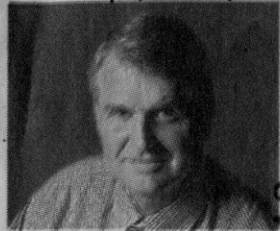


When tax man wanted exploration proof, there was none

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small Vancouver Stock Exchange-listed company that was exploring property in the Anyox area of northern B.C.

One of Buchan's co-directors was Ron Klassen, a Vancouver lawyer who, years later, would become well acquainted with B.C. securities regulators.

Prospectors went public in May 1988, selling 600,000 shares at \$1.50 each in its initial public offering. Despite some boosterish press releases, the share price immediately began to decline. By December 1991, it had sunk to two cents and trading was halted for failure to file financial statements. The following year, the stock was delisted.

Klassen subsequently became involved in a stock scheme orchestrated by Michael Mitton, a career fraudster who had dozens of criminal convictions and had been banned from the B.C. securities market for 20 years.

Although he was told that Mitton had a regulatory history and could not trade in his own name, Klassen agreed to take trading instructions from Mitton and effected a series of trades in

some flimsy VSE-listed stocks that ultimately left two local brokerage firms with unsatisfied debits totalling several hundred thousand dollars.

The B.C. Securities Commission commenced an investigation and, in October 1997, Klassen settled the matter by agreeing not to act as an officer or director of a public company for five years.

(As an aside, it is interesting to note that the B.C. Law Society took no action against Klassen, even though he had admitted to serious transgressions and had agreed to a five-year suspension. This sort of inaction in securities matters is, sadly, the norm for the law society).

Meanwhile, Buchan and Klassen incorporated another company called Granby Mining Corp., which acquired claims in the Anyox area and contracted Hidden Rock to conduct exploration work.

Buchan served as Hidden Rock's president and sole director. Klassen provided legal services and they all operated out of Klassen's office at 1177 West Hastings Street.

To finance exploration, Hidden Rock began to solicit public investors. The chief salesman was a former mutual fund salesman named Walter Barnscher, who would also run afoul of B.C. regulators at a later date.

Investors were told they could make a \$20,000 investment by providing a \$5,000 down payment and signing a promissory note for \$15,000. Although they paid a fraction of the total amount, they were told they could claim the full amount as Canadian Exploration Expense, which provided tax refunds well in excess of their \$5,000 expenditure. As for the promissory note, investors were left with the distinct impression that repayment was on the never-never plan. In many instances investors never even signed the note.

From 1999 to 2001, the company raised an estimated \$1 million from a couple of hundred investors. Then the poop hit the fan. Canada Revenue Agency investigators asked for proof that the money was spent on qualifying exploration expenses, but Hidden Rock failed to deliver

any. In March, CRA sent letters to investors advising that they were going to disallow all the tax deductions they had claimed.

Meanwhile, Barnscher was nailed by the B.C. Securities Commission for selling \$242,055 worth of shares in a private B.C. numbered company to 10 B.C. residents without proper registration. On March 31, he agreed not to act as an officer or a director, or provide investor relations services, for any public company for three years.

It would be nice to announce that a white knight is galloping over the horizon to save investors, but that does not appear to be the case. Rather a group calling itself the Stakeholder Steering Committee, run by a person who identifies himself only as John Brown, is urging people to send money to Brian Mason at Maitland & Company to create a legal fund to finance recovery efforts.

(As another aside, it is interesting to note that one of the partners at Maitland & Company is Michael Seifert, who in 1999 admitted to illegal insider trading

through secret offshore accounts and agreed to a 12-year stock market suspension and a \$450,000 fine, but did not miss a day of work on account of the law society.)

"Brown's" letter to investors rambles on for six pages and is rife with bold print and underlining and twice quotes Edmund Burke's famous remark, "All that is necessary for the triumph of evil is that good men do nothing," which gives it a rather frenetic feel.

Brown also urges investors to keep his letter confidential to maintain the element of surprise and maximize the chances of recovery, which is patently silly. By now, the promoters of this scheme would have surely concluded that investors will be looking at the possibility of legal redress.

I think what this group needs is an investor who is sensible and strong enough to come out in public, rally the investors and plot a cost-effective strategy for dealing with the tax department and the people who caused this financial fiasco. Is there such a person out there?

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