**MATERIAL CHANGE REPORT**
**S.75(2) OF THE SECURITIES ACT (ONTARIO)**
**S. 118(1) OF THE SECURITIES ACT (ALBERTA)**
**S.85(1) OF THE SECURITIES ACT (BRITISH COLUMBIA)**
**S.73 OF THE SECURITIES ACT (QUEBEC)**
**S.81(2) OF THE SECURITIES ACT (NOVA SCOTIA)**
**S.84(1) OF THE SECURITIES ACT, 1988 (SASKATCHEWAN)**
**S. 112 OF THE SECURITIES ACT (MANITOBA)**
**S.76(2) OF THE SECURITIES ACT, 1990 (NEWFOUNDLAND)**

## 1. Reporting Issuer

Alliance Atlantis Communications Inc.
121 Bloor Street East
Suite 1500
Toronto, Ontario
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## 2. Date of Material Change

February 11, 2001

## 3. Press Release

A press release disclosing the material change was issued on February 12, 2001. A copy of the press release is attached.

## 4. Summary of Material Change

Salter Street Films Limited ("**SSF**") and Alliance Atlantis Communications Inc. ("**AACI**") and its wholly-owned subsidiary 3822796 Canada Limited ("**Subco**") have entered into a merger agreement (the "**Merger Agreement**") pursuant to which SSF and Subco will be amalgamated (the "**Amalgamation**") under the *Canada Business Corporations Act* ("**CBCA**"). To effect the Amalgamation, SSF will be continued under the CBCA (the "**Continuance**"). The Amalgamation and the Continuance are subject to shareholder and certain regulatory approvals.

## 5. Full Description of Material Change

### *Overview*

SSF, AACI and Subco have entered into the Merger Agreement pursuant to which SSF and Subco will be amalgamated under section 181 of the CBCA. To effect the Amalgamation, SSF will be continued under the CBCA. The transaction is subject to shareholder and certain regulatory approvals. The transaction will be treated for accounting purposes as a purchase of SSF by AACI.

If shareholder and certain regulatory approval is obtained, shareholders of SSF (**"Shareholders"**) who do not dissent in respect of either the Continuance or the Amalgamation can elect to receive either of the following options:

(a) the Preferred Share and Class B Share Option (**"Option A"**):

- (i) a number of preferred shares (**"Preferred Shares"**) in the capital of Amalco (the corporation resulting from the Amalgamation) equal to the number of SSF shares held by that shareholder, each of which will be redeemed by Amalco immediately after the effective date (the **"Effective Date"**) of the Amalgamation for an amount equal to $3.33 per Preferred Share, and

- (ii) a number of Class B Non-Voting Shares (the **"Class B Shares"**) in the capital of AACI equal to the product of the applicable Share Exchange Ratio (currently 0.310) and the number of SSF shares held by that shareholder

**OR**

(b) the Class B Share Only Option (**"Option B"**):

- (i) that number of Class B Shares equal to the product of the applicable Share Exchange Ratio (currently 0.465) and the number of SSF shares held by that shareholder.

The **"Share Exchange Ratio"** means the ratio determined by the formula ($10.00 minus $3.33 (in the case of Option A) or $0.00 (in the case of Option B)) divided by $21.50, subject to change as provided in the Merger Agreement.

*Shareholder Approvals*

The transaction is subject to the following shareholder approvals:

(a) the Continuance must be approved by:

- (i) three-quarters of the votes cast by the holders of SSF shares at a special meeting of SSF Shareholders (the "**First Meeting**");

- (ii) two-thirds of the votes cast by the holders of each class of SSF share outstanding in the capital of SSF at the First Meeting; and

- (iii) a majority of the votes cast by the holders of SSF shares at a confirmatory meeting of SSF Shareholders (the "**Confirmatory Meeting**" and, together with the First Meeting, the "**Meetings**") not earlier than 14 days after the First Meeting; and

(b) the Amalgamation must be approved by two-thirds of the votes cast by the holders of each class of shares outstanding in the capital of SSF at the First Meeting.

A management information circular (the **"Circular"**) describing the terms of the transaction will be mailed to shareholders of SSF shortly. The transaction is expected to be completed in 90 days.

Other material terms of the transaction are as follows:

- The board of directors of SSF, having received the unanimous recommendation of its independent committee and having considered an opinion from BMO Nesbitt Burns Inc. to the effect that, as of the date of the Merger Agreement the transaction is fair from a financial point of view to Shareholders, are unanimously recommending that the Shareholders vote in favour of the Continuance and the Amalgamation (together, the "**Merger**") .

- The board of directors of SSF may change or modify its recommendation that SSF shareholders vote in favour of the Merger in certain circumstances if the transaction value per SSF share (as defined in the Merger Agreement) is less than $9.

- AACI has the option to increase the transaction value per SSF share to equal or exceed $9 prior to the date of the First Meeting.

- SSF has agreed not to solicit or participate in any discussions regarding any other merger, take-over bid or similar transaction involving it or its material subsidiaries.

- If the Amalgamation is not effective on or prior to July 31, 2001, the Merger Agreement terminates unless the parties agree to extend that date.

- The Merger Agreement may be terminated under certain circumstances which include the following:

  (a) by either SSF or AACI if certain conditions set out in the Merger Agreement (including no more than 5% of the Shareholders exercising their dissent rights under applicable corporate law and the receipt of certain regulatory approvals) are not satisfied on or before July 31, 2001;

  (b) by SSF if AACI has been notified in writing of a Superior Proposal (as defined in the Merger Agreement) in accordance with the Merger Agreement and AACI has not made an offer to amend the terms of the Merger Agreement, or AACI having made such an offer, AACI and SSF shall not have entered into an amended agreement, provided that any obligation of SSF to pay the termination fee payable to AACI or to pay expenses shall survive such termination; and

(c) by AACI if AACI has been notified in writing of a Superior Proposal and AACI has not made an offer to amend the terms of the Merger Agreement or, AACI having made such an offer, AACI and SSF shall not have entered into an amended agreement.

- If, among other things, the board of directors of SSF fails to recommend to Shareholders to vote in favour of the Merger or the Merger Agreement is terminated by SSF in order to complete a superior transaction or the Merger is not completed and SSF completes another inconsistent transaction of a similar nature within 270 days after the First Meeting, SSF is required to pay to AACI a termination fee of $3.5 million. If the termination fee payment provision would apply but for the fact that a public announcement of an inconsistent transaction is not made prior to the First Meeting, SSF is required to pay to AACI a termination fee of $1.75 million. If the transaction value per SSF share (as defined in the Merger Agreement) is at least $9 and the Merger is not approved by SSF Shareholders, SSF will reimburse AACI and Subco for all reasonable out-of-pocket fees and expenses incurred by them, to a maximum of $1 million.

- Michael Donovan, Paul Donovan and William Ritchie and their respective associated companies (collectively, the **"Principals"**) have signed agreements providing that they will vote shares held by them, directly or indirectly, in favour of the resolutions proposed in connection with the Merger provided the transaction value per SSF share is at least $9 per share.

- AACI has obtained the right to acquire all of the SSF shares held by the Principals. Subject to certain conditions, such right is exerciseable for a period of 20 days only in circumstances where the Merger does not proceed. The purchase price payable on exercise of the right must be at least as high as the highest price offered under the Merger, subject to a minimum value of $9 per share. The shares subject to the right are 1,450,090 multiple voting shares and 744,468 subordinate voting shares representing, in aggregate, approximately 25% of the outstanding common equity of SSF on a fully diluted basis. The multiple voting shares are transferable to AACI only after conversion on a one for one basis to subordinate voting shares.

- Michael Donovan and Paul Donovan have agreed to extend the terms of their employment agreements with SSF until April 2004. Michael Donovan has agreed to serve as Chair of the Independent Film Channel Canada Incorporated.

- CRTC approval is not a condition to the completion of the merger, however pending CRTC approval of the Merger, SSF and its respective subsidiaries will appoint a trustee in respect of their interests in specialty broadcasting channels.

- Outstanding SSF stock options will accelerate and vest, and will be exchanged for options to acquire Class B shares of AACI, with appropriate adjustment to reflect the share exchange ratio to the exercise price and the number of shares to be acquired upon the exercise of such options.

## 6. Reliance on Confidentiality Provisions of Securities Legislation

Not applicable.

## 7. Omitted Information

Not applicable.

## 8. Senior Officer

The senior officer of AACI who is knowledgeable about this material change is:

Paul Laberge
Senior Vice President, Corporate Development and General Counsel
Telephone 416-966-7702

**9. Statement of Senior Officer**

The foregoing accurately discloses the material change referred to herein.

Dated this 21st day of February, 2001.

*"Paul Laberge"*
Paul Laberge
Senior Vice President, Corporate Development and General Counsel

**<u>FOR IMMEDIATE RELEASE</u>**

# Alliance Atlantis Reaches Agreement to Acquire Salter Street Films

*Salter Street Films has 1,100 Half-Hour Program Library,*
*is Canada's Foremost Comedy Producer and Owns*
*the* Independent Film Channel Canada

**HALIFAX, Nova Scotia, and TORONTO, Ontario) - February 12, 2001 –** Alliance Atlantis Communications Inc. (TSE: AAC.A, AAC.B; NASDAQ: AACB) and Salter Street Films Limited (TSE: SSF) today announced that they have entered into a definitive agreement under which Alliance Atlantis will acquire all of the issued and outstanding shares of Salter Street Films.

The acquisition agreement provides that shareholders of Salter Street Films may elect to receive either $3.33 in cash and 0.310 Class B Non-Voting Shares of Alliance Atlantis for each share of Salter Street Films, representing approximately $9.22 per share of Salter Street Films, based on the closing price of Alliance Atlantis Class B Non-Voting Shares on February 9, 2001, or 0.465 Class B Non-Voting Shares of Alliance Atlantis for each share of Salter Street Films. The transaction is expected to close within 90 days.

Michael Donovan, Chairman and Chief Executive Officer and Paul Donovan, Vice Chairman, the holders of all of the multiple voting shares of Salter Street Films, and certain other holders of subordinate voting shares of Salter Street Films, have agreed to support and vote in favour of the transaction. This group represents approximately 71 per cent of the votes and approximately 25 per cent of the total issued and outstanding shares of Salter Street Films. In addition, the Board of Directors of Salter Street Films, based on a recommendation of its special committee, has unanimously agreed to support the transaction and recommend to its shareholders that they vote in favour of the transaction.

*-more-*

"Salter Street Films' library, expertise in comedy production and emerging specialty channel business are attractive to us," said Michael MacMillan, Chairman and Chief Executive Officer, Alliance Atlantis. "We believe that the specialty channel business, particularly the 'Category 1' *Independent Film Channel Canada*, is an excellent fit with Alliance Atlantis' growth strategy for our Broadcast Group and presents tremendous opportunities to further exploit our extensive motion picture library."

The *Independent Film Channel Canada*, scheduled to launch in fall 2001, is Canada's first English-language specialty television service dedicated to independent film, the filmmaking process, and the world of filmmakers. The change in control of the *Independent Film Channel Canada* is subject to approval by the Canadian Radio-television and Telecommunications Commission (CRTC).

Michael Donovan, in support of the transaction, said, "We have been making films and television programs in Canada and distributing them internationally for over 22 years. There have been many significant milestones and developments, but this transaction is without a doubt the most significant and positive to date. We believe that this partnership with Alliance Atlantis is the best way going forward to continue to grow and develop Canadian films and television in Atlantic Canada. We also believe it is in the best interest of our shareholders."

Salter Street has gained the reputation as Canada's foremost television comedy producer. The Company has accumulated an extensive library consisting of over 1,100 half-hours of award-winning content. "This transaction links perfectly with our strategy to diversify our television production slate. Over the past 18 months, we have added children's and fact-based documentary programming and now we are adding the comedy genre," said Mr. MacMillan. "Additionally, we believe we will be able to effectively exploit Salter Street's extensive library with our existing global television distribution infrastructure."

Michael and Paul Donovan will remain with the Company under multi-year agreements. Salter Street Films will continue to house its production facilities in Halifax. If the CRTC approves the change in control of the *Independent Film Channel Canada*, Alliance Atlantis will maintain the head office of the *Independent Film Channel Canada*, and marketing and program functions, in Halifax. Michael Donovan will also serve as Chairman of the *Independent Film Channel Canada*.

The Companies have a long association – Alliance Atlantis was a shareholder of Salter Street Films when Salter Street was a private company. Currently, Alliance Atlantis holds approximately 35,000 subordinate voting shares in Salter Street Films. Michael MacMillan served as a Director of Salter Street Films until early 2000. Additionally, Salter Street Films was one of the original minority shareholders of *Showcase*, Alliance Atlantis' very successful movie and drama specialty channel.

Alliance Atlantis' Motion Picture Group has an extensive library consisting of approximately 6,500 titles aggregating approximately 13,000 hours. These exclusive Canadian rights arise pursuant to long-term contractual arrangements with such motion picture companies as *Miramax Films*, *New Line Cinema*, *Fine Line Features*, *Artisan Entertainment*, *USA Films* and *Destination Films.* Alliance Atlantis believes this library of independent films provides ideal content for the *Independent Film Channel Canada*.

In November 2000, the CRTC decided to issue one "Category 1" licence, the *Independent Film Channel Canada,* and 20 "Category 2" licences for new digital specialty television services, to subsidiaries of Salter Street Films. These "Category 2" services include *World Cinema*, showing the best of contemporary and classic foreign films, and *Comedy for Kids*, dedicated to presenting comedy programming created for and by young Canadians and providing a platform for new comedic talent.

The CRTC has approved the terms of trust arrangements whereby Salter Street Films' shares can be acquired pursuant to this transaction pending CRTC approval of the transfer of control of the Salter Street Films' subsidiaries that will be launching and operating the new specialty channels pursuant to the CRTC licences. Daniel M. Campbell Q.C., of the Halifax-based law firm Cox Hanson O'Reilly Matheson, has agreed to act as trustee under these arrangements.

**About Salter Street Films**

Salter Street Films (TSE: SSF) is an integrated entertainment Company that develops, produces and distributes original film and television programming as well as Internet products and services. Salter Streets' television programs include the award-winning and top-rated CBC comedy series *This Hour Has 22 Minutes* and *Made in Canada* (broadcast in the U.S. as *The Industry* on *PBS* affiliated stations); *The Awful Truth* with Michael Moore (broadcast in Canada on *Bravo!*, in the U.S. on *Bravo*, *The Film and Arts Network* and on *Channel 4* in the U.K.); the comedy series *Blackfly* on Global; the family drama *Emily of New Moon* (broadcast in the U.S. on Encore's *WAM! Family Channel*); and the science fiction series *LEXX* (broadcast in *Canada on Space: The Imagination Station* and in the U.S. on the *SCI FI Channel*).

The CRTC has decided to issue 21 licences to operate digital channels to subsidiaries of Salter Street Films, most notably for *Independent Film Channel Canada*, Canada's first English-language specialty television service dedicated to independent film, the filmmaking process, and the world of filmmakers. Salter Street Films' other specialty digital channel licences include *World Cinema, Classics TV, Comedy for Kids* and *ZTV*.

**About Alliance Atlantis Communications Inc.**

Alliance Atlantis Communications Inc. is a leading broadcaster, creator and distributor of filmed entertainment with significant ownership interests in eight Canadian analog specialty television networks, including *Showcase*, *Life Network*, *Home & Garden Television (HGTV Canada), History Television, Series+, Historia, Headline Sports-The Score* and *Food Network Canada*, as well as *U8TV*, Canada's first Internet television station. The CRTC has decided to issue over 30 licences to Alliance Atlantis for new digital channels including *The Health Network Canada, National Geographic Canada, National Geographic Adventure One, BBC Canada, BBC Kids, Do it Yourself Canada* and *Fine Living*.

Alliance Atlantis Communications Inc.'s principal business activities are conducted through three operating groups: Broadcast, Motion Pictures and Television. Headquartered in Toronto, Alliance Atlantis Communications Inc. operates offices in Los Angeles, Edmonton, Montreal, Shannon, London and Sydney. The Company's common shares trade on the Toronto Stock Exchange – trading symbols AAC.A, AAC.B and on NASDAQ – trading symbol AACB. The Company's Web site is www.allianceatlantis.com.

*This press release may contain forward-looking statements that involve a number of risks and uncertainties. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are market and general economic conditions and the risk factors detailed from time to time in the Company's periodic reports and registration statements filed with the Canadian securities regulatory authorities and the U.S. Securities and Exchange Commission.*

A conference call is scheduled for **Monday, February 12, 2001 at 8:30 a.m. (EST)**. To access the call, dial (416) 620-2414 or toll-free (877) 871-4099. The conference call will also be broadcast and archived on-line at http://www.Q1234.com.

The conference call will be available for replay for 24 hours after its completion. To access the replay of the call, call (416) 626-4100 and enter PIN# 17972987. For toll free access call (800) 558-5253 and enter PIN# 17973955

**FOR FURTHER INFORMATION:**


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