

**IN THE MATTER OF  
THE SECURITIES LEGISLATION  
OF BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA,  
ONTARIO, Québec, NOVA SCOTIA AND NEWFOUNDLAND**

**AND**

**IN THE MATTER OF  
THE MUTUAL RELIANCE REVIEW SYSTEM  
FOR EXEMPTIVE RELIEF APPLICATIONS**

**AND**

**IN THE MATTER OF ALLIANCE ATLANTIS COMMUNICATIONS INC.,  
SALTER STREET FILMS LIMITED AND 3822796 CANADA LIMITED**

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and Newfoundland (the "Jurisdictions") has received an application (the "Application") from Alliance Atlantis Communications Inc. ("Alliance Atlantis") and Salter Street Films Limited ("Salter Street") for a decision:

(a) under the securities legislation of the Jurisdictions (the "Legislation") that, in connection with an offer (the "Offer") that may be made by Alliance Atlantis to acquire all of the issued and outstanding multiple voting shares (the "MVS") and subordinate voting shares (the "SVS" and, collectively with the MVS, the "Shares") of Salter Street, certain amendments (the "Employment Addenda") to existing employment agreements (the "Employment Agreements") between Salter Street and each of Michael Donovan and Paul Donovan (collectively, the "Principals") are being made for reasons other than to increase the value of the consideration that may be paid to the Principals for the Shares they hold and may be entered into despite the prohibition in the Legislation that prohibits an offeror who makes or intends to make a take-over bid or issuer bid and any person acting jointly or in concert with the offeror from entering into any agreement, commitment or understanding with any holder or beneficial owner of securities of the offeree issuer that has the effect of providing to the holder or owner a consideration of greater value than that offered to other holders of the same class of securities (the "Prohibition on Collateral Agreements"); and

(b) under the Legislation in Ontario and Quebec that the proposed amalgamation (the "Amalgamation") of Salter Street and 3822796 Canada Limited, a wholly-owned subsidiary of Alliance Atlantis, shall not be subject to the requirements in the Legislation in Ontario and Quebec applicable to going private transactions (the "GPT Requirements");

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission is the principal regulator for the Application;

AND WHEREAS Alliance Atlantis and Salter Street have represented to the Decision Makers as follows:

1. Alliance Atlantis is governed by the *Canada Business Corporations Act* (the "CBCA"), is a reporting issuer or the equivalent in each of the Jurisdictions and is not in default of any requirement of the Legislation in the Jurisdictions. Its head office is located in Toronto, Ontario.

2. Alliance Atlantis is a Canadian broadcaster, creator and international distributor of filmed entertainment content.

3. Salter Street is governed by the *Companies Act* (Nova Scotia), is a reporting issuer or the equivalent in each of the Jurisdictions and is not in default of any requirement of the Legislation in the Jurisdictions. Its head office is located in Halifax, Nova Scotia.

4. Salter Street is an integrated entertainment company that develops, produces and distributes original film and television programming world-wide and has interests in Internet products.

5. Salter Street's authorized share capital consists of 1,450,090 MVS, 199,679,356 SVS, 200,000,000 non-voting shares, 59,002 special shares and 100,000,000 preference shares. The SVS are listed and posted for trading on The Toronto Stock Exchange (the "TSE"). Each MVS carries the right to ten votes per MVS, and each SVS carries the right to one vote per SVS.

6. As at February 10, 2001, Salter Street's issued and outstanding share capital consisted of 1,450,090 MVS and 6,788,949 SVS. In addition, as at February 10, 2001, there were reserved for issuance 710,000 SVS in respect of options under Salter Street's stock option plan (the "Plan"), 67,000 SVS in respect of certain warrants issued by Salter Street and 26,000 SVS in respect of a purchase of shares of Salter Street New Media Limited from a dissenting shareholder.

7. Michael Donovan is the chief executive officer of Salter Street and chairman of its board of directors (the "Salter Street Board"). Michael Donovan was one of Salter Street's founders in 1983 and has served as the producer of a number of its productions. As at February 10, 2001, he owned, directly or indirectly:

(a) 725,045 MVS, representing approximately 50% of the class; and

(b) 127,644 SVS and options to acquire 75,000 SVS, representing approximately 2.95% of the class (after giving effect to the exercise of options held by him).

8. Paul Donovan is the vice-chair of the Salter Street Board. Paul Donovan is one of Salter Street's founders and has served as the director and producer of a number of its productions. As at February 10, 2001, he owned, directly or indirectly:

(a) 725,045 MVS representing approximately 50% of the class; and

(b) 125,700 SVS and options to acquire 75,000 SVS, representing approximately 2.92% of the class (after giving effect to the exercise of options held by him).

9. In December 2000, discussions commenced between representatives of Alliance Atlantis and Salter Street with respect to the possible acquisition by Alliance Atlantis of all of the issued and outstanding Shares. During the same month, the Salter Street Board established a special committee of directors (the "Special Committee"), which retained BMO Nesbitt Burns Inc. as financial advisers to the Special Committee. The Principals were not members of the Special Committee.

10. On February 11, 2001, Alliance Atlantis and Salter Street entered into an agreement (the "Merger Agreement"), which provides for the continuance of Salter Street under the CBCA (the "Continuance") and the Amalgamation (collectively, the "Transactions"). Pursuant to the Amalgamation and subject to certain conditions, the holders of Shares (the "Shareholders") will exchange all of their Shares for consideration per Share consisting either of: (i) 0.465 of a Class B Non-Voting Share of Alliance Atlantis (a "Class B Share"); or (ii) a combination of 0.31 of a Class B Share and one preferred share (immediately redeemable for \$3.33 in cash) of the corporation ("Amalco") resulting from the Amalgamation.

11. On the same date, Alliance Atlantis entered into support agreements (the "Support Agreements") with certain Shareholders (the "Principal Shareholders"), including the Principals. The Support Agreements provide, among other things, as follows:

(a) As long as the Transaction Value per Share (as that term is defined in the Merger Agreement) is at least \$9.00 and provided that certain other conditions are met, the Principal Shareholders will vote the Shares held by them in favour of the Amalgamation.

(b) If the Amalgamation is not completed and the Transaction Value per Share is at least \$9.00, then Alliance Atlantis will have the right (the "Right"), subject to certain conditions, to acquire all of the Shares held by the Principal Shareholders pursuant to the Offer, which will be an offer made to all Shareholders for any and all Shares for consideration equal to or greater than that offered to the Shareholders pursuant to the Merger Agreement in respect of the Transactions. Subject to certain conditions, the Right will be exercisable by Alliance Atlantis for a period of 20 days only in circumstances where the Amalgamation does not proceed as a result of the circumstances described above.

(c) Alliance Atlantis's obligation to take up and pay for the Shares pursuant to the Offer will be subject to the conditions, among others, that all regulatory approvals have been obtained, no prohibition of law shall prohibit take-up of Shares under the Offer and no material adverse change in the business or affairs of Salter Street shall have occurred.

12. On February 9, 2001, the last full trading day prior to the announcement of the Transactions, the closing sale price per SVS on the TSE was \$6.60, the closing sale price per Class B Share on the TSE was \$19.00 and the closing sale price per Class B Share on the NASDAQ National Market was US \$12.6875.

13. Salter Street prepared a management information circular (the "Circular") to solicit proxies for the meetings of Shareholders to be held on March 30, 2001 to consider the Transactions (the "Meeting") and, if needed, April 16, 2001 (the "Confirmatory Meeting"). The Circular was mailed to Shareholders on or about March 5, 2001.

14. As disclosed in the Circular, the Salter Street Board has determined unanimously that the Transactions are fair to the Shareholders and in Salter Street's best interests and, accordingly, the Salter Street Board has unanimously recommended that Shareholders approve the Transactions.

15. The Continuance must be approved at the Meeting by: (i) at least 75% of votes cast by Shareholders who attend the Meeting in person or by proxy; and (ii) at least  $66\frac{2}{3}\%$  of the votes cast by holders of each class of Shares who attend the Meeting in person or by proxy. Unless the resolution of Shareholders relating to the Continuance is passed unanimously at the Meeting with all Shareholders (representing 100% of the Shares) present in person or by proxy, the Continuance must be confirmed by a majority of the votes cast by Shareholders who attend the Confirmatory Meeting in person or by proxy. The Amalgamation must be approved by at least  $66\frac{2}{3}\%$  of the votes cast by holders of each class of Shares who attend the Meeting in person or by proxy.

16. As part of the negotiations with Alliance Atlantis in respect of the Amalgamation and the Offer, Salter Street and the Principals agreed to enter into the Employment Addenda, which will become effective on the closing of the Amalgamation or take-up of any Shares under the Offer, as the case might be.

17. The Employment Agreements, which terminate on May 14, 2003, provide, among other things, that, each of the Principals:

(a) is entitled to an annual base salary of \$250,000 (to be reviewed annually), plus bonuses within the guidelines of the Salter Street compensation plan when deemed warranted by the Salter Street Board;

(b) is entitled to receive stock options, as granted by the Salter Street Board, on the terms set out in the Plan;

(c) is entitled to two years' notice or payment in lieu of notice if Salter Street decides to terminate his employment without cause;

(d) will hold in confidence any information concerning Salter Street's business or affairs;

(e) will refrain from engaging in any business in Canada similar to the business of Salter Street for a two year period following the date such Principal ceases to be employed by Salter Street; and

(f) will refrain from competing with the business of Salter Street and/or soliciting any business from a client or account of Salter Street for a two year period

following the date such Principal ceases to be employed by Salter Street. In the fiscal year ended October 31, 2000, each of the Principals received a bonus of \$78,750.

18. The Employment Addenda provide, among other things, that, upon successful completion of the Amalgamation or the take-up of any Shares under the Offer:

(a) Michael Donovan will serve as the Chair of the board of directors of Amalco (the "Amalco Board") and, subject to certain regulatory approvals, of the board of directors of Independent Film Channel Canada Incorporated;

(b) Paul Donovan will serve as Vice-Chair of the Amalco Board;

(c) the term of each Employment Agreement will be extended to expire on April 1, 2004, subject to the right of each Principal to extend the term of his Employment Agreement until April 1, 2005;

(d) each Principal will receive an annual base salary (the "Base Salary") of \$250,000 (to be reviewed annually), plus a bonus of up to 50% of the Base Salary in accordance with Alliance Atlantis' usual bonus policies (the "Bonus");

(e) each Principal will be entitled to receive an incentive bonus in connection with any film or television production (each, a "Production") for which he acts as executive producer (an "Incentive Bonus"), payable annually, in an amount equal to the difference between:

(i) the greater of (A) 25% of any executive producer and corporate overhead fees for each Production for which he acts as executive producer and (B) 2.5% of the third party-financed portion of such Productions' budgets; and

(ii) the sum of the Base Salary and Bonus paid to the Principal in the preceding twelve month period;

(f) each Principal will be entitled to participate in any Alliance Atlantis stock option plan on the same basis as other senior executives of Alliance Atlantis or its subsidiaries;

(g) each Principal will be entitled to 90 days' notice plus payment of a lump sum equal to 1½ times his Base Salary if Salter Street or a successor corporation terminates his employment without cause;

(h) each Principal will be entitled to payment of a lump sum equal to two times his Base Salary if he resigns within 90 days of a change of control with respect to Alliance Atlantis, Salter Street or a successor to Salter Street;

(i) notwithstanding the termination of Michael Donovan's Employment Agreement for any reason, he will have the right to continue to act as executive producer for a particular production (the "Continuing Production") for so long as the Continuing Production continues to be produced and shall be entitled to receive compensation for continuing as executive producer of the Continuing Production equal to the greater of:

(i) 25% of the executive producer and corporate overhead fees for the Continuing Production;

(ii) 2.5% of the third party-financed portion of the budget for the Continuing Production; and

(iii) an annual fee of \$250,000;

(j) if Paul Donovan's Employment Agreement is terminated for any reason, he will have the right to purchase all of the right, title and interest to certain works he has written for a specified amount in certain circumstances; and

(k) if the Employment Addenda are terminated, for a period of twelve months from the date of such termination, neither Principal will engage in any business of the same nature as or of a similar nature to the business of Salter Street, nor will either Principal accept employment with, consult for or participate in the ownership or management of, any enterprise engaged in such business in Canada, other than as a shareholder where his holdings represent less than 5% of the outstanding shares.

19. The Principals of Salter Street are experienced individuals in the Canadian entertainment industry and have played an integral role in developing Salter Street's business interests. Since both Alliance Atlantis and Salter Street are engaged in the business of creating, developing, producing and exploiting filmed entertainment, their personnel represent an important part of their business. The Principals' talents are particularly important to the success of the productions with which they are involved. Salter Street has entered into the Employment Addenda and Alliance Atlantis has agreed to be bound by the Employment Addenda in order to ensure the Principals' continued employment during the period in which Salter Street's operations will be integrated with those of Alliance Atlantis and their ongoing participation in the creation and production of filmed entertainment. In particular, Alliance Atlantis believes that the Principals' continued support and management of Salter Street's operations is necessary in order to maintain Salter Street's operations in Halifax and retain senior management.

20. The terms of the Employment Addenda have been negotiated between Alliance Atlantis and the Principals on an arm's-length basis. The compensation arrangements contemplated by the Employment Addenda are reasonable in light of the services to be provided by each of the Principals and are consistent with market practice in the Canadian entertainment industry. The Employment Addenda are being entered into for business purposes unrelated to the Principals' ownership of Shares and not for the purpose of providing the Principals with greater

consideration for their Shares than the consideration that may be received by Shareholders other than the Principals in connection with the Offer or the Amalgamation.

21. But for the fact that the Employment Addenda have been entered into with the Principals in connection with the Amalgamation, the Amalgamation would not constitute a going private transaction within the meaning of the Legislation in Ontario and Quebec.

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers in the Jurisdictions under the Legislation, is that, in connection with the Offer, the Employment Addenda are being entered into for reasons other than to increase the value of the consideration paid to the Principals in respect of their Shares and may be entered into notwithstanding the Prohibition on Collateral Agreements.

DATED this 30th day of March, 2001.

"J. A. Geller"

"R. Stephen Paddon"

AND THE DECISION of the Decision Makers in Ontario and Quebec under the Legislation in Ontario and Quebec is that the Amalgamation shall not be subject to the GPT Requirements.

DATED this 27th day of March, 2001.

"Ralph H. Shay"  
Ralph Shay, Director  
Take-over/Issuer Bids, Mergers &  
Acquisitions