

1.1.2 McLAUGHLIN, STUART BRUCE

IN THE MATTER OF THE SECURITIES ACT,
R. S. O. 1980, CHAPTER 466

AND

IN THE MATTER OF STUART BRUCE McLAUGHLIN

NOTICE OF HEARING

TAKE NOTICE that the Ontario Securities Commission (the "Commission") will hold a hearing at its office on the 18th Floor, 20 Queen Street West, Toronto, Ontario on Wednesday, the 10th day of April, 1985 at the hour of 10:00 o'clock in the forenoon or so soon thereafter as the hearing can be held to consider whether it is in the public interest that an Order should be made pursuant to section 124 of the Securities Act, R. S. O. 1980, c. 466 (the "Act") that any or all of the exemptions contained in sections 34, 71, 72 and 88 do not apply to Stuart Bruce McLaughlin (the "Respondent") by reason of the allegations set forth hereinafter.

AND FURTHER TAKE NOTICE that upon the return of the said proceedings the staff of the Ontario Securities Commission will rely upon the following facts:

(1) between January 1, 1980 and October 5, 1983, the Respondent, while he was a Director, Chairman of the Board, and controlling shareholder of Mascan Corporation ("Mascan"), a reporting issuer under the Act, improperly participated in a series of transactions in which the Respondent's interests, or the interests of corporations or persons controlled by or not dealing at arms length with the Respondent, conflicted with the interests of Mascan and its minority shareholders. These dealings and transactions included the following:

- (a) a loan agreement between Western Delta Lands Inc. ("Western Delta") and S.B. McLaughlin and Company Limited ("SBM Co."), whereby Western Delta loaned SBM Co. the sum of \$2,500,000.00;
- (b) a series of transactions relating to a property in Mississauga, Ontario known as the Scott Farm, whereby the Respondent purchased the property, sold it at a substantial profit to Anatal Developments Limited ("Anatal"), and caused Mascan to enter into a development agreement with Anatal from which the Respondent derived substantial benefits;
- (c) a series of transactions relating to a property in Henderson County, Texas (the "Cedar Creek property"), whereby the Respondent purchased the Cedar Creek property, and later induced Mascan to acquire it from him, as a result of which the Respondent was relieved of substantial indebtedness and obtained additional benefits, to the detriment of Mascan;

- (d) a series of transactions relating to certain property in Southfield Michigan, whereby the Respondent induced Mascan to forego development rights with respect to the property in favour of the Respondent, and persuaded Mascan to reacquire a portion of the property from a business associate of the Respondent in circumstances which relieved the Respondent from personal obligations to that associate;
- (e) seven different compensation agreements between the Respondent, SBM Co., and Mascan which resulted in Mascan paying the Respondent and SBM Co. a total of approximately \$2,949,000.00 between October 31, 1979 and October 5, 1983;
- (f) the purchase and subsequent sale by the Respondent of an interest in certain property in Mississauga, Ontario, known as the Hawthorne property; and
- (g) a series of transactions relating to a debt owed by a subsidiary of Mascan, Grouse Mountain Resource Inc., to the Bank of British Columbia, whereby the Respondent agreed to purchase the said debt, and was later reimbursed by Mascan for the deposit paid by the Respondent to the Bank of British Columbia in connection with that purchase.

(2) in each of the aforementioned transactions, the Respondent exerted a dominating influence over the Mascan Board and persuaded the Board to enter into the transactions in questions. The Respondent failed to fully disclose the nature and extent of his interest in and connection with these transactions and misrepresented the material facts relating to the transactions to the Mascan Board. As a result of these transactions, Mascan and its minority shareholders were severely harmed while the Respondent derived substantial benefits.

(3) on February 9, 1983, the Commission issued an Order pursuant to section 16 of the Act requiring the Respondent to refrain from dealing with his funds or securities until further order of the Commission. In or about March and April, 1983, contrary to the terms of the aforementioned Order, the Respondent caused securities controlled directly or indirectly by him, consisting of shares of Mascan, to be pledged to the First National Bank of Saint Paul. The Respondent did not seek or obtain the approval of the Commission for the pledging of these securities;

(4) on May 31, 1983, Mascan issued its Annual Report and Financial Statements to its shareholders for the year ending December 31, 1982. In those Financial Statements, separate disclosure was provided with respect to certain non-arms length transactions. In particular, the Financial Statements included the following disclosure with respect to a development agreement entered into between Mascan and Anatal:

"In 1982 the Corporation was appointed to manage the development of a property contiguous to lands now being developed by its joint venture, Traders Associates. The Corporation made an interest-free third mortgage loan of \$2,775,000 and also agreed to make further advances to

finance the development and to service the existing first and second mortgages on the property. In exchange, the Corporation will receive 50% of the development profits. The owner of the property is an unrelated company which had purchased the property from the Company in 1981.

The second mortgage on the property is guaranteed by the Company and by a person who is a director, officer and controlling shareholder of the Corporation. As a result of this transaction \$900,000 was paid to the Company to partially discharge an existing third mortgage on the property. In order to fully discharge the security of the third mortgage, an agreement was reached whereby the Company received an unsecured interest-free note and in lieu of interest will share in future profits from the development to the extent of 25%."

The foregoing disclosure was false and misleading in that it failed to disclose that the Respondent had received an additional benefit of \$1,200,000 on September 20, 1982 as a result of the transaction in question. In addition, the disclosure was false in its assertion that the Respondent had surrendered a valid third mortgage in return for the payment of certain funds on the closing of the transaction. In fact, the Respondent was not entitled to any third mortgage on the property in question, such mortgage having been the subject of an earlier agreement whereby the Respondent had agreed to discharge it. In the result, the disclosure to the shareholders of Mascan, which resulted from the representations by the Respondent to the Mascan Board and to its Auditors, was false and misleading.

AND TAKE NOTICE that as a result of the foregoing allegations, it will be argued that it is not appropriate that the Respondent be permitted to take advantage of the exemptions contained in paragraphs 34, 71, 72 and 88 of the Act and an Order will be sought that the Respondent is not entitled to the use of such exemptions.

AND TAKE NOTICE that any party to the proceedings may be represented by counsel of his choice at the hearing if such party attends or submits evidence thereat.

AND FURTHER TAKE NOTICE that upon failure of any party to attend at the time and place aforesaid, the hearing may proceed in the absence of that party and such party is not entitled to any further notice of the proceedings.

December 19, 1984.

"Julie-Luce B. Farrell"