

2009 BCSECCOM 344

Settlement Agreement

John Gregory Paterson

Securities Act, RSBC 1996, c. 418

- ¶ 1 The Executive Director of the British Columbia Securities Commission (the Executive Director) and John Gregory Paterson (Paterson) agree for Canadian securities regulatory purposes as follows:

Agreed Statement of Facts

1. Southwestern Resources Corp. (Southwestern) is a British Columbia corporation. It is engaged in mining exploration in China and South America. Southwestern's head office was at all material times in Vancouver, British Columbia.
2. Paterson resides in Vancouver, British Columbia. He was the President and Chief Executive Officer of Southwestern from about 1991 until he resigned from those positions on June 19, 2007.
3. Paterson is a geologist and served at all relevant times as Southwestern's qualified person under National Instrument 43-101, Standards of Disclosure for Mineral Projects (Qualified Person).
4. On July 19, 2007, a month after Paterson's resignation, Southwestern announced that there were errors in previously reported assay results for its Boka project in China. As a result, Southwestern withdrew all of its previously disclosed results for that project.
5. Southwestern retained a mining consulting firm, Snowden Mining Industry Consultants Inc. (Snowden) to conduct a review of the Boka results and validate the database for the property. The review and validation process led to a revised resource estimate that was substantially less than previously reported.
6. Snowden identified 433 discrepancies (the Discrepancies) in gold grades reported in 24 press releases between March 7, 2003 and February 21, 2007. While some of the Discrepancies were minor, in at least 60 instances, Southwestern had reported significant gold findings where the actual assay result was negligible (less than 0.1 gram/ton).

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7. The Discrepancies between the gold grades reported in the press releases and the actual gold grades were material, and the actual gold grades were low enough to make the Boka project unlikely to be economic.
8. The following table sets out some of the material overstatements in four Southwestern press releases:

Date of Press Release	Gold Values Reported	Actual
May 19, 2004	3.08 g/t over 205.45m	0.143 g/t
June 21, 2006	2.95 g/t over 146.95m	1.074 g/t
February 13, 2007	2.18 g/t over 583.14m	0.582 g/t
February 21, 2007	8.67 g/t over 71.8m	1.462 g/t

9. Approximately 45,855,000 shares of Southwestern were outstanding as of July 18, 2007. On July 18, 2007, the closing trading price for the shares of Southwestern was \$6.34 per share.
10. On July 19, 2007, the day that Southwestern announced that there were errors in the previously reported assay results for its Boca project, the trading price of Southwestern shares closed at \$2.90. The closing price reflected a market capitalization loss on that day alone of approximately \$157,700,000.
11. After July 19, 2007, the trading price of Southwestern shares continued to decline as further information concerning the Discrepancies became public.

Misconduct

12. Paterson was responsible for the erroneous and excessive gold grades reported in Southwestern's press releases.
13. The original assay certificates, which provided the data for the press releases, were addressed to Paterson and he was the sole recipient of the certificates.
14. Instead of transferring the actual assay certificate data, Paterson transferred data containing the Discrepancies into Southwestern's database.

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15. Paterson prepared handwritten drafts of Southwestern's press releases that contained the Discrepancies, and caused his assistant to type them. Paterson then signed off on the final versions of the press releases containing the Discrepancies.

Fraud

16. By altering the assay results and causing press releases to be issued which contained the Discrepancies, Paterson participated in a series of transactions that he knew, or ought reasonably to have known, perpetrated a fraud on persons in British Columbia and elsewhere contrary to sections 57(b) and 57.1(b) of the Securities Act, RSBC 1996, c. 418.

Insider Trading

17. On July 16, 2007, Paterson sold 50,000 Southwestern shares for net proceeds of \$298,239.78, at a price of \$5.96 per share. At that time, Paterson knew the following facts with respect to Southwestern (the Material Facts):

- (a) that he had inserted higher gold assay values in the company's database than were stated on the assay results he received, and had caused Southwestern to issue press releases based upon the erroneous higher values; and
- (b) that Southwestern would be obliged to issue a press release correcting its previously disclosed results for the Boka project.

18. By trading in Southwestern shares on July 16, 2007, with knowledge of the Material Facts, Paterson breached section 86(1) of the Act (now section 57.2(1)(b) of the Act).

19. On July 19, 2007, the day that Southwestern issued the press release withdrawing all previously disclosed results, the trading price of Southwestern shares closed at \$2.90. Paterson therefore avoided a loss, on that day alone, of approximately \$153,000.

Paterson's Medical Condition

20. Since at least July 1997, Paterson has been under psychiatric care for severe clinical depression. Paterson represents that his depression adversely affected his judgment with respect to his conduct described in this Agreement.

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Mitigating Factors

21. Paterson voluntarily contributed substantially all of his assets, amounting to approximately \$3,500,000, in settlement of a lawsuit commenced by Southwestern and class action lawsuits commenced by shareholders in Quebec, Ontario and British Columbia.
22. Paterson voluntarily provided information to Commission Staff.

Settlement Payment

23. But for Paterson's impecuniosity, he would be required to pay \$3,450,000 to the British Columbia Securities Commission in settlement of this matter.

Undertaking

- a. Paterson undertakes for life not to act as a Qualified Person, for any reporting issuer.

Order

- ¶ 2 The Executive Director will issue an order (the Order) that:
1. under section 161(1)(b) of the Act, Paterson be permanently prohibited from trading in securities, except that Paterson may trade through a registrant in one RRSP account and one cash account if he first gives the registrant a copy of the Order;
 2. under section 161(1)(d)(i) and (ii) of the Act, Paterson be permanently prohibited from acting as a director or officer of any issuer except an issuer of which all the securities are owned beneficially by him or his spouse;
 3. under section 161(1) (d) (iv) of the Act, Paterson be permanently prohibited from acting in a management or consultative capacity in connection with activities in the securities market; and
 4. under section 161(1)(d)(v) of the Act, Paterson be permanently prohibited from engaging in investor relations activities.

Consent to Reciprocal Orders

- ¶ 3 Any securities regulator in Canada may rely on the facts admitted in this agreement solely for the purpose of making a similar Order.

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Waiver

- ¶ 4 Paterson waives any right that 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 settlement.

Counterpart

- ¶ 5 This Settlement Agreement may be executed in counterpart or by facsimile execution and all such counterparts of executed copies or faxed copies shall be read or construed together as if they formed one originally executed document.

- ¶ 6 June 19, 2009

“J. Paterson”

- ¶ 7 John Gregory Paterson

“H.R. Anderson”)
Witness Signature)
H. Roderick Anderson)
Witness Name (please print))
3200-650 West Georgia Street)
)
Vancouver, BC V6B 4P7)
Address)
Barrister & Solicitor)
Occupation)

- ¶ 8 June 22, 2009

“B. Leong”

- ¶ 9 Brenda M. Leong
Executive Director