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Headnote

Mutual Reliance Review System for Exemptive Relief Applications – National Instrument 51-102, s. 13.1 – Relief from requirement in item 14 of Form 51-102F5 - An issuer wants relief from the requirement to include financial statements that are accompanied by an auditors' report without reservation of opinion in an information circular to be circulated in connection with an arrangement or reorganization - The financial statements that are subject to a reservation of opinion are not for the issuer's most recently completed financial year; the financial statements in the information circular will refer to the reservation of opinion for the earlier financial statements but will indicate that the reference relates only to the comparative figures.

Applicable British Columbia Provisions

National Instrument 51-102 *Continuous Disclosure Obligations*

IN THE MATTER OF THE SECURITIES LEGISLATION OF ALBERTA, BRITISH COLUMBIA, SASKATCHEWAN AND ONTARIO

AND

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

AND

IN THE MATTER OF PELORUS NAVIGATION SYSTEMS INC.

MRRS DECISION DOCUMENT

1. WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of the provinces of Alberta, British Columbia, Saskatchewan and Ontario (the "Jurisdictions") has received an application from Pelorus Navigation Systems Inc. ("Pelorus" or the "Corporation") for a decision under the securities legislation of the Jurisdictions (the "Legislation") exempting the Corporation from the requirement under the Legislation to include in the Corporation's information circular dated August 23, 2004 (the "Information Circular") financial statements which are accompanied by an auditors' report without a reservation of opinion.
2. AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the "System") the Alberta Securities Commission (the "ASC") is the principal regulator for this application;

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3. AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 – Definitions.
4. AND WHEREAS Pelorus has represented to the Decision Maker that:
 - 4.1. The Corporation was incorporated pursuant to the Companies Act (Alberta) on June 8, 1981. The Corporation was continued by Articles of Continuance issued pursuant to the Business Corporations Act (Alberta) on June 16, 1983.
 - 4.2. Pelorus' common shares are currently listed on the NEX Board of the TSX Venture Exchange (the “Exchange”).
 - 4.3. Pelorus' head and registered office is located at 5418 - 11th Street N.E., Calgary.
 - 4.4. The Corporation's authorized share capital consists of an unlimited number of common shares, an unlimited number of first preferred shares issuable in series and an unlimited number of second preferred shares issuable in series, without nominal or par value, of which as at August 23, 2004, there were 17,909,677 Common Shares and no preferred shares are issued and outstanding.
 - 4.5. Pelorus is, and has been for the more than one year, a reporting issuer under the Legislation and, to the knowledge of the Corporation, it is not in default of any of the requirements under such Legislation.
 - 4.6. On March 23, 2003 the Corporation was placed in receivership as a result of defaulting on payments to certain debenture holders and a receiver (the “Receiver”) was appointed. The Corporation concluded at that time that there were no immediate prospects of securing sufficient capital to continue operations. Prior to that date all employees of the Corporation were terminated, with the last of the employees being terminated by February 28, 2003. At the time the Receiver was appointed, there were no employees of the Corporation.
 - 4.7. Effective March 25, 2003, the entire Board of the Corporation resigned. From that date forward, there was no one involved with the operations of the Corporation other than the Receiver until after the Corporation's August 19, 2003 annual general meeting. The

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Receiver had complete control of Pelorus until it was discharged on May 27, 2003.

- 4.8. On June 12, 2003 the Alberta Court of Queen's Bench issued an Order authorizing North West Geomatics Ltd. ("NWGL") to arrange for the production of the May 31, 2003 annual financial statements (the '2003 Financials') and to instruct the Corporation's auditors, BDO Dunwoody LLP ("BDO") with regard to work related thereto.
- 4.9. BDO was unable to provide an unqualified opinion in its report on the 2003 Financials because (i) there was no management of the Corporation in place as at May 31, 2003 (Management resigned in March 2003 and the Receiver was discharged on May 27, 2003) and management and NWGL were only able to provide limited representations due to the appointment of the Receiver; (ii) BDO did not have access to the accounting records of the Corporation's Australian subsidiary that was operational for part of the 2003 fiscal year.
- 4.10. The 2003 Financials were filed on August 1, 2003 with a reservation of opinion and accepted for continuous disclosure purposes by the ASC.
- 4.11. In March 2004, the Corporation announced it had entered into agreements with two oil and gas companies pursuant to which the Corporation agreed to acquire certain petroleum and natural gas assets (the "Acquisitions"), to repay certain debenture holders (the "Debenture Repayment") and to complete two private placements as a means of raising capital to finance the Acquisitions (the "Private Placements"). The Acquisitions, the Debenture Repayment and the Private Placements are part of a reactivation transaction ("Reactivation Transaction") of the Corporation pursuant to which the Corporation intends to carry on business as an oil and gas company.
- 4.12. On July 23, 2004, the Corporation called the Meeting, the primary purpose of which is to obtain the approval of the Corporation's shareholders of the Reactivation Transaction.
- 4.13. The basis for the reservation in the audit report to the 2003 Financials is the absence of management of the Corporation for a brief period in 2003 and the lack of access to the Australian

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subsidiary's accounting records. The Australian subsidiary was sold in 2003. This absence was a result of the Corporation being placed under receivership and, for all intents and purposes, discontinuing the business it was previously engaged in. This situation is not likely to recur.

- 4.14. All subsidiaries of the Corporation and their primary operating assets were sold during 2003 and the Corporation ceased to conduct business in the aviation industry prior to May 31, 2003. The intended business of the Corporation going forward is in the oil and gas industry. As such, the reservation of opinion in the 2003 Financials should not be relevant to the decision of the shareholders of the Corporation to vote for or against the Reactivation Transaction at the Meeting.
- 4.15. The Reactivation Transaction must be approved by the Corporation at the Meeting for the Corporation to successfully continue as a going concern. The Corporation will not be able to put the Reactivation Transaction to a vote unless the relief sought hereunder is granted.
5. AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");
6. AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provided the Decision Maker with the jurisdiction to make the decision has been met;

THE DECISION of the Decision Makers under the Legislation is that the requirement in the Legislation to include in the Information Circular financial statements which are accompanied by an auditors' report without a reservation of opinion shall not apply to the May 31, 2003 financial statements for Pelorus.

DATED this 28th day of September, 2004.

Agnes Lau, CA
Deputy Director, Capital Markets