

2012 BCSECCOM 132

Notice of Hearing

**Canaco Resources Inc., Andrew Lee Smith,
Randy Smallwood, David Parsons, and Brian Lock
(the Respondents)**

Section 161 of the *Securities Act*, RSBC 1996, c. 418

¶ 1 The Commission will hold a hearing at which the Executive Director will tender evidence, make submissions and apply for orders against Canaco Resources Inc. (Canaco), Andrew Lee Smith (Smith), Randy Smallwood (Smallwood), David Parsons (Parsons), and Brian Lock (Lock) under sections 161, 162, and 174 of the *Securities Act*, RSBC 1996, c. 418 (the Act), based on the following facts:

Background

1. Canaco is a reporting issuer with its head office in Vancouver, British Columbia whose shares trade on the TSX Venture Exchange. It is a mining exploration company whose key asset is a gold project located in the Handeni region of the United Republic of Tanzania.
2. During November and December of 2010, Smith was Canaco's President, Chief Executive Officer, and a member of its Board of Directors. Smallwood, Parsons, and Lock were members of Canaco's Board of Directors.

Failure to Make Immediate Disclosure

3. Between November 22, 2010 and November 29, 2010, Canaco became aware of assay results from eight new drill holes at its Magambazi claim in the Handeni gold project (the Drill Results).
4. By November 25, 2010, Smith, Smallwood, Parsons and Lock were aware of four of the eight Drill Results.
5. The next day, on November 26, 2010, Smith was aware of seven of the eight Drill Results. Three days later, on November 29, he was aware of all of them.
6. By December 4, 2010, Smallwood, Parsons and Lock were aware of all of the Drill Results.
7. In the opinion of Smith, Smallwood, Parsons, and Lock, the Drill Results were "spectacular", "just beautiful", "fantastic news" and "big results".

2012 BCSECCOM 132

8. The Drill Results were material facts or material changes that would reasonably have been expected to have had, and did have, a significant effect on the market price or value of Canaco shares.
9. Canaco delayed and staggered the disclosure of the Drill Results by issuing three separate news releases on:
- (a) December 6, 2010;
 - (b) December 9, 2010; and
 - (c) December 22, 2010;

in order to maximize its share price increase over time.

10. On December 6 and 7, 2010, independent financial analyst reports described some of the Drill Results as “extraordinary”, and “... the best results the company has released to date.”

11. The company’s share price rose in reaction to each news release, as follows:

Date	Drill Results Disclosed	Previous Day Closing Share Price	Closing Share Price	% Change
6-Dec-2010	Holes 90; 93; 96; 97	\$4.75	\$5.27	+10.9%
9-Dec-2010	Holes 84; 87; 88	\$5.28	\$6.05 (52 week high)	+14.6%
22-Dec-2010	Hole 98 (and two recent results)	\$5.42	\$5.74	+5.9%

12. Canaco did not file a material change report with respect to the Drill Results.
13. By failing to immediately issue and file a news release disclosing the Drill Results, and by failing to file a material change report, Canaco breached section 85 of the Act.
14. Smith, Smallwood, Parsons, and Lock authorized, permitted, or acquiesced in Canaco’s breach of the Act, and therefore contravened the same provision under section 168.2 of the Act.

Smith, Smallwood, Parsons, and Lock’s Conduct as Directors

15. On December 3, 2010, Canaco’s board of directors approved a grant of 7,225,000 stock options to certain directors, officers, and consultants with an

2012 BCSECCOM 132

exercise price of \$4.56 per share (the Options), the closing price on December 2, 2010.

16. Smith, Smallwood, Parsons, and Lock voted in favour of the Options, which included:
 - (a) a grant to Smith of options to purchase 1,000,000 Canaco shares; and
 - (b) grants to Smallwood, Parsons, and Lock of options to purchase 600,000 shares each.
17. On March 17, 2011, the Compliance and Disclosure Department of the TSX Venture Exchange ordered Canaco to increase the exercise price for the Options, based on the company's closing share price of \$5.74 on December 22, 2010, the day the last of the Drill Results was finally released.
18. On March 22, 2011, Canaco announced that it had increased the exercise price for the Options to \$4.88 per share, reflecting the December 22, 2010 closing share price for the company's shares, less the maximum discount permitted under the TSX Venture Exchange policy for issuing stock options.
19. Smith failed to act in the best interests of Canaco by:
 - (a) voting in favour of the Options with the knowledge that the market price upon which they were based did not take into account the Drill Results; and
 - (b) voting in favour of a grant of stock options to himself whose exercise price was under-priced by \$0.32 per share, and by a total of \$320,000.
20. Smallwood, Parsons and Lock failed to act in the best interest of Canaco by:
 - (a) voting in favour of the Options with the knowledge that the market price upon which they were based did not take into account four of the Drill Results; and
 - (b) voting in favour of grants of stock options to themselves whose exercise price was under-priced by \$0.32 per share and by a total of \$192,000 each.

Public Interest

- ¶ 2 It is in the public interest that the Commission issue orders under sections 161 and 162 of the Act.

2012 BCSECCOM 132

Hearing Process

- ¶ 3 The Respondents or their counsel are required to attend at the 12th Floor Hearing Room, 701 West Georgia Street, Vancouver, BC, on **May 29, 2012 at 9:00 a.m.** if they wish to be heard before the Commission sets a date for the Hearing. Relevant information gathered by Commission Staff in the investigation of this matter will be disclosed to the Respondent upon request to the Executive Director.
- ¶ 4 At the Hearing, the Respondents may be represented by counsel, make submissions and tender evidence. The Respondents are requested to advise the Commission of their intention to attend the Hearing by informing the Secretary to the Commission at PO Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver, BC V7Y 1L2, phone: (604) 899-6500; email: commsec@bcsc.bc.ca.
- ¶ 5 If the Respondents or their counsel do not appear at the Hearing, the Executive Director may apply to have questions of liability and sanction heard at the same time. Determinations adverse to the Respondents may be made in their absence.
- ¶ 6 April 24 , 2012

Paul C. Bourque
- ¶ 7 Paul C. Bourque, Q.C.
Executive Director