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March 8, 2005

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - Securities Rules s. 162(3) - Exemption from the requirement to include a formal valuation of the offeree issuer in an issuer bid circular - An issuer wants relief from the requirement to obtain a formal valuation in connection with an issuer bid for its outstanding securities - Although structured as an indirect issuer bid, the bid is an alternative way to continue the corporation to another jurisdiction - Shareholders who tender to the bid will have the same interest in the same underlying assets as before the take over bid

Securities Act s. 76 - Exemption from s. 61 requirement to file a prospectus in connection with a distribution - On behalf of its shareholders, an issuer wants relief from the prospectus requirements for first trades of securities the issuer issued in a share exchange takeover bid - The issuer will become a reporting issuer by filing a takeover bid circular, which will contain prospectus level disclosure about the issuer - Although structured as a takeover bid, the bid is alternative way for the issuer's parent to continue to another jurisdiction - Shareholders who tender to the bid will have the same interest in the same underlying assets as before the bid; as a result, the disclosure previously filed by the parent of the issuer is still relevant

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 61 & 76

Securities Rules, s. 162(2) and (3)

In the Matter of
the Securities Legislation
of British Columbia, Alberta, Manitoba, Ontario, Québec, and New Brunswick,
(the Jurisdictions)

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In the Matter of Delta Systems, Inc (the Filer)

MRRS Decision Document

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Background

The local securities regulatory authority or regulator (the “Decision Maker”) in each of the Jurisdictions has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the “Legislation”) that:

1. In all of the Jurisdictions other than New Brunswick, the requirement to obtain a formal valuation will not apply in connection with the proposed securities exchange take-over bid (the “Bid”) to be made by a wholly-owned subsidiary of the Filer (“New Delta”) for all of the issued and outstanding securities of the Filer (the “Valuation Relief”),
2. In Ontario and Quebec, the formal valuation requirement will not apply to the Filer’s proposed second step business combination (or going private transaction in Quebec) to be completed as a share consolidation (the “Second Step Relief”),
3. In all of the Jurisdictions other than Manitoba and Quebec, the prospectus requirement will not apply to the first trade of securities of New Delta received pursuant to the Bid, subject to certain conditions (the “Resale Relief”), and
4. In Ontario and Alberta, New Delta will be deemed to be a reporting issuer as of the date securities deposited under the Bid are first taken up and paid for by New Delta (the “Reporting Issuer Relief”).

Under the Mutual Reliance Review System for Exemptive Relief Applications

- (a) the Ontario Securities Commission (the “OSC”) is the principal regulator for this application, and
- (b) the MRRS decision document evidences the decision of each Decision Maker.

Interpretation

Defined terms contained in National Instrument 14-101 – *Definitions* have the same meaning in this decision unless they are defined in this decision.

Representations

This decision is based on the following facts represented by the Filer:

1. The Filer is a corporation incorporated under the laws of the State of Arkansas and is a reporting issuer in Ontario, British Columbia, Alberta and Québec. The Filer has securityholders resident in each of the Jurisdictions. None of the

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Filer's securities have been registered under the *United States Securities Act of 1933, as amended*. The Filer's headquarters are located in Rogers, Arkansas.

2. The Filer is authorized to issue 250,000,000 shares of common stock ("Shares") with a par value of US\$0.001 per share, of which 20,292,831 Shares are currently outstanding. The Filer also has outstanding options ("Options") granted under its employee stock option plan (the "Existing ESOP") to acquire up to 2,819,000 Shares and outstanding warrants ("Warrants") to acquire up to 2,805,693 Shares. The Shares are listed on Tier 2 of the TSX Venture Exchange (the "Exchange").
3. The board of directors of the Filer believes that the Filer's current structure imposes significant complexity and compliance costs, adversely affects trading in the Shares and acts as an impediment to its ability to efficiently raise capital for the following reasons:
 - (a) under United States securities laws, the Filer is a "domestic issuer" and U.S. persons face restrictions in purchasing Shares through the Exchange. These securities laws also impose additional compliance burdens on the Filer, including the legending of certificates and the use of a "s" suffix on the trading symbol of the Shares on the Exchange;
 - (b) pursuant to the *Income Tax Act* (Canada), the Shares are considered "foreign content" for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans (collectively, "Plans") in Canada; and
 - (c) in accordance with Arkansas corporate law, the Filer prepares and issues its financial statements in accordance with United States generally accepted accounting principles and, in accordance with applicable Canadian securities laws, reconciles these financial statements to Canadian generally accepted accounting principles.
4. The board of directors of the Filer has determined that it is in the best interests of the Filer and its securityholders to cause the Filer to reorganize and re-domicile itself under the laws of Canada so that (a) New Delta will be considered a "foreign private issuer" for purposes of United States securities laws, (b) the securities of New Delta are not considered "foreign content" for trusts governed by Plans, and (c) New Delta can prepare and issue its financial statements under Canadian generally accepted accounting principles.
5. Although a continuance under the *Canada Business Corporations Act* could accomplish the Filer's objectives, it would not be desirable in these

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circumstances because a continuance will have significant adverse tax consequences to the Filer.

6. The Filer proposes to incorporate a new wholly-owned subsidiary under the *Canada Business Corporations Act* with authorized capital consisting of one special share (the “Special Share”), an unlimited number of common shares (“New Shares”) and an unlimited number of preference shares issuable in series. The Special Share will be a voting share that will be automatically redeemed for a nominal amount concurrently with the issuance of any New Shares. The Special Share will be issued to the Filer immediately after incorporation. The directors and officers of New Delta will be identical to the directors and officers of the Filer.
7. New Delta will prepare and mail a securities exchange take-over bid circular (the “TOB Circular”) to all securityholders of the Filer offering to purchase (the “Bid”) each outstanding Share, Option and Warrant held by them. The consideration offered by New Delta under the Bid for each:
 - (a) Share will consist of one New Share;
 - (b) Option will consist of an option (a “New Option”) to acquire an equivalent number of New Shares pursuant to an employee stock option plan to be established by New Delta on substantially the same terms and conditions as the Existing ESOP; and
 - (c) Warrant will consist of a warrant (a “New Warrant”) to acquire an equivalent number of New Shares on substantially the same terms and conditions as the certificate representing the Warrant.
8. The TOB Circular will include the information prescribed by the Issuer Bid Circular and Take-over Bid Circular forms prescribed by the Legislation, modified as appropriate, and the information required by the form of prospectus applicable to the Filer and New Delta, including:
 - (a) a *pro forma* balance sheet and income statement of New Delta after giving effect to the exchange of securities as at the date of the most recent balance sheet of New Delta that is included in the TOB Circular based on the information in the most recent audited financial statements of the Filer;
 - (b) a description of the basis of preparation of the *pro forma* financial statements; and

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- (c) the basic and fully-diluted (if applicable) earnings per share based on the *pro forma* financial statements.
9. The board of directors of the Filer will prepare and mail a directors' circular to all securityholders of the Filer concurrently with the preparation and mailing of the TOB Circular.
 10. One of the conditions of the Bid will be that securityholders of the Filer holding in excess of 99% of the outstanding Shares (on a fully-diluted basis) tender their securities to the Bid (the "Minimum Tender Condition").
 11. Following the expiry of the Bid, New Delta will take up and pay for the Shares, Options and Warrants and issue New Shares, New Options and New Warrants, respectively, if the Minimum Tender Condition is met or waived by New Delta.
 12. Contemporaneously with the issuance of the New Shares in exchange for the Shares, the Special Share will automatically be redeemed for a nominal amount in accordance with its terms.
 13. New Delta has received conditional approval of the Exchange for a substitutional listing of the New Shares (including any New Shares issuable on the exercise of the New Options or the New Warrants). At the time of the listing of the New Shares, the Shares will cease to be listed on the Exchange.
 14. When New Delta first takes up and pays for securities under the Bid, New Delta will become a reporting issuer in Quebec and British Columbia.
 15. Following the expiry of the Bid, the Filer will hold a special meeting (the "Special Meeting") of its shareholders to approve a consolidation of the Shares (the "Consolidation"). Immediately following the Special Meeting, the Shares will be consolidated by filing articles of amendment pursuant to the *Arkansas Business Corporation Act of 1987* (the "Arkansas Act").
 16. The only securityholders of the Filer at the time of the Special Meeting will be New Delta and those persons that did not tender to the Bid. Pursuant to the Consolidation, the total number of outstanding Shares will be changed to the number obtained by dividing (a) the number of Shares outstanding on the date of the Special Meeting, by (b) the number of Shares held by New Delta. As a result of the Consolidation, New Delta will own 1 Share and all other securityholders will own fractional interests in a Share.

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17. In lieu of receiving fractional Shares, each holder of a fractional interest will receive an amount in cash or other immediately available funds equal to the number of Shares the holder owned immediately prior to the Consolidation multiplied by the weighted average closing price of the Shares on the Exchange over the 10 trading days immediately preceding the expiry of the Bid (including any extensions). The Arkansas Act requires Delta to pay in money the value of fractions of a Share.
18. The implementation of the Consolidation will entitle holders of Shares to dissent rights under the Filer's governing corporate statute, the Arkansas Act. If the Consolidation becomes effective and a holder of Shares properly dissents in accordance with the Arkansas Act, the shareholder will be entitled to be paid by the Filer the fair value of the Shares held by that shareholder.
19. Upon completion of the proposed transactions, the current securityholders of the Filer (other than those that dissent under the Arkansas Act or that are paid cash pursuant to paragraph 18 above) will become securityholders of New Delta and the Filer will be a wholly-owned subsidiary of New Delta.
20. The Filer will then apply to cease to be a reporting issuer, or will voluntarily surrender its reporting issuer status, in all Jurisdictions.

Decision

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:

1. in all of the Jurisdictions other than New Brunswick, under the applicable Legislation is that the Valuation Relief is granted, and
2. in Ontario and Quebec under the applicable Legislation is that the Second Step Relief is granted.

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

The further decision of the Decision Makers is that:

3. the Resale Relief is granted in all of the Jurisdictions other than Manitoba and Quebec under the applicable Legislation provided that on the date of the trade,

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- (a) New Delta is a reporting issuer in a jurisdiction of Canada,
 - (b) no unusual effort is made to prepare the market or to create a demand for the security that is the subject of the trade,
 - (c) the trade is not a control distribution as defined in Multilateral Instrument 45-102 – *Resale of Securities*,
 - (d) no extraordinary commission or consideration is paid to a person or company in respect of the trade, and
 - (e) if the selling security holder is an insider or officer of New Delta, the selling security holder has no reasonable grounds to believe that New Delta is in default of securities legislation, and
4. in Ontario and Alberta under the applicable Legislation is that the Reporting Issuer Relief is granted.

Paul Moore
Ontario Securities Commission

Lorne Morphy
Ontario Securities Commission