

**IN THE MATTER OF THE SECURITIES ACT,
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

ROBERT WALTER HARRIS

**STATEMENT OF ALLEGATIONS
OF STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff of the Ontario Securities Commission make the following allegations:

I. The Respondent

1. Robert Walter Harris graduated from the University of Toronto in 1965 and went to work in the investment business after graduation. He has been employed by a variety of both large and small investment dealers, and periodically worked on his own, from 1965 to the present.

2. Harris is employed at Dominick & Dominick Securities. He is registered as a trading officer in Ontario and Alberta. His responsibilities are primarily related to corporate finance transactions. Specifically, as agent for clients, he will make introductions between parties who wish to complete corporate deals and negotiate corporate reorganizations, including any necessary financing.

II. Overview of Staff's Allegations

3. Staff allege that:

- (a) In late 1996 and 1997, Harris acted as agent for Clavos Enterprises Inc. (formerly Clavos Porcupine Mines Limited), a reporting issuer, to negotiate a corporate reorganization. Harris became a Director and Officer of Clavos in March, 1997;

- (b) Harris was a person in a special relationship with Clavos. He sold securities of Clavos with knowledge of a material fact with respect to Clavos that had not been generally disclosed, contrary to section 76 of the *Securities Act*; and
- (c) Harris failed to file the reports required to be filed by insiders disclosing his trades in Clavos, contrary to section 107(2) of the *Act*.

III. Background Facts: Corporate Reorganization of Clavos

4. In the summer of 1996, Jeff Becker, Chief Executive Officer of Clavos, retained Harris to find a purchaser for Clavos. At that time, common shares of Clavos were traded on CDN. Clavos was essentially an inactive company with some assets in the mining area. Becker wanted to prepare Clavos as a shell for the purposes of a reverse take-over through which a private company would purchase Clavos. Harris had various contacts in the industry, which he used to determine who might be interested in purchasing Clavos.

5. Harris began making inquiries on behalf of Clavos in the late summer or early fall of 1996. The first party which expressed interest in a deal with Clavos did not complete an agreement. Harris recommended to Becker that Clavos be 'cleaned up' in order to be more desirable to purchasers. Becker then took steps to sell any assets of Clavos so that it held only cash and changed the name from Clavos Porcupine Mines to Clavos Enterprises in approximately January, 1997.

6. In late 1996 or early 1997, Harris identified Stephen Dattels of Magnesium Alloy Corporation ("MAC"), a private Ontario company, as someone who might be interested in a deal with Clavos.

7. Harris met with Dattels and others, including counsel for MAC and Clavos, to negotiate the terms of a purchase of Clavos by MAC.

8. In January, 1997, a private placement of shares of Clavos was announced. As a result of this private placement, Harris became a director of Clavos on March 31, 1997, as nominee of Continental Management, the company which subscribed for the private placement.

9. Between April to May, 1997, terms of a deal between Clavos and MAC had been largely negotiated between Harris and Dattels.

10. On June 10, 1997, Harris provided a written outline of proposed terms to Dattels for review. The terms were approved by Becker. Shortly after, terms for a letter of intent to proceed with a corporate reorganization of Clavos were agreed to between Harris on behalf of Clavos and Dattels on behalf of MAC. Harris provided the terms to counsel for Clavos, Mr. Bondy, who then prepared a draft letter of intent. This draft letter of intent was distributed to counsel for MAC and copied to Harris by Mr. Bondy on June 24, 1997.

11. The letter of intent dated June 26, 1997 was executed on June 27, 1997 by Harris on behalf of Clavos and by Congo Minerals Inc. (which would become MAC).

12. The press release regarding the letter of intent stated, in part, as follows:

Clavos Enterprises Inc. ("Clavos") announced today that it has entered into a letter of intent with a private Ontario company ("Magnesium Alloy") to complete a reorganization that will result in an amalgamation of Clavos and Magnesium Alloy and their continuance as one company ("Amalco") under the laws of Ontario under the name Magnesium Alloy Corporation.

Pursuant to the reorganization, shareholders of Clavos will receive one share of the Amalco for each two common shares of Clavos held on the effective date of the amalgamation. Such shares will represent approximately 10% of the issued and outstanding common shares of Amalco.

The reorganization is subject to a number of conditions including execution of an agreement to give effect to the reorganization, shareholders approval of Clavos and Magnesium Alloy and receipt of any necessary regulatory approvals.

13. As part of the reorganization, it was agreed that the new amalgamated entity would continue under the name Magnesium Alloy and that shareholders of Clavos would receive one new common share of MAC for every two common shares of Clavos.

14. On June 27, 1997 at 3:15 p.m., trading in Clavos was halted pending shareholder approval of the proposal and approval of the application for a listing of the amalgamated company on CDN.

15. A Notice of Special Shareholders Meeting to be held on September 23, 1997 and Management Information Circular was prepared in August. An Amalgamation Agreement between Clavos and MAC was executed as of October 23, 1997. Trading in the shares of MAC resumed on January 28, 1998, opening at \$.80 U.S. per share. On January 28th, 54,800 shares traded at a weighted average price of \$.94 U.S.

IV. Particulars of the Allegations

A. Insider Trading: Harris' Sale of Clavos Shares

16. As part of the private placement referred to above, Harris purchased 250,000 shares of Clavos on March 31, 1997 at a purchase price of \$87,500. He placed the shares into his RRSP account with TD Evergreen. At the same time, he purchased 250,000 share purchase warrants. He prepared an initial Insider Report which was dated May 21, 1997 and filed with the Commission on July 2, 1997. This Insider Report reflected his ownership of these shares.

17. Harris sold all of his Clavos shares as follows:

<u>Date</u>	<u>Sale of Clavos Shares</u>
June 18, 1997	Sold 50,000 at \$.75
June 18, 1997	Sold 50,000 at \$.80
June 26, 1997	Sold 150,000 at \$.80

The weighted average price of the shares on these sales was \$.79.

18. Prior to June, 1997, there was minimal trading of Clavos shares. From October to December, 1996, 3,500 shares traded in total with a price range of \$.30 to \$.35. In the month of

February, 1997, 10,000 shares traded at \$.40. There were no other trades until the month of June, 1997, during which a total of 576,600 shares traded in the range of \$.55 to \$.85.

19. The intention to clean up Clavos as a shell in order to complete a reorganization had been generally disclosed in early 1997. However, until the press release of June 27, 1997, the identity of any parties with whom Clavos was negotiating was not public nor were the proposed terms of any reorganization public.

B. Failure to File Insider Reports

20. Harris knew of his obligations under the Act to file insider reports. As mentioned above, Harris did file an Insider Report dated May 21, 1997 reflecting his purchase of 250,000 Clavos shares.

21. Harris did not file any reports as required under section 107 of the *Act* regarding his sales of Clavos shares on June 18th and June 26th.

22. The Management Information Circular issued in August, 1997 regarding the corporate reorganization of Clavos contained misleading information in that it stated that Harris still owned 250,000 Clavos shares. Harris knew or should have known that it was important for correct information regarding major shareholders to be disclosed in the Management Information Circular.

V. Summary

23. On the basis of the foregoing, Staff submit that Harris has violated sections 76(1) and 107(2) of the Act and that his conduct was contrary to the public interest.

DATED AT TORONTO this 25th day of June, 2003.