

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

**- AND -**

**IN THE MATTER OF  
EDWARDS SECURITIES INC., DAVID GERALD EDWARDS,  
DAVID FREDERICK JOHNSON, CLANSMAN 98 INVESTMENTS INC.  
and DOUGLAS G. MURDOCK**

**SETTLEMENT AGREEMENT  
BETWEEN STAFF, EDWARDS SECURITIES INC. and  
DAVID GERALD EDWARDS**

**I INTRODUCTION**

1. By Notice of Hearing dated August 9, 2002, the Ontario Securities Commission announced that it proposed to hold a hearing to consider whether, pursuant to sections 127 and 127.1 of the Ontario *Securities Act*, it is in the public interest for the Commission:
  - (a) to make an order that trading in securities by the respondents, or any of them, cease permanently or for such other period as specified by the Commission;
  - (b) to make an order that David Gerald Edwards and David Frederick Johnson, or either of them, resign their positions as officers and/or directors of the respondent Edwards Securities Inc. ("ESI") and resign their positions as an officer and/or director of any other issuer;

- (c) to make an order that Douglas G. Murdock resign his position as an officer and/or director of the respondent Clansman 98 Investments Inc. and resign his positions as an officer and/or director of any other issuer;
- (d) to make an order that Edwards, Johnson and Murdock, or any of them, are prohibited from becoming or acting as a director or officer of any issuer;
- (e) to make an order that the respondents or any of them be reprimanded;
- (f) to make an order that the respondents, or any of them, pay the costs of Staff's investigation in relation to this proceeding;
- (g) to make an order that the respondents, or any of them, pay the costs of the proceeding incurred by or on behalf of the Commission; and
- (h) to make such other order as the Commission considers appropriate.

## **II JOINT SETTLEMENT RECOMMENDATION**

2. Staff of the Commission agree to recommend settlement of the proceedings initiated in respect of the respondents by the Notice of Hearing in accordance with the terms and conditions set out below. Edwards and ESI agree to the settlement on the basis of the facts agreed to as provided in Part III and consent to the making of an Order in the form attached as Schedule "A" on the basis of the facts set out in Part III.
3. This settlement agreement, including the attached Schedule "A" (collectively, the "Settlement Agreement"), will be released to the public only if and when the settlement is approved by the Commission.

### **III FACTS**

4. ESI is a corporation incorporated under the laws of Ontario with a registered office at 240 Argyle Avenue in Ottawa. ESI was registered with the Commission as a Dealer in the category of Securities Dealer from September 15, 1988 to March 6, 2000.
5. Johnson is an individual residing in Ontario, and was at all material times the President and sole Director of ESI. Johnson was registered with the Commission as ESI's designated Trading Officer from September 15, 1988 to March 6, 2000.
6. Edwards was at all material times an officer and the owner of the majority of the shares of ESI. Edwards was registered with the Commission as a Salesperson of ESI from September 22, 1988 to March 6, 2000.

#### **Mercristo Developments Inc.**

7. Mercristo Developments Inc. is a corporation incorporated pursuant to the laws of Delaware, which traded on the OTC Bulletin Board under the symbol "MDEX". At all material times, Edwards was the President, Chief Executive Officer, Chief Financial Officer, Director and the owner of the majority of the shares of Mercristo. In 1998, Mercristo changed its name to Addison Industries Inc., which trades under the symbol "ADIS".

#### **Clansman 98 Investments Inc. and Douglas Murdock**

8. Clansman 98 Investments Inc. is a corporation incorporated under the laws of Ontario with a registered office at 3660 Hurontario Street in Mississauga. Clansman has never been registered in any capacity under the Act, and is not a reporting issuer in Ontario.

9. Douglas G. Murdock was at all material times the President, Secretary, Treasurer and sole Director of Clansman. He has never been registered in any capacity under the Act.

### **Trading Without a Prospectus**

10. During the period between February and April, 1998 ESI, Clansman, Edwards and Murdock traded in securities, namely shares of Clansman, where such trading constituted a distribution of securities, without a receipted prospectus.
11. Clients of ESI were contacted by Edwards and offered an opportunity to invest in shares of Clansman. Clients who expressed interest in this opportunity were shown a package of documents relating to Clansman's proposed acquisition of Harding Carpet Canada Ltd., a company located in Brantford, Ontario which was then in receivership.
12. Clients wishing to invest in Clansman were informed that its shares could only be purchased in "units" of at least \$12,500. Those who chose to invest were asked to execute a document titled "Expression of Interest". This document stated that ESI was acting as agent for Clansman, and that the investor would be purchasing "Class C Common Shares" of Clansman. This executed document was to be returned to ESI accompanied by a cheque representing payment in full for the requested shares.
13. As a result of these promotional activities, at least \$1,412,750 was raised from at least 89 individual investors. The majority of these individual investors were clients of ESI.

### **Failure to Disclose Commission**

14. ESI, Clansman, Edwards and Murdock failed to disclose to investors that ESI received a commission of 20% on the sale of all Clansman shares.

**Failure to Disclose Interest**

15. Clansman and Murdock did not employ investors' funds to acquire the business of Harding Carpets, as they originally represented. Instead, the majority of the funds raised were used to purchase shares of Mercristo, a company owned and directed by Edwards. Investors were never informed, prior to their investment in Clansman, that their funds would be employed in this way.

**Closure of ESI**

16. On March 6, 2000, Johnson resigned from ESI. With the departure of its Designated Trading Officer, ESI's registration under Ontario securities law was suspended. Edwards' registration under Ontario securities law was therefore suspended as of the same date.

**Edwards' Bankruptcy**

17. Edwards made a voluntary assignment in bankruptcy on April 10, 2001 and was granted an automatic discharge on January 11, 2002.

**IV TERMS OF SETTLEMENT**

18. Edwards and ESI agree to the following terms of settlement:
  - (a) pursuant to clause 1 of subsection 127(1) of the Act, Edwards' registration under Ontario Securities law will be terminated, effective the date of the Order of the Commission approving this proposed settlement agreement;

- (b) pursuant to clause 2 of subsection 127(1) of the Act, Edwards will be permanently prohibited from trading in securities, with the exception that he will be permitted to trade in securities listed on the Toronto Stock Exchange for his own account, effective the date of the Order of the Commission approving this proposed settlement agreement;
- (c) pursuant to clause 6 of subsection 127(1) of the Act, Edwards will be reprimanded by the Commission;
- (d) pursuant to clause 7 of subsection 127(1) of the Act, Edwards will be required to resign all positions that he currently holds as officer or director of ESI, effective the date of the Order of the Commission approving this proposed settlement agreement;
- (e) pursuant to clause 7 of subsection 127(1) of the Act, Edwards will be required to resign all positions that he currently holds as officer or director of an issuer, effective the date of the Order of the Commission approving this proposed settlement agreement;
- (f) pursuant to clause 8 of subsection 127(1) of the Act, Edwards will be permanently prohibited from becoming or acting as an officer or director of any issuer, effective the date of the Order of the Commission approving this proposed settlement agreement;
- (g) pursuant to subsection 1 of section 127.1 of the Act, Edwards will make a payment of \$5000.00 towards the costs of Commission Staff's investigation of this matter.

- (h) Edwards undertakes never to re-apply for registration under Ontario securities law;
- (i) pursuant to clause 1 of subsection 127(1) of the Act, ESI's registration under Ontario Securities law will be terminated, effective the date of the Order of the Commission approving this proposed settlement agreement;
- (j) pursuant to clause 2 of subsection 127(1) of the Act, ESI will be permanently prohibited from trading in securities, effective the date of the Order of the Commission approving this proposed settlement agreement;
- (k) pursuant to clause 6 of subsection 127(1) of the Act, ESI will be reprimanded by the Commission; and
- (l) ESI undertakes never to re-apply for registration under Ontario securities law.

## **V STAFF COMMITMENT**

- 19. If this Settlement Agreement is approved by the Commission, Staff will not initiate any complaint to the Commission or request the Commission to hold a hearing or issue any order in respect of any conduct or alleged conduct of the respondents in relation to the facts set out in Part III of this Settlement Agreement.

## **VI PROCEDURE FOR APPROVAL OF SETTLEMENT**

- 20. The approval of the settlement as set out in the Settlement Agreement shall be sought at a public hearing before the Commission scheduled for such date as is agreed to by Staff and Edwards and ESI in accordance with the procedures described herein and such further procedures as may be agreed upon between Staff and Edwards and ESI.

21. If this Settlement Agreement is approved by the Commission, it will constitute the entirety of the evidence to be submitted respecting Edwards and ESI in this matter and Edwards and ESI agree to waive any right to a full hearing and appeal of this matter under the Act.
22. If this Settlement Agreement is approved by the Commission, the parties to this Settlement Agreement will not make any statement that is inconsistent with this Settlement Agreement.
23. If, for any reason whatsoever, this settlement is not approved by the Commission, or the Order set forth in Schedule "A" is not made by the Commission:
  - (a) each of Staff and Edwards and ESI will be entitled to proceed to a hearing of the allegations in the Notice of Hearing and related Statement of Allegations unaffected by the Settlement Agreement or the settlement;
  - (b) the terms of the Settlement Agreement will not be raised in any other proceeding or disclosed to any person except with the written consent of Staff and Edwards and ESI or as may be otherwise required by law; and
  - (c) Edwards and ESI further agree that they will not raise in any proceeding the Settlement Agreement or the negotiation or process of approval thereof as a basis for any attack on the Commission's jurisdiction, alleged bias, appearance of bias, alleged unfairness or any other challenge that may otherwise be available.
24. If, prior to the approval of this Settlement Agreement by the Commission, there are new facts or issues of substantial concern, in the view of Staff, regarding the facts set out in Part III of this Settlement Agreement, Staff will be at liberty to withdraw from this Settlement Agreement. Notice of such intention will be provided to Edwards and/or ESI



in writing, and any cheques provided to Staff by Edwards and/or ESI representing payment of investigation costs will be returned. In the event of such notice being given, the provisions of paragraph 23 in this part will apply as if this Settlement Agreement had not been approved.

## **VII DISCLOSURE OF AGREEMENT**

25. Staff or Edwards or ESI may refer to any part or all of this Settlement Agreement in the course of the hearing convened to consider this agreement. Otherwise, this Settlement Agreement and its terms will be treated as confidential by all parties to the Settlement Agreement until approved by the Commission, and forever if, for any reason whatsoever, this settlement is not approved by the Commission.
26. Any obligation as to confidentiality shall terminate upon the approval of this Settlement Agreement by the Commission.

**VIII EXECUTION OF SETTLEMENT AGREEMENT**

27. This Settlement Agreement may be signed in one or more counterparts which together shall constitute a binding agreement and a facsimile copy of any signature shall be as effective as an original signature.

**DATED** this 11th day of December, 2002

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**Witness**

**“David Gerald Edwards”**  
**David Gerald Edwards**

**DATED** this 11th day of December, 2002

**EDWARDS SECURITIES INC.**

**(Per) “David Gerald Edwards”**  
**David Gerald Edwards**

**DATED** this 13th day of December, 2002

**STAFF OF THE ONTARIO  
SECURITIES COMMISSION**

**(Per) “Michael Watson”**  
**Michael Watson**  
Director, Enforcement Branch