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

IN THE MATTER OF DETERMINING
Whether there has been a violation of the
Securities Act of Washington by:

Pacific Rim Energy, Inc.;
Gregory D. Mrachek;
Stephen B. McKanna;

Respondents

Order No.: S-17-2324-19-FO01

ENTRY OF FINDINGS OF FACT AND
CONCLUSIONS OF LAW AND
FINAL ORDER TO CEASE AND DESIST,
TO IMPOSE FINES, AND TO CHARGE COSTS
AS TO PACIFIC RIM ENERGY, INC. AND STEPHEN
B. MCKANNA

THE STATE OF WASHINGTON TO:

**Pacific Rim Energy, Inc.
Stephen B. McKanna**

On September 5, 2019, the Securities Administrator of the State of Washington issued Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, To Impose Fines, and To Charge Costs, Order No. S-17-2324-18-SC01 (hereinafter referred to as "Statement of Charges"). The Statement of Charges, together with a Notice of Opportunity to Defend and Opportunity for Hearing, hereinafter referred to as "Notice of Opportunity for Hearing" and an Application for Adjudicative Hearing, hereinafter referred to as "Application for Hearing," were served on Respondents Pacific Rim Energy, Inc. and Stephen B. McKanna, on September 9, 2019. The Notice of Opportunity for Hearing advised Respondents Pacific Rim Energy, Inc. and Stephen B. McKanna that a written application for an administrative hearing on the Statement of Charges must be received within twenty days from the date of receipt of the notice. Respondents Pacific Rim Energy, Inc. and Stephen B. McKanna each failed to request an administrative hearing within twenty days of receipt of the Statement of Charges and Notice of Opportunity for Hearing, either on the Application for Hearing provided, or otherwise.

1 The Securities Administrator therefore will adopt as final as to Pacific Rim Energy, Inc. and Stephen
2 B. McKanna, the following Findings of Fact and Conclusions of Law as set forth in the Statement of Charges
3 and enter a final order against those Respondents to cease and desist from violations of the Securities Act, to
4 impose fines and to charge costs.

5 The Securities Administrator makes the following Findings of Fact and Conclusions of Law as to
6 Pacific Rim Energy, Inc. and Stephen B. McKanna:

7 FINDINGS OF FACT

8 Respondents

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

13 2. Gregory D. Mrachek (“Mrachek”) is a resident of Renton, Washington. Mrachek is PRE’s Pacific
14 Northwest Regional Manager. Mrachek is also a salesperson of PRE. Mrachek is a respondent in an
15 enforcement action taken by the Securities Division that involved InfoScope Corporation of Vancouver,
16 Washington in 2018. In June 2018, the Securities Division entered a Statement of Charges against
17 InfoScope and Mrachek. The Securities Division alleged that InfoScope and Mrachek sold over \$650,000
18 worth of convertible promissory notes to Washington residents. The Securities Division also alleged that
19 InfoScope and Mrachek sold unregistered securities, and that they violated the Washington State Securities
20 Act’s anti-fraud section. The Securities Division also alleged that Mrachek acted as an unregistered
21 securities salesperson. In October 2018, the Securities Division and Mrachek entered into a Consent Order
22 in settlement of that matter. Mrachek agreed to cease and desist from violating the Washington State
23

1 Securities Act, and agreed to pay a fine of \$2,000, and to reimburse the Securities Division \$1,000 of its
2 investigative costs.

3 3. Stephen B. McKanna (“McKanna”) is a resident of Tacoma, Washington. McKanna is PRE’s Chief
4 Executive Officer, and a salesperson of PRE.

5 **Related Entity**

6 4. Pacific Rim Water, Inc. (“PRW”) is an inactive Washington corporation that McKanna incorporated
7 in May 2001. Between 2003 and 2013, the Secretary of State’s office administratively dissolved PRW four
8 times.

9 **Overview**

10 5. Between 2009 and May 2017, Mrachek and McKanna sold at least \$134,500 of investments in PRE
11 to eleven investors, ten of whom were Washington residents. PRE discussed both oil and gas and bulk
12 water sales when it solicited potential investors. PRE represented to a potential investor that PRE had a
13 series of projects related to oil, gas, and asphalt in Venezuela. Among these projects was the capture of and
14 subsequent transport to the United States of the natural gas that escapes from oil wells. PRE represented to
15 potential investors that it planned to remove ground water from Washington for transport to the Middle East
16 where it would sell the water to nations that do not have adequate amounts of drinking water. PRE further
17 represented that it would acquire up to 200 retired oil tankers to transport the water. PRE identified PRW to
18 a potential investor as the entity that would undertake its water project.

19 **Nature of the Conduct**

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

21 6. Mrachek solicited at least seven of PRE’s ten known Washington investors to purchase PRE stock.
22 These investors included members of Mrachek’s family and long-standing friends. Mrachek first contacted
23 these persons to discuss investing in PRE stock by phone and by email. Mrachek represented to a potential

1 investor that PRE was anticipating a large influx of capital. In July 2017, Mrachek represented to a
2 potential investor that PRE stock would trade on the London Stock Exchange (“LSE”) by the end of 2017.
3 However, Mrachek failed to disclose that PRE had aspired to become listed on the LSE since no later than
4 2010, but had failed to do so.

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

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

12 8. Mrachek provided the “PRE Investment Package” to potential investors. This package included
13 documents entitled Investor’s Executive Summary, PRE Executive Summary, PRE Private Placement
14 Memorandum (“PPM”), and Pacific Rim Drinking Water Plan.

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

22 10. PRE and Mrachek made misleading statements of material fact and omitted material facts in PRE’s
23 PPM. In the PPM, PRE stated that it planned to become a publicly traded company by listing on the

1 London Stock Exchange (“LSE”) in early 2010. However, Mrachek failed to disclose that listing on the
2 LSE would require PRE to operate in a fundamentally different manner than it had up to that point, and that
3 such change could substantially affect PRE’s operations. For instance, PRE would have to produce a
4 number of reports and other documents that it had not produced up to that point. PRE would also have to
5 have an appropriate board of directors, which PRE did not have at that time, as well as proper financial
6 controls. At that time, McKanna and Mrachek commingled the funds of different businesses that they
7 owned, including PRE’s funds. PRE would also have to create a prospectus that included adequate
8 information about PRE’s financial position, profits and losses, and its prospects, among other things, for
9 review by LSE authorities. PRE had not produced such a document at that time.

10 11. PRE and Mrachek made misleading statements of material fact, and omitted material facts in the
11 Pacific Rim Drinking Water Plan (the “Water Plan”). In the Water Plan, PRE discussed its plan to transport
12 and sell drinking water to nations in the Persian Gulf region. PRE stated that its project would create
13 opportunities to export goods and services from Washington and other regions of the United States.
14 However, PRE did not disclose how much, if any, water it had received permission to remove. The
15 Securities Division requested that McKanna produce all documents that indicated that PRE had acquired the
16 right to remove water. McKanna failed to produce such documents. PRE also failed to disclose how it
17 would transport the water to the location from which PRE would export it. Further, PRE did not disclose
18 the potentially substantial costs of either transporting water to that location, such as insurance and labor
19 costs, or the costs of exporting the water to foreign countries, such as taxes and duties imposed by the
20 governments of the receiving nations. On a page entitled “Milestones,” PRE stated that Gulf Pacific Group
21 was a legal entity in Qatar. However, Gulf Pacific Group never existed in Qatar. PRE also stated that it and
22 Gulf Pacific Group had established relationships with the governments of Gulf area nations. In fact,
23

1 McKanna and Mrachek had attempted to establish relationships with these governments, but had failed to do
2 so.

3 *Offer and Sale of PRE Debt*

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

12 *Private Placement Form and Payment*

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

17 *Post Investment Contact with Investors*

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

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

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

6 **Registration Status**

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

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

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

13
14 Based upon the above Findings of Fact, the following Conclusions of Law are made:

15 **CONCLUSIONS OF LAW**

16 1. The offer and sale of stock and debt described above constitute the offer or sale of a security as
17 defined at RCW 21.20.005(14) and (17).

18 2. Pacific Rim Energy, Inc. and Stephen B. McKanna violated RCW 21.20.140 because, as set forth in
19 the Tentative Findings of Fact, Respondents offered or sold securities for which no registration is on file
20 with the Securities Administrator.

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

1 4. The Pacific Rim Energy, Inc. and Stephen B. McKanna violated RCW 21.20.010 because,
2 Respondents, in connection with the offer or sale of securities, made misstatements of material facts or
3 omitted to state material facts necessary in order to make the statements made, in light of the circumstances
4 under which they were made, not misleading.

5
6 Based upon the foregoing, and finding it in the public interest:

7 **FINAL ORDER**

8 IT IS HEREBY ORDERED that the Respondents Pacific Rim Energy, Inc. and Stephen B. McKanna,
9 and their agents and employees, shall each cease and desist from offering and/or selling securities in any
10 manner in violation of RCW 21.20.140, the section of the Securities Act of Washington requiring registration
11 of securities.

12 IT IS FURTHER ORDERED that the Respondent Stephen B. McKanna, and his agents and
13 employees, shall each cease and desist from offering and/or selling securities in any manner in violation of
14 RCW 21.20.040, the section of the Securities Act of Washington requiring registration of securities broker-
15 dealers and salespersons.

16 IT IS FURTHER ORDERED that the Respondents Pacific Rim Energy, Inc. and Stephen B. McKanna,
17 and their agents and employees, shall each cease and desist from violating RCW 21.20.010, the anti-fraud
18 section of the Securities Act of Washington.

19 IT IS FURTHER ORDERED that the Respondents Pacific Rim Energy, Inc. and Stephen B. McKanna
20 shall each be liable for and pay a fine in the amount of \$10,000.

21 IT IS FURTHER ORDERED that the Respondents, Pacific Rim Energy, Inc. and Stephen B. McKanna
22 shall be jointly and severally liable for and pay costs in the amount of \$3,350.

1
2 **AUTHORITY AND PROCEDURE**

3 This FINAL ORDER is entered pursuant to the provisions of RCW 21.20.390, and is subject to the
4 provisions of RCW 21.20.440 and Chapter 34.05 RCW. Respondents have the right to petition the superior
5 court for judicial review of this agency action under the provisions of RCW 34.05. For the requirements for
6 Judicial Review, see RCW 34.05.510 and sections following. Pursuant to RCW 21.20.395, a certified copy
7 of this Order may be filed in Superior Court. If so filed, the clerk shall treat the Order in the same manner as
8 a Superior Court judgment as to the fines, and the fines may be recorded, enforced, or satisfied in like manner.
9

10 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

11 SIGNED and ENTERED this 10th day of October 2019.

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14 _____
15 William M. Beatty
16 Securities Administrator

16 Approved by:

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19 _____
20 Suzanne Sarason
21 Chief of Enforcement

16 Presented by:

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19 _____
20 Edward R. Thunen
21 Financial Legal Examiner

21 Reviewed by:

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Jack McClellan
Financial Legal Examiner Supervisor