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Settlement Agreement

Peter William Dunfield

Securities Act, RSBC 1996, c. 418

- ¶ 1 The following settlement of issues has been reached between Peter William Dunfield (Dunfield) and the Executive Director.

Agreed Statement of Facts

- ¶ 2 As the basis for the undertakings and order referred to in this settlement, Dunfield acknowledges the following facts as correct:

1. Jalna Resources Limited (Jalna) was incorporated in British Columbia on June 27, 1974, and trades on the TSX Venture Exchange.
2. Incite Marketing Group Inc. (Incite) is a private company incorporated in British Columbia.
3. Dunfield was a director of Jalna from August 27, 1999, until December of 2004. Dunfield was responsible for the preparation of Jalna's quarterly financial reports.
4. Daniel Brennan Matthews (Matthews) became a director of Jalna on May 30, 1997, and became CEO and president on April 29, 1999. Matthews resigned as CEO and president on April 20, 2000, and as a director on February 26, 2001.
5. Matthews was the sole shareholder and director of Incite and made all business decisions in respect of Incite.
6. Dunfield was a signing authority for Incite.
7. Prior to March of 2000, the board of Jalna informally agreed that Matthews handle investor relations matters in respect of Jalna. There is no written record of this agreement.
8. In March of 2000, Jalna advanced US \$350,000 to Incite for investor relations services (the Agreement). Dunfield was one of the signatories on the cheques issued by Jalna to Incite in respect of the Agreement.
9. In September of 2000, Incite returned US \$100,000 to Jalna.

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10. In October of 2004, Matthews returned a further US \$100,000 to Jalna.
11. There was no written, signed, contract describing the nature of the Agreement and the specific activities to be performed by Incite.

Jalna's Breaches

12. Jalna failed to make proper disclosure of the Agreement as follows:
 - (a) Exchange Policy 3.4 requires all issuers to disclose, to the public, any arrangement the issuer enters into in respect of investor relations. The Policy requires that the issuer disclose details of the activities to be carried out, compensation for those activities, and the ownership of the entity carrying out the investor relations activities on behalf of the issuer. The Policy also requires that details of any such agreement be promptly filed with the Exchange;
 - (b) Jalna did not disclose the Agreement to the Exchange as required by Exchange Policy 3.4;
 - (c) Jalna did not publicly disclose the Agreement in a timely manner, as required by section 85 of the *Securities Act*, RSBC 1996, c. 418 and Exchange Policy 3.4; and
 - (d) Jalna did not file a material change report, describing the Agreement, with the British Columbia Securities Commission, as required by section 85 of the Act.
13. Jalna's Financial Statements were inaccurate or inconsistent as follows:
 - (a) Jalna's quarterly balance sheet, for the quarter ending March 31, 2000, signed by Dunfield and Matthews, mischaracterized the Agreement as an investment in Incite by Jalna;
 - (b) Jalna's audited year-end balance sheet, dated June 30, 2000, signed by Dunfield and Matthews, showed the remaining US \$250,000 paid by Jalna, pursuant to the Agreement, as a prepaid expense and did not indicate that any of the expenses had been incurred;
 - (c) Jalna's unaudited quarterly balance sheet, dated September 30, 2000, signed by Dunfield and Matthews, did not show the US \$250,000 as a prepaid expense. It was reclassified as an account receivable;

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- (d) Jalna's unaudited balance sheet, dated December 31, 2000, signed by Dunfield and Matthews, showed the \$250,000 US as a prepaid expense and did not indicate that any of the expenses had been incurred;
 - (e) Jalna's unaudited quarterly balance sheet, dated March 31, 2001, signed by Dunfield and Marion McGrath, did not show the \$250,000 US as a prepaid expense. It was reclassified as an account receivable. The entire amount was written off by Jalna as of June 30, 2001; and
 - (f) none of Jalna's financial statements ever disclosed the Agreement as being a non arms length transaction.
14. By omitting disclosure of, or mischaracterizing the Agreement and the transactions relating to the Agreement, Jalna's financial statements were misleading in a material respect and at the time and in light of the circumstances under which they were filed. Accordingly, Jalna breached section 168.1(1)(b) of the Act.

Dunfield's Breaches

15. Dunfield, as a director of Jalna, failed to cause Jalna to comply with Exchange Policy 3.4 by not ensuring details of the Agreement were filed with the Exchange.
16. As a director of Jalna, by authorizing, permitting or acquiescing in Jalna's breach of section 85 of the Act as described above, Dunfield also breached section 85 of the Act under section 168.2 of the Act.
17. As a director of Jalna, by authorizing, permitting or acquiescing in Jalna's breach of section 168.1(1)(b) of the Act, as described above, Dunfield also breached section 168.1(1)(b) of the Act under section 168.2 of the Act.
18. Dunfield, as a director of Jalna, breached section 118(1) of the former *Company Act*, RSBC 1996, c. 62 in effect during the relevant period, by not exercising the care, diligence and skill of a reasonably prudent person by:
- (a) being aware that Jalna entered into the Agreement, which was a non-arms length transaction, and not ensuring there was a written, signed contract accurately reflecting the details of the Agreement;
 - (b) not ensuring that proper disclosure of the Agreement was made to the public, the Commission and the Exchange; and
 - (c) not ensuring that Jalna's financial statements were accurate.

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Undertakings

¶ 3 Dunfield undertakes and agrees:

1. to pay to the British Columbia Securities Commission the sum of \$10,000;
and
2. to not say anything, in writing or orally, which may contradict the terms of this settlement or call those terms into question.

Order

¶ 4 Dunfield consents to an order by the Executive Director (the Order) that:

1. under section 161(1)(d)(ii) of the Act, Dunfield is prohibited from becoming or acting as a director or officer of any issuer, for the later of:
 - (a) three years from the date of the Order; or
 - (b) the date he has both successfully completed a course of study satisfactory to the Executive Director concerning the duties and responsibilities of directors and officers and filed with the Executive Director evidence that he has successfully completed the course; and
2. under section 161(1)(d)(iii) of the Act, Dunfield is prohibited from engaging in investor relations activities for any issuer for the later of:
 - (a) three years from the date of the Order; or
 - (b) the date he has both successfully completed a course of study satisfactory to the Executive Director concerning the duties and responsibilities of directors and officers and filed with the Executive Director evidence that he has successfully completed the course; and
3. under section 161(1)(a) of the Act, Dunfield comply fully with the Act, the Rules and all applicable regulations, policies and guidelines.

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Waiver

¶ 5 Dunfield waives any right he may have, under the Act or otherwise, to a hearing, hearing and review, judicial review or appeal related to, in connection with, or incidental to this agreement.

¶ 6 April 21, 2005

¶ 7 “Peter Dunfield”)
Peter William Dunfield

“N. Traversa”)
Witness Signature)
Nadia Traversa)
Witness Name (please print))
#12 – 11735 88A Ave)
Delta, BC)
Address)
Corp. Administrator)
Occupation)

¶ 8 April 28, 2005

¶ 9 Brenda M. Leong
Executive Director