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Settlement Agreement

James Nelson McCarney and 526053 B.C. Ltd.

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

- ¶ 1 James Nelson McCarney (McCarney) and 526053 B.C. Ltd. (526053) have settled the following issues with the Executive Director.
- ¶ 2 McCarney and 526053 acknowledge the following facts as correct solely for securities regulatory purposes in British Columbia and elsewhere and as the basis for the undertakings and orders referred to in this settlement:

Background

McCarney

1. McCarney is a resident of British Columbia and has never been registered under the Act.

526053

2. 526053 is a British Columbia company. It is not a reporting issuer.
3. McCarney is the sole shareholder, a director and an officer of 526053.
4. Trevor William Park (Park) is a resident of British Columbia. He acted as an agent and, also, engaged in investor relations activities for 526053. He was registered under the Act as mutual fund salesperson from November 19, 1982 to February 6, 1985.

McCarney Technologies Inc.

5. McCarney Technologies Inc. (MTI) is a British Columbia company, and a reporting issuer in this Province.
6. McCarney was a director of MTI from August 28, 1987 to December 19, 2002, and an officer of MTI from February 3, 1992 to December 19, 2002.

Autolab LLC

7. Autolab LLC (Autolab) is a California limited corporation. It is a wholly owned subsidiary of 526053. Autolab is not a reporting issuer.
8. McCarney was an officer of Autolab.

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IVS Intelligent Vehicle Systems Inc.

9. IVS Intelligent Vehicle Systems Inc. (IVS) is a British Columbia company, and a reporting issuer in this Province. IVS became listed for trading on the Vancouver Stock Exchange on October 15, 1992.
10. McCarney was an officer of IVS from October 1992 through to May 28, 1998, and a director of IVS from October 1992 to June 30, 1999.
11. On March 3, 1999 the Commission issued a cease trade order against McCarney for failing to file insider reports relating to trades by him in IVS securities. The order prohibited McCarney from engaging in any further trades in IVS securities and remains outstanding.

McCarney and 526053 Distributed Securities

12. Between May 10, 1998 and December 31, 2002 (the Relevant Period), McCarney, both directly and through agents, promoted an investment in 526053 to residents in seven provinces, including British Columbia and Saskatchewan, as well as to residents in the United States, Germany, England, Costa Rica, Belize, Bahamas and Turks and Caicos Islands (the Investors).
13. McCarney, both directly and through agents, encouraged Investors to enter into loan agreements with 526053 (the Loan Agreements). The Loan Agreements were represented as having the following material particulars:
 - (a) the funds provided by Investors were to be used for the development of Autolab's business and to acquire a public company in the United States (Pubco);
 - (b) upon the acquisition of Pubco, the original investments in the Loan Agreements were to be repaid with Pubco securities, namely, shares and share purchase warrants; and
 - (c) depending on when the Loan Agreements were entered into, the Pubco shares were assigned a value that ranged from CAD \$1.00 to USD \$5.00 per share.
14. During the Relevant Period, McCarney, both directly and through agents, caused 526053 to distribute Loan Agreements to approximately 1,435 Investors, for total proceeds of approximately \$26,637,512. Approximately \$4,500,000 of that amount was raised in British Columbia from 253 British Columbia residents.

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Loan Agreement Addendums

15. 526053 never acquired Pubco and, as a result, Pubco shares and share purchase warrants were never issued.
16. Nonetheless, on September 30, 2002, Park, acting on behalf of 526053 and with McCarney's knowledge, disseminated an e-mail to approximately 750 Investors. The e-mail indicated that the Investors could enter into Loan Agreement Addendums (the Addendums) with 526053, which would amend the Loan Agreements. The purported effect of the Addendums was to give the Investors an early opportunity to, effectively, exercise their Pubco share purchase warrants.
17. On October 1, 2002, Park, again acting on behalf of 526053 and with McCarney's knowledge, disseminated a second e-mail to the 750 Investors. It stated, among other things, that:
 - (a) on the one time basis offered by the Addendums, certain share purchase warrants could be exercised for less than the original exercise price;
 - (b) the exercise price ranged between CAD \$1.00 and USD \$3.00 per warrant, depending on the amount of the original exercise price;
 - (c) to take advantage of this opportunity, Investors would have to exercise their warrants before October 25, 2002; and
 - (d) shares received by Investors as a result of the early exercise of share purchase warrants would be issued as free trading shares once Pubco began trading.
18. Following these e-mails, 143 Investors in British Columbia and other jurisdictions entered into 159 Addendums. 526053 raised approximately \$1,055,897 from these Investors.
19. McCarney signed or authorized all 159 Addendums on behalf of 526053.

Saskatchewan Scheme

20. Between December 1, 1997 and February 2000, 526053 entered into Loan Agreements with 147 Saskatchewan residents (the Saskatchewan Investors).
21. In the fall of 1999, the Saskatchewan Securities Commission (the SSC) advised McCarney and 526053 that they should provide a refund to all Saskatchewan Investors. The SSC also advised McCarney and 526053 to not raise any further funds.

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22. On August 20, 2000, McCarney and 526053 transferred \$1,517,000 to a Saskatchewan lawyer's trust account, which was used to refund money to Saskatchewan Investors, as required by the SSC.
23. Between September 27, 2000 and December 20, 2000, Park, on behalf of 526053, accepted and facilitated the investment in 526053 by Saskatchewan Investors who used out-of-province addresses in the share purchase documentation. McCarney ought to have known of Park's activity.
24. Approximately 123 of the Saskatchewan Investors reinvested \$1,346,500 with 526053 (the Saskatchewan Re-Investors) and, with Park's assistance and knowledge, used extra-provincial addresses in the share purchase documentation (the Saskatchewan Scheme).
25. The Saskatchewan Scheme was intended to circumvent the regulatory authority of the SSC.
26. McCarney acted contrary to the public interest by acquiescing in the Saskatchewan Scheme.

Undisclosed Transaction

27. On November 22, 1999, an investor of IVS (the IVS Investor) commenced a lawsuit in the Supreme Court of British Columbia against McCarney, MTI, IVS, and another defendant (the IVS Litigation).
28. In the fall of 2000, the IVS Litigation was settled on the basis that McCarney would provide 690,000 shares of MTI to the IVS Investor.
29. To facilitate the settlement, McCarney approached the board of directors of MTI with a private placement proposal. However, he identified Park, not the IVS Investor, as the principal who was to receive the securities. On October 31, 2000, the board of directors of MTI entered into a subscription agreement with Park, under which he would be issued 690,000 units, comprised of common shares and share purchase warrants, at \$1.00 each. In signing the subscription agreement, Park was acting on McCarney's instructions.
30. Neither McCarney nor Park provided the funds to purchase the 690,000 MTI units. Instead, funds from 526053 were used to pay for them.
31. The 690,000 units were delivered to the IVS Investor.

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32. McCarney and Park did not disclose to the Investors that 526053's funds were being used to settle the IVS Litigation. This was a material fact that McCarney and Park failed to disclose to the Investors.

Breaches of the Act

¶ 3 During the Relevant Period, McCarney and 526053 breached the Act as follows:

1. McCarney:

- (a) traded in Loan Agreements and Addendums in British Columbia without being registered in accordance with the requirements of the Act, and without an exemption from the registration requirements of the Act, contrary to section 34(1)(a) of the Act;
- (b) distributed Loan Agreements and Addendums in British Columbia without filing a prospectus and without any exemption from the prospectus requirements of the Act, contrary to section 61(1) of the Act;
- (c) authorized 526053's trading in and distribution of Loan Agreements and Addendums in British Columbia, contrary to sections 168.2, 34(1)(a) and 61(1) of the Act; and
- (d) made a misrepresentation to the Investors by omitting to disclose a material fact to them, namely, that their funds were used to settle the IVS Litigation, contrary to section 50(1)(d) of the Act.

2. 526053:

- (a) traded in Loan Agreements and Addendums in British Columbia without being registered in accordance with the requirements of the Act, and without an exemption from the registration requirements of the Act, contrary to section 34(1)(a) of the Act; and
- (b) distributed Loan Agreements and Addendums in British Columbia without filing a prospectus and without any exemption from the prospectus requirements of the Act, contrary to section 61(1) of the Act.

Public Interest

¶ 4 McCarney acted contrary to the public interest by engaging in the conduct set out above. In addition, McCarney acted contrary to the public interest by failing to exercise the care, diligence and skill of a reasonably prudent person, contrary to sections 118 and 135 of the Company Act, RSBC 1996, c.62.

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Undertakings

¶ 5 McCarney undertakes:

1. to pay to the British Columbia Securities Commission the amount of \$100,000; and
2. not to say anything, in writing or orally, which may contradict the terms of this settlement or call those terms into question.

Order

¶ 6 McCarney and 526053 each consent to an order by the Executive Director (the Order) that:

1. under section 161(1)(a) of the Act, McCarney and 526053 each comply fully with the Act, the Securities Rules, and any applicable regulations, policies and guidelines;
2. under section 161(1)(b) of the Act, McCarney and 526053 each cease trading in and be prohibited from purchasing any securities for the later of 20 years from the date of the Order and the date McCarney has paid \$100,000 to the Commission, except that McCarney may trade and purchase securities in one account in his name held with a registered dealer to whom McCarney has first provided a copy of the Order;
3. under section 161(1)(d) of the Act, McCarney resign any position he holds as a director or officer of any issuer, and be prohibited from becoming or acting as a director or officer of any issuer, for the later of 20 years from the date of the Order and the date McCarney has paid \$100,000 to the Commission, except that he may continue to act as a director and officer of 550258 B.C. Ltd. and 550255 B.C. Ltd. for as long as their securities remain wholly owned by him and their activities remain restricted to acting as his personal holding and engineering business corporations; and
4. under section 161(1)(d)(iii) of the Act, McCarney be prohibited from engaging in investor relations activities on behalf of any issuer for the later of 20 years from the date of the Order and the date McCarney has paid \$100,000 to the Commission.

Consent to Reciprocal Orders

¶ 7 McCarney and 526053 each consent to any securities regulator anywhere relying on the facts admitted in this settlement to make orders against each of them.

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Waiver

¶ 8 McCarney and 526053 waive any right they 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 settlement.

¶ 9 May 30, 2005

“James McCarney”

¶ 10 James Nelson McCarney

“B. Cramer”)
Witness Signature)
Brad Cramer)
Witness Name (please print))
670 – 999 Canada Place)
Vancouver, BC V6C 3E1)
Address)
Barrister & Solicitor)
Occupation)

¶ 11 May 30, 2005

¶ 12 526053 B.C. Ltd.

“James McCarney”
Authorized Signatory

“B. Cramer”)
Witness Signature)
Brad Cramer)
Witness Name (please print))
670 – 999 Canada Place)
Vancouver, BC V6C 3E1)
Address)
Barrister & Solicitor)
Occupation)

¶ 13 May 30, 2005

“Martin Eady”

¶ 14 Martin Eady
Acting Executive Director