents of the U.S. and virtually all of the assets of these persons and substantially all of our assets are located outside the U.S. As a result, it may not be possible for you to serve summons and complaints within the U.S. upon these persons or upon us. Similarly, it may not be possible to enforce in U.S. courts, against such persons or against us, judgments of U.S. courts based upon civil liability provisions of the U.S. federal or state securities laws. In addition, it may be difficult in Canadian courts for you, in original suits or in suits for the enforcement of judgments of U.S. courts, to enforce civil liabilities based upon U.S. federal or state securities laws against us or our directors or executive officers, or our experts. We have appointed National Registered Agents, Inc. of Washington, D.C., to act as agent for service of process in any action in any U.S. federal or state court brought against us under the securities laws of the U.S.

USE OF PROCEEDS

The selling shareholders will receive all of the proceeds from the sale of common shares offered by this prospectus. Peace Arch will not receive any of the proceeds from the disposition of the common shares covered by this prospectus.

If any of the common share purchase warrants, any of the remaining 1,685,898 outstanding Series II Preference Share warrants or any of the stock options issued to affiliates pursuant to the Stock Option Plan (amended as of February 8, 2006) are exercised, we will receive the exercise price of such warrants or options, as applicable. The maximum aggregate exercise price for such warrants is approximately US\$842,949 and for the options is approximately Cdn\$434,827, which will be used for general working capital purposes consistent with our business strategy. The selling shareholders are under no obligation to exercise the warrants and there can be no assurance that the selling shareholders will do so. If any of the convertible preferred shares are converted to common shares, we will not receive any proceeds as a result of such conversion.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated capitalization as of May 31, 2006 and as of May 31, 2006 adjusted for securities issued to August 28, 2006.

This table should be read in conjunction with our May 31, 2006 consolidated financial statements and notes in our 6-K filing of August 31, 2006 (Film No. 061068148) incorporated by reference herein

(in thousands of Canadian dollars)	Actual As at May 31, 2006 (unaudited)	May 31, 2006 As adjusted for securities Issued to August 28, 2006 (unaudited)	Proforma August 28, 2006 (note 1) (unaudited)
Secured indebtedness			
Production loans	\$21,985	\$21,985	\$21,985
Term loan	3,447	-	-
Acquisition payable	4,202	-	-
Revenue guarantee obligation	20,632	20,632	20,632
Total secured indebtedness	50,266	42,617	42,617
Shareholder Equity:			
Common shares unlimited authorized, 23,587,332	9,510	18,078	25,487
outstanding, and 31,308,665 as adjusted.			
Preference shares issuable in Series, unlimited authorized,			
4,347,827 Series I outstanding,	1,656	1,656	-
2,661,929 Series II outstanding			

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	1,940	1,940	-
Contributed surplus	3,096	3,108	2,452
Warrants	269	542	-
Other paid-in capital	680	680	680
Deficit (as at May 31, 2006)	(6,350)	(6,350)	(6,350)
Total Shareholder Equity	10,801	19,654	22,269
Total capitalization	\$61,067	\$62,271	\$64,886

The adjustments to the May 31, 2006 balances reflect (i) the issuance of 7,721,333 common shares, for net proceeds of \$8,568,000, which were used to repay the term loan and acquisition payable, (ii) the issuance of 269,000 warrants and (iii) the grant of 175,000 stock options.

1.

After giving effect to the exercise of the 1,769,000 warrants, the 618,667 stock options and the 8,695,654 Preference Shares to common shares of the Company. Conversion of US\$ to Cdn\$ is at the closing rate of exchange of \$1.111 on August 28, 2006.

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SHARE CAPITAL

Shares

Authorized:

Unlimited Common Shares without par value.

Unlimited Preference Shares, issuable in series without par value.

Issued and fully paid:

	Common Amount \$	Number of shares	Preferred Series I Amount \$	Number of shares	Preferred Series II Amount \$	Total Amount \$
Balance - August 31, 2003	17,283,677 35,887	-	-	-	-	35,887
Issued for cash on exercise of stock options	- -	-	-	-	-	-
Converted from separate classes to Common Shares	125,000 38	-	-	-	-	38
Issued in escrow	3,489,814 3,838	-	-	-	-	3,838
Shares issued - August 31, 2004	20,898,491 39,763	-	-	-	-	39,763
Shares held in escrow	(3,489,814) (3,838)	-	-	-	-	(3,838)