



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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

-AND-

**GOLD-QUEST INTERNATIONAL
and SANDRA GALE¹**

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

Staff of the Ontario Securities Commission (“Staff”) make the following allegations regarding violations of the *Securities Act*, R.S.O 1990, c. S. 5, as amended (the “Act”) and conduct contrary to the public interest:

I. THE RESPONDENTS

(i) Gold-Quest International

1. Gold-Quest International (“Gold-Quest”) is a Panamanian corporation that was controlled by a number of individuals resident in the United States.
2. From June 2006 to May 2008, Gold-Quest accepted approximately \$29 million (U.S.) from investors, including investors in Ontario, through direct solicitations, an Internet website maintained by Gold-Quest and by referrals from existing investors.

(ii) The Ontario Respondents

3. 1725587 Ontario Inc., carrying on business as Health and Harmony, (“Health and Harmony”) is an Ontario corporation that was incorporated on September 20, 2007. Prior to being incorporated, Health and Harmony operated as a general partnership whose business

¹ The Commission issued Reasons and Decision and an Order dated November 26, 2010 imposing sanctions on Iain Buchanan and Lisa Buchanan, each of whom had originally been named as a respondent in a Statement of Allegations dated March 12, 2009. Further, Staff withdrew the allegations against 1725587 Ontario Inc., carrying on business as Health and Harmony, and Harmony Club Inc., each of whom were also originally named as respondents to this matter, in a Notice of Withdrawal dated March 4, 2013.

name was registered on November 14, 2006 with the Province of Ontario. Health and Harmony carried out its business from an office located at Unit 390, 1288 Ritson Road North, Oshawa, Ontario.

4. The Harmony Club Inc. (the “Harmony Club”) is a Canadian corporation that was incorporated on December 21, 2007. The Harmony Club also carried out its business from an office located at Unit 390, 1288 Ritson Road North, Oshawa, Ontario.
5. Donald Iain Buchanan (“Iain Buchanan”) is a director of both Health and Harmony and the Harmony Club. Iain Buchanan was also one of the partners of Health and Harmony when it operated as a general partnership. Iain Buchanan resides in Oshawa, Ontario.
6. Lisa Buchanan is an employee of Health and Harmony and a director of the Harmony Club. Lisa Buchanan resides in Oshawa, Ontario.
7. Sandra Gale, also known as Sandi Gale, (“Gale”) is a director of both Health and Harmony and the Harmony Club. Gale was also one of the partners of Health and Harmony when it operated as a general partnership. Gale resides in Oshawa, Ontario.
8. Gold-Quest and Gale are collectively referred to as the “Respondents”.

II. TRADING IN SECURITIES OF GOLD-QUEST

(i) The Gold-Quest Pyramid Scheme

9. Individuals that introduced an investor to Gold-Quest would receive the title “Administrative Manager” for the new investor. Administrative Managers would receive an up-front commission of 10% of that investor’s original investment and then a further 4% per month for a year (for a total commission of 58% of the principal invested). The individual who introduced the Administrative Manager to Gold-Quest would receive the title “Managing Director” for the new investor and would receive a commission of 1.5% per month (for a year for a total of 18% of the principal invested). Lastly, the individual who introduced the Managing Director to Gold-Quest would receive the title “Supervisory Managing Director” for the new investor and would receive a commission of 1% per month for one year (for a total of 12% of the principal invested). In sum, when a new investor sent funds to Gold-Quest, 88% of that investor’s funds were earmarked for commissions to be paid to their

Administrative Manager, Managing Director and the Supervisory Managing Director over the course of a year.

10. From June 2006 until May, 2008, despite receiving no income from its investments or business operations, Gold-Quest disbursed \$20.3 million (U.S.) through distributions to investors and payment of commissions as set out in paragraph 9.
11. On May 6, 2008, the Securities and Exchange Commission of the United States (the “SEC”) filed a complaint in the United States District Court, District of Nevada, alleging that Gold-Quest was operating a pyramid or “Ponzi” scheme. Gold-Quest has never been registered in any capacity with the SEC. The SEC further alleged that Gold-Quest used very little of the money that it raised for legitimate investments but rather the vast majority of new investor funds was used by Gold-Quest to make payments to current investors and commissions to participants in the Ponzi scheme.
12. Gold-Quest has ceased to operate and has been put into receivership by order of the United States District Court. As of December 12, 2008, the receiver appointed by the United States District Court had only recovered \$273,475.85 (U.S.).

(ii) Trading in Gold-Quest Securities in Ontario

13. Gold-Quest has never been registered in any capacity with the Ontario Securities Commission (the “Commission”).
14. No preliminary prospectus or prospectus has ever been filed with the Commission to attempt to qualify the trading of Gold-Quest securities.
15. From November of 2006 until February of 2008 (the “Material Time”), Health and Harmony and Gale along with Iain Buchanan and Lisa Buchanan (the “Buchanans”) and the other employees, representatives and agents of Health and Harmony promoted the trading of securities in Gold-Quest to Ontario residents (the “Gold-Quest Investors”).
16. Throughout the Material Time, Gale was not registered in any capacity with the Commission.
17. During the Material Time, the Gold-Quest Investors sent over \$1,800,000 (U.S.) to Gold-Quest as a result of promotional and trading activities by Gale and the Buchanans. These

activities included recommending investing with Gold-Quest, providing specific information regarding the nature of the investment with Gold-Quest, providing the documents required to invest with Gold-Quest, and in certain cases facilitating the transfer of funds to Gold-Quest on behalf of investors.

18. The Gold-Quest Investors entered into one-year investment contracts with Gold-Quest. Gold-Quest stated investor funds would be invested in the foreign exchange or “forex” market. Gold-Quest informed the Gold-Quest Investors that they would receive an annual return on investment equal to 87.5% of the funds invested with Gold-Quest. However, in order to receive this 87.5% investment return, the Gold-Quest Investors were required to leave their funds with Gold-Quest for a year.
19. Gale was well aware of the terms of the investment contracts entered into by the Gold-Quest Investors as well as the commission structure outlined above in paragraph 9. However, Gale did not inform the Gold-Quest Investors of this commission structure.
20. There were no exemptions under the Act which allowed Gale to trade Gold-Quest securities in Ontario.

III. TEMPORARY CEASE TRADE ORDERS IN ONTARIO

21. On April 1, 2008, the Commission issued a temporary order under sections 127(1) and (5) of the Act (the “Temporary Order”). Pursuant to the Temporary Order, Health and Harmony and the Buchanans were prohibited from trading in any securities and any exemptions contained in Ontario securities law did not apply to Health and Harmony and the Buchanans.
22. The Temporary Order also prohibited any further trading in securities of Gold-Quest.

IV. TRADING IN SECURITIES OF THE HARMONEY CLUB

23. The Harmony Club offered securities in this corporation to approximately 138 Ontario investors (the “Harmony Club Investors”) from October of 2007 until July of 2008.

24. Through the activities of Gale and the Buchanans, the Harmony Club received almost \$2.5 million (U.S.) from the Harmony Club Investors. These funds were then apparently used by the Harmony Club for investments in the United States.
25. No preliminary prospectus or prospectus has ever been filed with the Commission to attempt to qualify the trading of Harmony Club securities.
26. There were no exemptions under the Act available to Gale allowing her to trade Harmony Club securities.
27. Over half of the Harmony Club Investors purchased shares in the Harmony Club from Gale and the Buchanans after April 1, 2008, the date of the Temporary Order.

V. MISLEADING THE COMMISSION

28. Gale had notice of the Temporary Order in April of 2008. On October 16, 2008, Gale stated to Staff that when she became aware of the Temporary Order she ceased trading in securities including securities of the Harmony Club.
29. Gale continued to trade in securities of the Harmony Club after she became aware of the Temporary Order.

VI. ALBERTA SECURITIES COMMISSION PROCEEDINGS

30. On May 19, 2009, Staff of the Alberta Securities Commission (the “ASC”) filed an amended Notice of Hearing alleging that Gold-Quest illegally traded and distributed securities in contravention of the *Alberta Securities Act*, R.S.A. 2000, c. S-4, as amended (the “*Alberta Securities Act*”). The conduct underlying those alleged breaches also forms the basis of the Statement of Allegations issued by Staff in this proceeding.
31. On January 14, 2010, the ASC issued a decision finding that Gold-Quest engaged in unregistered trading and an illegal distribution, in doing so act contrary to the public interest, and made misleading and untrue statements about Gold-Quest securities in contravention of the *Alberta Securities Act*.

VII. VIOLATIONS OF THE SECURITIES ACT AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

32. The conduct of Gold-Quest including its officers and directors, employees, representatives and agents was contrary to the public interest and constituted the following breaches of the Act:
- (i) trading without registration contrary to section 25 of the Act;
 - (ii) an illegal distribution of securities contrary to section 53 of the Act; and
 - (iii) Gold-Quest has been found by the ASC to have contravened the laws of that jurisdiction respecting the buying or selling of securities, which are circumstances which permit an order to be made pursuant to clause 3 of subsection 127(10) of the Act.
33. The conduct of Gale was contrary to the public interest and constituted the following breaches of the Act:
- (i) trading without registration contrary to section 25 of the Act;
 - (ii) illegal distributions of securities contrary to section 53 of the Act; and
 - (iii) misleading Staff contrary to subsection 122(1) of the Act.
34. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto, March 6, 2013