

## **Notice of Hearing**

### **Robert Scott Morrice and Donald Gordon Byrne**

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

¶ 1 The British Columbia Securities Commission (Commission) will hold a hearing (Hearing) at which the Executive Director will tender evidence, make submissions and apply for orders against Robert Scott Morrice and Donald Gordon Byrne (the Respondents) under sections 161, 162 and 174 of the *Securities Act*, RSBC 1996, c. 418 (the Act), based on the following facts:

#### **The Respondents created shell companies**

1. Robert Scott Morrice (Morrice) is a lawyer in Victoria, BC. Donald Gordon Byrne (Byrne) is self-employed and a resident of Lumby, BC. Morrice and Byrne at various times worked together to create and sell shell companies.
2. Morrice and Byrne were involved with three purported mining companies that were shell companies with minimal assets and no active business:
  - Edgemont Mining Inc.(Edgemont);
  - Interfac Mining Inc. (Interfac); and
  - Jupiter Resources Inc. (Jupiter)(collectively, the Shells).
3. Morrice created and maintained the Shells by facilitating their incorporation, opening their bank accounts and getting them quoted on the US Over-the-Counter (OTC) Bulletin Board. Morrice was responsible for the Shells' filings with the U.S. Securities and Exchange Commission (SEC). He instructed the transfer agents, auditors, and oversaw the payment of expenses for the Shells.
4. Byrne was not a director and officer but was actively running Edgemont from its incorporation onwards. Byrne only became involved with Interfac and Jupiter in August 2008.

### **The new OTC rule**

5. From 2006 to August 2008, each Shell had a sole officer and director who resided in BC (BC Directors).
6. In July 2008, Staff sent a letter to each Shell informing them that because they had significant connections to BC, a new OTC Rule (OTC Rule) would deem them an OTC reporting issuer as of September 15, 2008.
7. The OTC Rule was an initiative to address the harm caused to the reputation of British Columbia's markets by abusive activities from British Columbia market participants through over-the-counter markets in the United States.
8. The OTC Rule imposed for the first time:
  - filing requirements unique to OTC reporting issuers, and
  - restrictions on the resale of OTC securities

making shell companies more difficult to sell.

### **Morrice and Byrne arranged for nominee directors outside BC**

9. The Respondents took steps to circumvent the new OTC Rule. Morrice told Byrne that Edgemont and the other two Shells might have a problem with the new OTC Rule and suggested a jurisdiction change. Byrne had family in Saskatchewan and he asked them to help find new directors for the Shells (Nominee Directors).
10. The Nominee Directors were a farmer, a welder and a freight broker. None of them had any experience in mining or had ever held any executive positions with a company. The Nominee Directors were all friends. They thought the Shells were going to be sold and they would be paid some money.
11. The Nominee Directors did not perform any executive role for the Shells. They did not know where the Shells' office or bank accounts were located. The Nominee Directors' role was limited to signing documents at the request of the Respondents.
12. Morrice would prepare and send documents for the Nominee Directors' signature. Since only one Nominee Director had a computer or fax machine, Morrice would send that director documents for his signature. For the other two Nominee Directors, who did not have a computer or fax machine, Morrice

would send the documents to Byrne's family who would then drive the documents over to their homes for their signature.

13. In September 2008, just days before the OTC Rule was in effect and after he had acquired the Nominee Directors signatures, Morrice filed documents with the SEC falsely stating that:
  - (a) the Shells' head offices moved from British Columbia to Saskatchewan;
  - (b) the Shells' BC presidents stepped down and new presidents from Saskatchewan were appointed; and
  - (c) the new Saskatchewan presidents purchased shares from the BC presidents.
14. The Nominee Directors did not use their own money to pay for the shares they had purportedly purchased from the BC Directors. The Respondents told the Nominee Directors to write cheques to make it appear that they purchased shares. Either the Nominee Directors' cheques were not cashed or the Respondents transferred money into the Nominee Directors' accounts to cover the amount of the cheques written.
15. The Nominee Directors did not control any of the Shells' money. The Shells' bank accounts remained in Vancouver and the former BC Directors remained the signing authorities. Morrice facilitated the Shells' accounts being closed in February 2009.

**Morrice sold the Jupiter shell company**

16. Morrice received some inquiries about selling the Shells and sold Jupiter to a British Virgin Islands company in May of 2009. Morrice did not apply the resale restrictions in the new OTC rule.
17. Morrice made filings with the SEC, including a press release which was issued from Vancouver, detailing the transaction between Jupiter and the British Virgin Islands company. Jupiter was renamed Rineon Group, Inc. (Rineon) and its business purportedly changed to insurance.
18. In 2010, Rineon was used in an allegedly fraudulent scheme by a US resident who caused his clients to purchase the penny stock of a number of OTC companies, including Rineon. The SEC instituted civil allegations that were stayed pending the prosecution of a parallel criminal action in the US related to this conduct.

### **Conduct contrary to the public interest**

19. The Respondents (1) disguised who was controlling the Shell companies by appointing Nominee Directors, (2) deceived the SEC by filing false statements regarding the company directors and head office location, and (3) claimed the Shells had moved to Saskatchewan, in order to evade the application of the OTC Rule reporting requirements and share resale restrictions. This conduct was contrary to the public interest because by doing so, the respondents harmed the reputation and credibility of BC's securities markets.

### **Public interest**

20. It is in the public interest that the Commission issue orders under sections 161 of the Act.

### **Hearing process**

- ¶ 2 The Respondents or their counsel are required to attend at the 12th Floor Hearing Room, 701 West Georgia Street, Vancouver, British Columbia, on **September 30, 2014, 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.
- ¶ 3 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](mailto:commsec@bcsc.bc.ca).
- ¶ 4 If the Respondents or their counsel do not appear at the Hearing, the Executive Director will apply to have questions of liability and sanction heard at the same time. Determinations adverse to the Respondents may be made in their absence.

Paul C. Bourque  
Aug 1 2014 12:29 PM

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