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**THE STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

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IN THE MATTER OF DETERMINING)	Order No.: S-17-2324-18-SC01
Whether there has been a violation of the)	
Securities Act of Washington by:)	STATEMENT OF CHARGES AND
)	NOTICE OF INTENT TO ENTER ORDER
Pacific Rim Energy, Inc.;)	TO CEASE AND DESIST, TO IMPOSE
Gregory D. Mrachek;)	FINES, AND TO CHARGE COSTS
Stephen B. McKanna;)	
)	
Respondents)	
)	

THE STATE OF WASHINGTON TO: **Pacific Rim Energy, Inc.**
Gregory D. Mrachek
Stephen B. McKanna

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents Pacific Rim Energy, Inc., Gregory D. Mrachek, and Stephen B. McKanna have each violated the Securities Act of Washington. The Securities Administrator believes that those violations justify the entry of an order against the Respondents to cease and desist from such violations, and to charge costs pursuant to RCW 21.20.390, and to impose fines under RCW 21.20.395. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

1. Pacific Rim Energy, Inc. ("PRE") is a Washington corporation incorporated in September 1993. PRE maintains a principal place of business in Tacoma, Washington, and purports to be in the business of oil and gas exploration and development, as well as the acquisition and sale of drinking water. During the period relevant to this Statement of Charges, PRE also did business as Pacific Green Energy.

1 potential investors that it planned to remove ground water from Washington for transport to the Middle East
2 where it would sell the water to nations that do not have adequate amounts of drinking water. PRE further
3 represented that it would acquire up to 200 retired oil tankers to transport the water. PRE identified PRW to
4 a potential investor as the entity that would undertake its water project.

5 **Nature of the Conduct**

6 *Offer and Sale of PRE Stock: Solicitation by Mrachek and McKanna*

7 6. Mrachek solicited at least seven of PRE's ten known Washington investors to purchase PRE
8 stock. These investors included members of Mrachek's family and long-standing friends. Mrachek first
9 contacted these persons to discuss investing in PRE stock by phone and by email. Mrachek represented to a
10 potential investor that PRE was anticipating a large influx of capital. In July 2017, Mrachek represented to a
11 potential investor that PRE stock would trade on the London Stock Exchange ("LSE") by the end of 2017.
12 However, Mrachek failed to disclose that PRE had aspired to become listed on the LSE since no later than
13 2010, but had failed to do so.

14 7. McKanna solicited two elderly Washington residents with whom he regularly played cards to
15 invest in PRE stock. McKanna represented to one of these potential investors that PRE was exclusively an
16 oil company. McKanna failed to disclose the risks related to investing in PRE to this potential investor,
17 including, but not limited to, the risk that PRE's stock might never appear on a stock exchange, and the risk
18 that PRE could be chronically undercapitalized. McKanna also failed to disclose how PRE would use the
19 investor's funds.
20

21 *Offer and Sale of PRE Stock: Offering Documents*

22 8. Mrachek provided the "PRE Investment Package" to potential investors. This package
23 included documents entitled Investor's Executive Summary, PRE Executive Summary, PRE Private
24 Placement Memorandum ("PPM"), and Pacific Rim Drinking Water Plan.

1 9. PRE and Mrachek made misleading statements of material fact and omitted material facts in
2 the Investor's Executive Summary. In the Investor's Executive Summary, PRE stated that it had formed a
3 partnership with Doha, Qatar-based Pacific Rim Water called Gulf Pacific Group to transport drinking water
4 to the Persian Gulf region via retired oil tankers. PRE further stated that it intended to acquire 200 such
5 tankers. However, Gulf Pacific Group never existed, as it did not advance beyond casual discussions between
6 McKanna and friends of McKanna living in Qatar. PRE also failed to disclose that neither Mrachek, nor
7 McKanna had experience managing such a project.

8 10. PRE and Mrachek made misleading statements of material fact and omitted material facts in
9 PRE's PPM. In the PPM, PRE stated that it planned to become a publicly traded company by listing on the
10 London Stock Exchange ("LSE") in early 2010. However, Mrachek failed to disclose that listing on the LSE
11 would require PRE to operate in a fundamentally different manner than it had up to that point, and that such
12 change could substantially affect PRE's operations. For instance, PRE would have to produce a number of
13 reports and other documents that it had not produced up to that point. PRE would also have to have an
14 appropriate board of directors, which PRE did not have at that time, as well as proper financial controls. At
15 that time, McKanna and Mrachek commingled the funds of different businesses that they owned, including
16 PRE's funds. PRE would also have to create a prospectus that included adequate information about PRE's
17 financial position, profits and losses, and its prospects, among other things, for review by LSE authorities.
18 PRE had not produced such a document at that time.

19 20 11. PRE and Mrachek made misleading statements of material fact, and omitted material facts in
21 the Pacific Rim Drinking Water Plan (the "Water Plan"). In the Water Plan, PRE discussed its plan to
22 transport and sell drinking water to nations in the Persian Gulf region. PRE stated that its project would create
23 opportunities to export goods and services from Washington and other regions of the United States. However,
24 PRE did not disclose how much, if any, water it had received permission to remove. The Securities Division

1 requested that McKanna produce all documents that indicated that PRE had acquired the right to remove
2 water. McKanna failed to produce such documents. PRE also failed to disclose how it would transport the
3 water to the location from which PRE would export it. Further, PRE did not disclose the potentially substantial
4 costs of either transporting water to that location, such as insurance and labor costs, or the costs of exporting
5 the water to foreign countries, such as taxes and duties imposed by the governments of the receiving nations.
6 On a page entitled "Milestones," PRE stated that Gulf Pacific Group was a legal entity in Qatar. However,
7 Gulf Pacific Group never existed in Qatar. PRE also stated that it and Gulf Pacific Group had established
8 relationships with the governments of Gulf area nations. In fact, McKanna and Mrachek had attempted to
9 establish relationships with these governments, but had failed to do so.

10 *Offer and Sale of PRE Debt*

11 12. Mrachek sold \$10,000 of PRE debt to an investor. PRE provided three "return options" for
12 investors. In each option, PRE included a return of principal and additional inducements. The options were:
13 return of principal plus 65% of principal in PRE stock; return of principal plus 25% of principal in cash and
14 25% of principal in PRE stock; and, return of principal plus 50% of principal in cash. The investor chose the
15 first option. Mrachek stated to the investor that he would receive a "total return" on his purchase of PRE's
16 debt within 120 days. PRE and Mrachek did not identify the sources of revenue that would enable PRE to
17 make such payments, nor the assumptions PRE made in determining that it would be able to make these
18 payments. PRE did not return any of the investor's funds.

19 *Private Placement Form and Payment*

20 21 13. PRE stock investors completed a Private Placement Form as part of their purchase. Investors
22 provided contact information and stated how much they wished to invest on this form. The form did not
23 solicit information related to the investors' financial state or investment experience. Investors paid by
24 personal check and cashier's check.

Post Investment Contact with Investors

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2 14. PRE does not have regular contact with its investors. An investor that Mrachek solicited has
3 not seen Mrachek in over six years. This investor requested that PRE return his investment funds. As of the
4 date of this order, PRE has not returned these funds. This investor believes that the loss of money resulting
5 from these investments' nonperformance was a significant factor in the deterioration of his marriage, and,
6 ultimately, his divorce.

7 *Omissions by McKanna during the Securities Division's Investigation*

8 15. During its investigation of this matter, the Securities Division requested that McKanna provide
9 a complete list of Washington residents who had purchased PRE stock. McKanna failed to include three
10 Washington residents who had invested \$28,000 in PRE. McKanna also failed to name these investors when
11 he testified before the Division.

12 **Registration Status**

13 16. Pacific Rim Energy is not currently registered to sell its securities in the State of Washington,
14 and has not previously been so registered.

15 17. Gregory D. Mrachek is not currently registered as a securities salesperson or broker-dealer in
16 the State of Washington, and has not previously been so registered.

17 18. Stephen B. McKanna is not currently registered as a securities salesperson or broker-dealer in
18 the State of Washington, and has not previously been so registered.

19 **CONCLUSIONS OF LAW**

20 Based on the above Tentative Findings of Fact, the following Conclusions of Law are made:

21 1. The offer and sale of stock and debt described above constitute the offer or sale of a
22 security as defined at RCW 21.20.005(14) and (17).
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1 2. Respondents violated RCW 21.20.140 because, as set forth in the Tentative Findings of Fact,
2 Respondents offered or sold securities for which no registration is on file with the Securities Administrator

3 3. Gregory D. Mrachek, and Stephen B. McKanna, have each violated RCW 21.20.040 by
4 offering and selling said securities while not registered as securities salespersons or broker-dealers in the
5 State of Washington.

6 4. The Respondents violated RCW 21.20.010 because, Respondents, in connection with the
7 offer or sale of securities, made misstatements of material facts or omitted to state material facts necessary
8 in order to make the statements made, in light of the circumstances under which they were made, not
9 misleading.

10 **NOTICE OF INTENT TO ENTER ORDER TO CEASE AND DESIST**

11 Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator
12 intends to order, pursuant to RCW 21.20.390(1), that Pacific Rim Energy, Inc., Gregory D. Mrachek, Stephen
13 B. McKanna, and their agents and employees, shall each cease and desist from violations of RCW 21.20.010,
14 RCW 21.20.040, and RCW 21.20.140.

15 **NOTICE OF INTENT TO CHARGE COSTS**

16 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and Conclusions of
17 Law, the Securities Administrator intends to order that Pacific Rim Energy, Inc., Gregory D. Mrachek,
18 and Stephen B. McKanna, shall be jointly and severally liable for, and shall pay the costs, fees, and other
19 expenses incurred in the administrative investigation and hearing of this matter, in an amount not less than
20 \$5,000.
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NOTICE OF INTENT TO IMPOSE FINES

Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Pacific Rim Energy, Inc., Gregory D. Mrachek, and Stephen B. McKanna, shall each be liable for, and shall each pay a fine of \$10,000.

AUTHORITY AND PROCEDURE

This Statement of Charges is entered pursuant to the provisions of Chapter 21.20 RCW and is subject to the provisions of Chapter 34.05 RCW. Respondents may make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this Order. If a Respondent does not make a hearing request in the time allowed, the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent order to cease and desist, to impose the fine sought, and to charge any costs sought against that Respondent.

SIGNED AND ENTERED this 5th day of September, 2019.



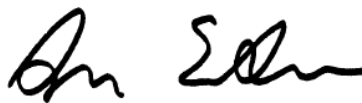
William M. Beatty
Securities Administrator

Presented by:



Edward R. Thunen
Financial Legal Examiner

Approved by:



Suzanne Sarason
Chief of Enforcement

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Reviewed by:



Jack McClellan
Financial Legal Examiner Supervisor