Ontario Securities Commission
Commission des valeurs mobilières de l'Ontario
22nd Floor, 20 Queen Street West, Toronto ON M5H 3S8
22e étage, 20, rue queen ouest, Toronto ON M5H 3S8

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

- and -

IN THE MATTER OF
PATRICK MYLES LOUGH, LYNDA DAWN DAVIDSON, and
WAYNE THOMAS ARNOLD BARNES

STATEMENT OF ALLEGATIONS OF STAFF OF THE ONTARIO SECURITIES COMMISSION

Staff of the Ontario Securities Commission ("Staff") allege:

I. OVERVIEW

1. On January 31, 2014, Patrick Myles Lough ("Lough"), Lynda Dawn Davidson ("Davidson") and Wayne Thomas Arnold Barnes ("Barnes") (collectively, the "Respondents") entered into a Settlement Agreement and Undertaking with the Alberta Securities Commission ("ASC") (the "Settlement Agreement").

2. Pursuant to the Settlement Agreement, the Respondents each agreed to certain undertakings and to be made subject to sanctions, conditions, restrictions or requirements within the province of Alberta.

3. Staff are seeking an inter-jurisdictional enforcement order reciprocating the Settlement Agreement, pursuant to paragraph 5 of subsection 127(10) of the Ontario *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act").

4. The conduct for which the Respondents were sanctioned took place between February and September 2011 (the "Material Time").

5. During the Material Time, the Respondents raised approximately $2.9 million from 23 investors in connection with a proposed real estate development near Pigeon Lake, Alberta without filing a prospectus or exempt distribution reports with the ASC as required under Alberta securities laws. In the Settlement Agreement, the Respondents admitted to illegal distribution of Mountain Shores Land Ventures Ltd. ("MSLV") shares and to making false or misleading statements to potential investors.

6. MSLV was also a respondent in the ASC proceedings and a party to the Settlement Agreement. Pursuant to the Settlement Agreement, MSLV undertook to correct misinformation previously provided to investors and to offer investors an optional refund of their investment, and agreed that any future capital raising activity of MSLV in Alberta will be conducted under the advice and guidance of a lawyer with knowledge of Alberta securities laws and exempt financing.

II. THE ASC PROCEEDINGS

Admitted Facts

7. In the Settlement Agreement, the Respondents admitted the following:

Parties

a. MSLV is a private corporation, incorporated in July 2008 in British Columbia, and extra-provincially registered in Alberta on March 3, 2011.

b. Lough is a resident of Boswell, British Columbia. At the Material Time, Lough was the primary executive officer, a director, and the majority owner of MSLV.

c. Davidson is a resident of Saskatoon, Saskatchewan, and Lough's sister. At the Material Time, Davidson was an officer, a director, and an owner of MSLV.

d. Barnes is a resident of Kimberley, British Columbia. At the Material Time, Barnes was the Director of Sales & Marketing of MSLV.

Circumstances

e. In late 2010, MSLV negotiated the purchase of property near Pigeon Lake, Alberta, known as the Dorchester Ranch RV and Golf Resort ("Dorchester Resort"), intending to develop some of the land surrounding the existing golf course into permanent RV lots.

f. In January 2011, to acquire the Dorchester Resort, MSLV entered agreements to purchase two pieces of land for $5 million.

g. Between February and September 2011, the Respondents distributed securities of MSLV, raising approximately $2.9 million from 23 investors, including 18 from Alberta.

h. No prospectus, offering memorandum, or exempt distribution reports were filed with the ASC's Executive Director in respect of any securities of MSLV.

i. The distributions of securities of MSLV were made in reliance on the "accredited investor" and "family, friends, and business associates" exemptions contained in National Instrument 45-106, but a number of investors failed to meet the relevant exemption criteria.

j. Barnes failed to take adequate steps to ensure that he and the other salespersons understood the criteria of the exemptions relied upon, and failed to take adequate steps to ensure that investors understood and met the criteria at the time of their investment. Lough and Davidson, as the only directors and officers of MSLV, failed to adequately oversee Barnes and the investment program.

k. In soliciting investors in MSLV, the Respondents made statements to potential investors that they knew or ought reasonably to have known were materially misleading or untrue, as follows:

    i. MSLV and its "partners" had completed "a City subdivision, a golf course design and subdivision development, and several lake marina and lot developments," its "partners" possessed "over 50+ combined years of

project development and management experience," its "partners" had been "very successful" with recent projects and had "invested millions personally into previous projects." In fact, MSLV had no partners in the Dorchester Resort project, and MSLV was not itself involved in any previous development projects. Also, Lough and Davidson's combined experience in completed developments was limited to Lough's involvement in the completion of one previous project, and neither of them invested personal funds into the Dorchester Resort project.

ii. MSLV selected the project after performing an "extensive review" into the project's viability, and there was "a huge need in the area for cabin and RV lots offered at a lower price point…" and "demand for permanent RV sites in Alberta." In fact, the project was primarily selected based on a review of design plans for the area of a previous developer, which did not involve RV lots, and without an extensive review into the project's viability.

iii. "Detailed [d]esign for the first phase of the development has been completed and [is] in approval stage." In fact, at the time, MSLV had not yet submitted its application to the relevant municipal authority to commence the process of review and consideration of the company's development plans.

iv. The project "would provide an investor with an expected return greater than standard market investments…," providing value "with minimal risk." In fact, the expected return for the project was unknown (and was not, in any event, compared to undefined "standard market investments"), and there was, and continues to be, substantial risk associated with the development project.

v. Investors would receive ownership of 1% of the golf course and land, and investors would also receive 1% net profit. In fact, these were not

separate benefits of investment, as presented, as the net profits were to be derived from the sale of the golf course and land.

vi. Investors would be able to sell their own RV lot "immediately" or "upon registration of the project prospectus." In fact, this was inaccurate, as investors would not own their lot until completion of the subdivision and the issuance of separate titles.

vii. Upon completion of the development, investors would "have the option to sell [their] share(s) or stay in the company for future projects and receive dividends." In fact, such an option was highly uncertain, as MSLV could not promise to repurchase the shares and there was no liquid market for the securities.

viii. The "profit margin" of the development project would be $23,860,000 or more. In fact, the estimate failed to account for and disclose significant known costs associated with the project (including certain required infrastructure, monthly management fees, repayment of investor capital, lots provided as payment in land purchase, and the costs of necessary third-party financing).

l. In describing the project and anticipated profits, the Respondents failed to disclose to investors that there was a risk, which ultimately materialized, that the municipal authority responsible for providing development approvals would require, as a condition of approval, that MSLV either pave approximately 3 miles of roadway (in addition to the development's internal roadways), at an approximate cost of $3 million, or to post security equal to 120% of the paving cost.

m. The Respondents also represented that investors would "have their initial investment returned," before any net profit percentages would be paid.

n. The above statements were, in a material respect and at the time and in light of the circumstances in which they were made, misleading or untrue, or failed to state a

fact required to be stated or necessary to make the statement not misleading, a reality that the Respondents knew or ought reasonably to have known.

Admitted Breaches of Alberta Securities Laws

o. The Respondents admitted that they breached the Alberta *Securities Act*, R.S.A. 2000, c. S-4 (the "AB Act") as follows:

i. MSLV and Barnes breached Section 110 of the AB Act, by distributing securities without having filed a prospectus with the ASC's Executive Director and without an applicable prospectus exemption, and Lough and Davidson permitted such illegal distributions; and

ii. MSLV, Lough, Davidson, and Barnes breached Section 92(4.1) of the AB Act, by making statements that each knew or reasonably ought to have known were materially misleading or untrue (including by factual omission) and would reasonably be expected to have a significant effect on the market price or value of a security.

p. The Respondents admit their conduct was contrary to the public interest.

The Settlement Agreement and Undertakings

8. Pursuant to the Settlement Agreement, the Respondents each agreed to certain undertakings and to be made subject to sanctions, conditions, restrictions or requirements within the province of Alberta:

a. Lough:

i. Lough pay to the ASC, on execution of the Settlement Agreement, the amount of $40,000 in settlement of all allegations against him, and an additional $5,000 in respect of investigation costs; and;

ii. for a period of 4 years from the date of the Settlement Agreement:

1. Lough refrain from trading in or purchasing securities or exchange contracts, except for (a) trades made in a personal brokerage account, a registered retirement savings plan, a tax-free savings account, or a registered education savings plan, for the benefit of one or more of himself, his spouse, and his children, and (b) trades or acts in furtherance of trades in securities of MSLV, made solely for the purpose of completing the Dorchester Resort project referred to in the Settlement Agreement;

2. Lough refrain from using any of the prospectus and registration exemptions contained in Alberta securities laws, except in respect of securities of MSLV; and

3. Lough refrain from becoming or acting as either a director or an officer of any issuer, registrant, or investment fund manager, and to immediately resign any such positions he holds – except that he may act as a director and officer of MSLV in connection with the Dorchester Resort development project.

b. Davidson:

i. Davidson pay to the ASC, on execution of the Settlement Agreement, the amount of $30,000 in settlement of all allegations against her, and an additional $5,000 in respect of investigation costs; and

ii. for a period of 3 years from the date of the Settlement Agreement:

1. Davidson refrain from trading in or purchasing securities or exchange contracts, except for (a) trades made in a personal brokerage account, a registered retirement savings plan, a tax-free savings account, or a registered education savings

plan, for the benefit of one or more of herself, her spouse, and her children, and (b) trades or acts in furtherance of trades in securities of MSLV, made solely for the purpose of completing the Dorchester Resort project referred to in the Settlement Agreement;

2. Davidson refrain from using any of the prospectus and registration exemptions contained in Alberta securities laws, except in respect of securities of MSLV; and

3. Davidson refrain from becoming or acting as either a director or an officer of any issuer, registrant, or investment fund manager, and to immediately resign any such positions she holds – except that she may act as a director and officer of MSLV in connection with the Dorchester Resort development project.

c. Barnes:

i. Barnes pay to the ASC, on execution of the Settlement Agreement, the amount of $30,000 in settlement of all allegations against him, and an additional $5,000 in respect of investigation costs; and

ii. for a period of 4 years from the date of the Settlement Agreement:

1. Barnes refrain from trading in or purchasing securities or exchange contracts, except for trades made in a personal brokerage account, a registered retirement savings plan, a tax-free savings account, or a registered education savings plan, for the benefit of one or more of himself, his spouse, and his children; and

2. Barnes refrain from using any of the prospectus and registration exemptions contained in Alberta securities laws.

III. JURISDICTION OF THE ONTARIO SECURITIES COMMISSION

9. In the Settlement Agreement, the Respondents agreed to be made subject to sanctions, conditions, restrictions or requirements within the province of Alberta.

10. Pursuant to paragraph 5 of subsection 127(10) of the Act, an agreement with a securities regulatory authority, derivatives regulatory authority or financial regulatory authority, in any jurisdiction, to be made subject to sanctions, conditions, restrictions or requirements on the person or company may form the basis for an order in the public interest made under subsection 127(1) of the Act.

11. Staff allege that it is in the public interest to make an order against the Respondents.

12. Staff reserve the right to amend these allegations and to make such further and other allegations as Staff deem fit and the Commission may permit.

13. Staff request that this application be heard by way of a written hearing pursuant to Rules 2.6 and 11 of the *Ontario Securities Commission Rules of Procedure*.

DATED at Toronto, this 24th day of July, 2014.