

IN THE MATTER OF
THE SECURITIES LEGISLATION OF ALBERTA, BRITISH COLUMBIA,
MANITOBA, NEW BRUNSWICK, NEWFOUNDLAND, NOVA SCOTIA, ONTARIO,
PRINCE EDWARD ISLAND, QUEBEC AND SASKATCHEWAN

AND

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

AND

IN THE MATTER OF PHOTON DYNAMICS, INC., PHOTON DYNAMICS NOVA
SCOTIA COMPANY AND IMAGE PROCESSING SYSTEMS INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the ADecision Maker@) in each of Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland, Nova Scotia, Ontario, Prince Edward Island, Quebec and Saskatchewan (collectively, the AJurisdictions@) has received an application from Photon Dynamics, Inc. (APhoton@), Photon Nova Scotia Company (APhoton ULC@) and Image Processing Systems Inc. (AIPS@) (collectively, the AFiler@) for a decision under the securities legislation, regulations and/or rules of the Jurisdictions (the ALegislation@) that:

- a. the requirements contained in the Legislation to be registered to trade in a security and to file a preliminary prospectus and a prospectus and receive receipts therefor prior to distributing a security (the ARegistration and Prospectus Requirements@) shall not apply to certain trades of securities in connection with the proposed reorganization of the capital structure of IPS by way of plan of arrangement (the APlan of Arrangement@) and the simultaneous acquisition by Photon ULC, a wholly-owned subsidiary of Photon, of certain securities of IPS (the ATransaction@);
- b. the requirements contained in the Legislation requiring IPS to issue a press release and file a report regarding material changes (the AMaterial Change Reporting Requirements@), to file an annual report (where applicable), to file and deliver interim and annual financial statements and to file an information circular (collectively with the Material Change Reporting Requirements, the AContinuous Disclosure Requirements@) shall not apply to IPS; and

- c. the requirement contained in the Legislation for an insider of a reporting issuer to file reports disclosing the insider's direct or indirect beneficial ownership of, or control or direction over, securities of the reporting issuer (the *Insider Reporting Requirements*) shall not apply to each insider of IPS;

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

AND WHEREAS the Filer has represented to the Decision Makers that:

1. Photon was incorporated in the State of California on May 12, 1986. Photon is subject to the reporting requirements of the *United States Securities Exchange Act of 1934*, as amended. Photon is not currently a reporting issuer or the equivalent in any province or territory of Canada, will not become a reporting issuer or the equivalent by virtue of the Transaction and does not intend to become a reporting issuer or the equivalent in any province or territory of Canada after the completion of the Transaction.
2. Photon's authorized capital consists of 20,000,000 shares of common stock, no par value (the *Photon Common Shares*) and 5,000,000 shares of preferred stock, no par value. As of July 31, 2000, there were 11,720,470 Photon Common Shares and no preferred shares issued and outstanding. As part of the Transaction, Photon will issue one share of Series A preferred stock (the *Special Voting Share*) to a trustee (the *Trustee*) in accordance with the Exchange Agreement (as defined below in paragraph 19).
3. The Photon Common Shares trade on the Nasdaq National Market (the *NASDAQ*). Photon will make applications as required to the NASDAQ to list the additional Photon Common Shares issuable from time to time in connection with the Transaction.
4. Photon ULC is a wholly-owned subsidiary of Photon which was incorporated under the laws of the Province of Nova Scotia as an unlimited liability company on September 26, 2000. Photon ULC was incorporated as a vehicle to hold all of the IPS Common Shares which will be outstanding after the effective time of the completion of the Transaction (the *Effective Time*) and to hold the various call rights related to the Exchangeable Shares. Photon ULC's only material asset upon completion of the Transaction will be the issued and outstanding IPS Common Share.

5. IPS is a corporation incorporated pursuant to the *Business Corporations Act* (Ontario) on April 8, 1988. Its authorized capital currently consists of an unlimited number of common shares (the AIPS Common Shares@). As at September 30, 2000, there were 25,286,253 IPS Common Shares issued and outstanding. As at September 30, 2000 there were outstanding warrants to purchase up to 476,191 IPS Common Shares (the AIPS Warrants@) and options to purchase up to 2,826,495 IPS Common Shares (the AIPS Options@).
6. IPS is a reporting issuer or the equivalent in each of the Jurisdictions and the IPS Common Shares trade on the Toronto Stock Exchange (the ATSE@).
7. Pursuant to an Acquisition Agreement for Plan of Arrangement (the AAcquisition Agreement@) made as of September 27, 2000 between Photon, Photon ULC and IPS, the acquisition of IPS by Photon is intended to occur in a sequence of transactions that effectively converts all of IPS's existing outstanding securities into Exchangeable Shares which will be exchangeable for Photon Common Shares.
8. Pursuant to the Acquisition Agreement and prior to the closing of the Transaction, a special meeting (the AMeeting@) of the shareholders of IPS will be held in accordance with an interim order of the Ontario Superior Court of Justice whereby such shareholders will be asked to pass certain resolutions approving the arrangement (the AArrangement@) and authorizing the filing of articles of arrangement (the AArticles of Arrangement@).
9. In connection with the Meeting, IPS will mail to each shareholder (i) a notice of special meeting, (ii) a form of proxy, (iii) the text of the special resolution approving the Arrangement and (iv) an information circular (the ACircular@) containing prospectus level disclosure regarding the Transaction, each shareholder's dissent rights, the Arrangement, and the characteristics of the Exchangeable Shares and the Photon Common Shares.
10. Pursuant to the terms of the Plan of Arrangement, commencing at the Effective Time, the following events will occur:
 - (1) the filing of the Articles of Arrangement will create (i) a new class of voting, convertible preferred shares designated as "preferred shares" (the "IPS Preferred Shares"); and (ii) a new class of shares designated as "exchangeable shares" (the "Exchangeable Shares");
 - (2) Photon ULC will subscribe for one IPS Preferred Share for \$1.00;

- (3) each outstanding IPS Common Share held by a shareholder (other than IPS Common Shares held by a shareholder who exercises its dissent rights and is ultimately entitled to be paid the fair value of its IPS Common Shares) will be automatically converted into Exchangeable Shares on the basis of the Exchange Ratio (as such term is defined in the Acquisition Agreement);
 - (4) Photon ULC will convert its IPS Preferred Share into one IPS Common Share. At such time, Photon ULC will be the only holder of IPS Common Shares;
 - (5) each IPS Option will be assumed by Photon and each such IPS Option previously outstanding shall then represent an option to acquire Photon Common Shares (the "Photon Options") provided that the number of Photon Common Shares that may be acquired and the strike price for each Photon Option will be adjusted on the basis of the Exchange Ratio (and after giving effect to currency conversions);
 - (6) each IPS Warrant will be converted into warrants ("Replacement Warrants") to acquire Exchangeable Shares on the basis of the Exchange Ratio; and
 - (7) Photon will issue and deposit the Special Voting Share with the Trustee in accordance with the Exchange Agreement (described below).
11. Each Exchangeable Share, together with the Exchange Agreement and Support Agreement described below, will provide holders thereof with a security of a Canadian issuer having economic attributes which are substantially equivalent, in all material respects, to those of a Photon Common Share. Exchangeable Shares will be received by holders of IPS Common Shares on a Canadian tax-deferred, roll-over basis. The Exchangeable Shares will be exchangeable by a holder thereof for Photon Common Shares on a one-for-one basis (subject to certain adjustments) at any time at the option of such holder and will be required to be exchanged upon the occurrence of certain events, as more fully described below. Dividends will be payable on the Exchangeable Shares contemporaneously and in the equivalent amount per share as dividends on the Photon Common Shares.
12. The Exchangeable Shares will rank senior to the IPS Common Shares and the IPS Preferred Shares, in respect of the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of IPS. The rights, privileges, restrictions and conditions attaching to the Exchangeable Shares (the "Exchangeable Share Provisions") will provide that each Exchangeable Share will entitle the holder to dividends from IPS payable at the same time as, and economically equivalent to, each

dividend paid by Photon on Photon Common Shares. Subject to the Liquidation Call Right of Photon ULC (described below in this paragraph), on the liquidation, dissolution or winding-up of IPS, a holder of Exchangeable Shares will be entitled to receive from IPS for each Exchangeable Share held an amount equal to the then current market price of a Photon Common Share, to be satisfied by delivery of one Photon Common Share (subject to adjustment), together with, on the designated payment date therefor and to the extent not already paid by IPS on a dividend payment date, all declared and unpaid dividends on each such Exchangeable Share (such aggregate amount, the **ALiquidation Amount**). Upon a proposed liquidation, dissolution or winding-up of IPS, Photon ULC will have an overriding call right (the **ALiquidation Call Right**) to purchase all of the outstanding Exchangeable Shares from the holders thereof (other than Photon or its affiliates) for a price per share equal to the Liquidation Amount.

13. The Exchangeable Shares will be non-voting (except as required by the Exchangeable Share Provisions or by applicable law) and will be retractable at the option of the holder at any time. Subject to the Retraction Call Right of Photon ULC (described below in this paragraph), upon retraction the holder will be entitled to receive from IPS for each Exchangeable Share retracted an amount equal to the then current market price of a Photon Common Share, to be satisfied by delivery of one Photon Common Share (subject to adjustment), together with, on the designated payment date therefor and to the extent not already paid by IPS on a dividend payment date, all declared and unpaid dividends on each such retracted Exchangeable Share (such aggregate amount, the **ARetracton Price**). Upon being notified by IPS of a proposed retraction of Exchangeable Shares, Photon ULC will have an overriding call right (the **ARetracton Call Right**) to purchase from the holder all of the Exchangeable Shares that are the subject of the retraction notice for a price per share equal to the Retraction Price.
14. Subject to the Redemption Call Right of Photon ULC (described below in this paragraph), IPS shall redeem all the Exchangeable Shares then outstanding on the date which is five years from the Effective Date (the **AAutomatic Redemption Date**). The board of directors of IPS may accelerate the Automatic Redemption Date in certain circumstances, as described in the Exchangeable Share Provisions, including if there are fewer than 10% of the number of Exchangeable Shares issued as a result of the Arrangement outstanding (other than Exchangeable Shares held by Photon and its affiliates, and as such number of shares may be adjusted as deemed appropriate by the board of directors to give effect to any subdivision or consolidation of or stock dividend on the Exchangeable Shares, any issue or distribution of rights to acquire Exchangeable Shares or securities exchangeable for or convertible into Exchangeable Shares, any issue or distribution of other securities or rights or evidences of indebtedness or assets, or any other capital reorganization or other transaction affecting the Exchangeable Shares). Upon

such redemption, a holder will be entitled to receive from IPS for each Exchangeable Share redeemed, an amount equal to the then current market price of a Photon Common Share on the last business day prior to the Automatic Redemption Date, to be satisfied by the delivery of one Photon Common Share (subject to adjustment), together with, to the extent not already paid by IPS on a dividend payment date, all declared and unpaid dividends on each such redeemed Exchangeable Share (such aggregate amount, the ARedemption Price®). Upon being notified by IPS, of a proposed redemption of Exchangeable Shares, Photon ULC will have an overriding call right (the ARedemption Call Right®) to purchase from the holders all of the outstanding Exchangeable Shares (other than Photon or its affiliates) for a price per share equal to the Redemption Price.

15. Upon the liquidation, dissolution or winding-up of Photon, the Exchangeable Shares will be automatically exchanged for Photon Common Shares pursuant to the Exchange Agreement (described below), in order that holders of Exchangeable Shares may participate in the dissolution of Photon on the same basis as holders of Photon Common Shares. Upon the insolvency of IPS, holders of Exchangeable Shares may put their shares to Photon in exchange for Photon Common Shares, pursuant to the Exchange Right described in greater detail below.
16. The Special Voting Share will be authorized for issuance pursuant to the Acquisition Agreement and will be issued under the Exchange Agreement (described in paragraph 19 below) to the Trustee for the benefit of the holders of the Exchangeable Shares outstanding from time to time (other than Photon and its affiliates). The Special Voting Share will carry a number of voting rights, exercisable at any meeting of the holders of Photon Common Shares, equal to the number of Exchangeable Shares outstanding from time to time (that are not owned by Photon and its affiliates). The holders of the Photon Common Shares and the holder of the Photon Special Voting Share will vote together as a single class on all matters. Holders of Exchangeable Shares will exercise the voting rights attached to the Photon Special Voting Share through the mechanism of the Exchange Agreement. Each voting right attached to the Special Voting Share must be voted by the Trustee pursuant to the instructions of the holder of the related Exchangeable Share. In the absence of any such instructions from a holder, the Trustee will not be entitled to exercise any voting rights.
17. Upon the exchange of all of a holder's Exchangeable Shares for Photon Common Shares, all rights of the holder of Exchangeable Shares to exercise votes attached to the Special Voting Share will cease.
18. In order to assist non-residents of Canada in exchanging their Exchangeable Shares without having to deliver a certificate under section 116 of the *Income Tax Act*

(Canada), the Exchangeable Shares will be listed on the TSE for two or three trading days following the Effective Date. However, the Exchangeable Shares are generally non-transferrable. In the event that, on or prior to the Automatic Redemption Date, any holder of Exchangeable Shares notifies IPS that such holder desires to (i) transfer or otherwise attempts to transfer any such shares to any other person or entity or (ii) vote against or dissent from any resolution other than a matter which would have an adverse affect on the attributes of the Exchangeable Shares (any such notification or attempt, a **ATransfer/Dissent Attempt**), then such holder shall, by such action, be deemed to have made a Retraction Request and the sole right of the transferee in respect of such shares shall be to receive the Photon Common Shares and dividends to which such person is entitled as a result of the Retraction Request.

19. Contemporaneously with the closing of the Transaction, Photon, Photon ULC, IPS and the Trustee will enter into an exchange agreement (the **AExchange Agreement**). Under the Exchange Agreement, Photon will grant to the Trustee, as trustee for and on behalf of the holders of the Exchangeable Shares, a put right (the **AExchange Right**), exercisable upon the insolvency or bankruptcy of IPS or Photon, to require Photon to purchase from a holder of Exchangeable Shares all or any part of its Exchangeable Shares. The purchase price for each Exchangeable Share purchased by Photon will be an amount equal to the then current market price of a Photon Common Share, to be satisfied by the delivery to the holder, of one Photon Common Share (subject to adjustment), together with an additional amount equivalent to the full amount of all declared and unpaid dividends on such Exchangeable Share.
20. Under the Exchange Agreement, upon the liquidation, dissolution or winding-up of Photon, Photon will be required to purchase each outstanding Exchangeable Share, and each holder will be required to sell all of its Exchangeable Shares (such purchase and sale obligations are hereafter referred to as the **AAutomatic Exchange Right**), for a purchase price per share equal to the then current market price of a Photon Common Share, to be satisfied by the delivery to the holder of one Photon Common Share (subject to adjustment), together with an additional amount equivalent to the full amount of all declared and unpaid dividends on each such Exchangeable Share.
21. Contemporaneously with the closing of the Transaction, Photon, Photon ULC and IPS will enter into a Support Agreement which will provide that Photon will not declare or pay any dividend on the Photon Common Shares unless IPS simultaneously declares and pays an economically equivalent dividend on the Exchangeable Shares and that Photon will ensure that IPS and Photon ULC will be able to honour the redemption and retraction rights and dissolution entitlements that are attributes of the Exchangeable Shares under

the Exchangeable Share Provisions and the related Redemption, Retraction and Liquidation Call Rights described above.

22. The Support Agreement will also provide that if Photon makes any changes to the Photon Common Shares (e.g., subdivision, consolidation or reclassification), then the Exchangeable Shares are automatically adjusted such that the holders of such Exchangeable Shares will receive, upon exercise of their Exchangeable Shares, the same number of Photon Common Shares and other consideration that they would have received had they exchanged their Exchangeable Shares immediately prior to the effective date or record date of such event.
23. The steps under the Transaction and the attributes of the Exchangeable Shares contained in the Exchangeable Share Provisions, the Support Agreement and the Exchange Agreement as described above involve or may involve a number of trades of securities (the ATrades®) and there may be no registration and prospectus exemptions available under the Legislation for certain of the Trades.
24. The fundamental investment decision to be made by an IPS shareholder is made at the time of the Transaction, when such holder votes in favour of the special resolution approving the Arrangement. As a result of this decision, a holder receives Exchangeable Shares in exchange for its IPS Common Shares. As the Exchangeable Shares will provide certain Canadian tax benefits to certain Canadian holders but will otherwise be the economic equivalent in all material respects to the Photon Common Shares, all subsequent exchanges of Exchangeable Shares are in furtherance of the holder's initial investment decision to acquire Exchangeable Shares on the closing of the Transaction.
25. If not for income tax considerations, Canadian holders of IPS Common Shares could have received Photon Common Shares without receiving Exchangeable Shares. The receipt of Exchangeable Shares under the Transaction will enable certain holders of IPS Common Shares to defer Canadian income tax.
26. As a result of the economic and voting equivalency between the Exchangeable Shares and the Photon Common Shares, holders of Exchangeable Shares will have a participating interest determined by reference to Photon, rather than IPS; accordingly it is the information relating to Photon, not IPS, that will be relevant to holders of both the Photon Common Shares and the Exchangeable Shares. Certain information required to be provided in respect of IPS as a reporting issuer under the Legislation would not be relevant to the holders of the Exchangeable Shares.

27. All disclosure material furnished to the holders of Photon Common Shares in the United States will be provided to the holders of Photon Common Shares, Exchangeable Shares and Replacement Warrants resident in Canada.
28. The Circular discloses that, in connection with the Arrangement, applications have been made for exemptions from disclosure and insider reporting obligations; the Circular specifies the disclosure requirements from which IPS has applied to be exempted and identifies the disclosure that will be made in substitution therefor if such exemptions are granted.
29. Upon completion of the Transaction, Canadian shareholders will hold less than 10% of the issued and outstanding Photon Common Shares and will represent in number less than 10% of the total number of holders of Photon Common Shares.
30. There is currently no market in Canada for the Photon Common Shares and none is expected to develop.

AND WHEREAS under to the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the ~~A~~Decision@);

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 under the Legislation is:

1. the Registration and Prospectus Requirements shall not apply to the Trades, provided that:
 - 1.1 the first trade in the Exchangeable Shares or Replacement Warrants acquired pursuant to this Decision in a Jurisdiction shall be deemed a distribution or a primary distribution to the public under the Legislation of such Jurisdiction (the "Applicable Legislation") (other than such first trades which are Trades or which are exempted under the Applicable Legislation), unless:
 - (a) at the time of the first trade, IPS is a reporting issuer or the equivalent under the Applicable Legislation or where the Applicable Legislation does not recognize the status of a reporting issuer, the requirements described in paragraph two below are met;

- (b) no unusual effort is made to prepare the market or to create a demand for the Exchangeable Shares or Replacement Warrants;
- (c) no extraordinary commission or consideration is paid to a person or company in respect of the trade;
- (d) if the seller of the Exchangeable Shares or Replacement Warrants is an insider or officer of IPS the seller has no reasonable grounds to believe that IPS is in default of any requirement of the Applicable Legislation; and
- (e) except in Quebec, the first trade is not from the holdings of a person or company or a combination of persons or companies holding a sufficient number of any securities of IPS so as to affect materially the control of IPS or more than 20% of the outstanding voting securities of IPS, except where there is evidence showing that the holding of those securities does not affect materially the control of IPS, unless:
 - (i) if applicable, IPS is a reporting issuer or the equivalent under the Applicable Legislation and is not in default of any requirement thereof;
 - (ii) the seller files with the applicable Decision Maker(s) and any other stock exchange recognized by such Decision Maker(s) for this purpose on which the Exchangeable Shares or Replacement Warrants, as applicable, are listed at least seven days and not more than fourteen days prior to such first trade:
 - (A) a notice of intention to sell in the form prescribed by the Applicable Legislation for control block distributions (the **Control Block Rules**) disclosing particulars of the control position known to the seller, the number of Exchangeable Shares or Replacement Warrants to be sold and the method of distribution; and
 - (B) a declaration signed by the seller as at a date not more than twenty-four hours prior to its filing and prepared and executed in accordance with the Control Block Rules and certified as follows:

The seller for whose account the securities to which this certificate relates are to be sold hereby represents that the seller has no knowledge of any material change which has occurred in the affairs of the issuer of the securities which has not been generally disclosed and reported to the securities regulatory authority in the Jurisdiction where the trade takes place, nor has the seller any knowledge of any other material adverse information in regard to the current and prospective operations of the issuer which have not been generally disclosed@,

provided that the notice required to be filed under section 1.1(e)(ii)(A) and the declaration required to be filed under section 1.1(e)(ii)(B) shall be renewed and filed at the end of sixty days after the original date of filing and thereafter at the end of each twenty-eight day period so long as any of the Exchangeable Shares or Replacement Warrants specified under the original notice have not been sold or until notice has been filed that the Exchangeable Shares or Replacement Warrants so specified or any part thereof are no longer for sale;

- (iii) the seller files with the applicable Decision Maker(s) within three days after the completion of any such first trade, a report of the trade in the form prescribed by the Applicable Legislation
;
- (iv) no unusual effort is made to prepare the market or to create a demand for the Exchangeable Shares or Replacement Warrants and no extraordinary commission or other consideration is paid in respect of such first trade; and
- (v) the seller (or affiliated entity) has held the Exchangeable Shares, Replacement Warrants, and/or Photon Common Shares, in the aggregate, for a period of at least six months, provided that if:
 - (A) the Applicable Legislation provides that upon a seller to whom the Control Block Rules apply acquiring additional securities of a class pursuant to certain

prescribed exemptions from prospectus requirements under such legislation, all securities of such class are subject to a hold period commencing the date the last security of the class was acquired under such prescribed exemptions; and

- (B) the seller acquires Exchangeable Shares or Replacement Warrants pursuant to any such prescribed exemptions;

then all Exchangeable Shares or Replacement Warrants, as applicable, held by the seller will be subject to such hold period commencing on the date any such subsequent Exchangeable Shares or Replacement Warrants are so acquired; and

- 1.2 the first trade in Photon Common Shares or Photon Options acquired pursuant to one of the Trades (other than a first trade of Photon Common Shares or Photon Options that is a Trade) in a Jurisdiction shall be deemed a distribution or primary distribution to the public under the Legislation of the Applicable Jurisdiction unless such first trade is executed on an exchange or market outside Canada.

- 2. the Continuous Disclosure Requirements shall not apply to IPS for as long as:

- (a) Photon sends to all holders of Exchangeable Shares and Replacement Warrants resident in Canada all disclosure material furnished to holders of Photon Common Shares resident in the United States, including, without limitation, copies of its annual financial statements and all proxy solicitation materials prepared in connection with Photon's shareholder meetings;
- (b) Photon files with the Decision Makers copies of all documents required to be filed by it with the United States Securities and Exchange Commission under the *United States Securities Exchange Act of 1934*, as amended, including without limitation, copies of any Form 10-K, Form 10-Q, Form 8-K and proxy solicitation materials prepared in connection with Photon's shareholders' meetings;
- (c) Photon complies with the requirements of the NASDAQ in respect of making public disclosure of material information on a timely basis and forthwith issues in

Canada and files with the Decision Makers any press release that discloses a material change in Photon's affairs;

- (d) IPS complies with the Material Change Reporting Requirements in respect of material changes in the affairs of IPS that would be material to holders of Exchangeable Shares or Replacement Warrants, but not holders of Photon Common Shares;
 - (e) prior to or coincident with the distribution of the Exchangeable Shares, Photon causes IPS to provide to each recipient or proposed recipient of Exchangeable Shares or Replacement Warrants resident in Canada a statement that, as a consequence of this Decision, IPS and its insiders will be exempt from certain disclosure requirements in Canada applicable to reporting issuers and their insiders and specifying those requirements IPS and its insiders have been exempted from and identifying the disclosure that will be made in substitution therefor (which may be satisfied by the inclusion of such a statement in the Circular);
 - (f) Photon includes in all future mailings of proxy solicitation materials to holders of Exchangeable Shares a clear and concise statement explaining the reason for the mailed material being solely in relation to Photon and not in relation to IPS, such statement to include a reference to the economic equivalency between the Exchangeable Shares and the Photon Common Shares and the right to direct voting at Photon's stockholders' meetings pursuant to the Exchange Agreement;
 - (g) Photon remains the direct or indirect beneficial owner of all the issued and outstanding common shares of IPS; and
 - (h) IPS has not issued any securities to the public other than the Exchangeable Shares.
3. The Insider Reporting Requirements shall not apply to insiders of IPS in respect of securities of IPS provided such insider:
- (a) does not receive, in the ordinary course, information as to material facts or material changes concerning Photon before the material facts or material changes are generally disclosed;
 - (b) is not a director or senior officer of a significant subsidiary of Photon as defined in Proposed National Instrument 55-101 (a Significant Subsidiary); or

- (c) is not also an insider of Photon, excluding any director or senior officer of a subsidiary of Photon that is not a Significant Subsidiary.

DATED at Toronto on this 20th day of December, 2000.

Howard I. Wetston

Jack A. Geller

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - relief from the registration and prospectus requirements in respect of certain trades made in connection with a merger involving a Canadian reporting issuer and a U.S. company where exemptions not available for technical reasons - first trade in shares of Canadian reporting issuer shall be a distribution unless in compliance with certain conditions - first trade in shares of U.S. issuer shall be a distribution unless executed on a stock exchange outside of Canada.

Continuous Disclosure - Canadian reporting issuer exempted from continuous disclosure requirements provided U.S. issuer files continuous disclosure materials in Canada.

Applicable Ontario Statutory Provisions

Securities Act, R.S.O.1990, c.S.5, as am., 25, 53, 72(5), 74(1), 75, 77, 78, 79, 80(b)(iii), 81, 107, 108, 109 and 121(2).

Applicable Ontario Rules

Rule 45-501 Exempt Distributions, (1998) 21 OSCB 6548

Rule 72-501 Prospectus Exemption for First Trade over a Market outside Ontario (1998) 21 OSCB 3873.