The YBM Magnex Files

Adrian du Plessis, Investigative Research Analyst

Features:

The Magnex Files

- Eternal Russia. The soul of this country is so deep, the beauty it can create so powerful, perhaps unique in the world. But there is always that other dark, brooding, violent and greedy side that is never far from the surface.

Jennifer Gould -- Vodka, Tears, and Lenin's Angel

The strange case of YBM Magnex International, Inc. is the most extraordinary I've ever investigated. A study of YBM is extraordinary in that it so clearly reveals the essential nature of Canada's stock markets.

The articles on this web-page will, hopefully, shine some public light into corners of the most bizarre affair, and the case most graphically illustrative of the nurturing corporate culture, encountered in close to 20 years work, much of it exploring the dark underworld of Canada's junior financial markets.

The saga of YBM Magnex began to receive expansive coverage through such regional U.S. newspapers as The Bucks County Courier Times, The Philadelphia Inquirer and The Philadelphia Daily News in mid-May 1998. The first American print journal to give extensive national coverage to related subject matter was The Village Voice with its publication of Robert Friedman?s May 26 1998 cover story, ?The Most Dangerous Mobster in the World?. However, word of the criminal activities of Russia's Semion Mogilevich (and the alleged use of Arigon/YBM as a money laundering conduit by the Russian mafia) was widely accessible long before May 1998 on the internet and in European print journals. As early as 1995/96 newspapers and magazines in Czechoslovakia, Hungary and countries formerly of the Soviet Union, carried details of such activities. By at least 1997 (and likely earlier) various news articles and police intelligence reports were accessible on-line to anyone with an internet connection.

On this, my own, web-site I began publishing analyses of the YBM Magnex scam in March 1998 (following the first stock market exposes of YBM which appeared in Canada Stockwatch). In April 1998 I alerted virtually all major Canadian media outlets to YBM?s Russian mafia links (including Mogilevich and another ?godfather?, Sergei Mikhailov). The story gained international attention when dozens of U.S. federal agents raided YBM?s Newtown, Pennsylvania headquarters on May 13 1998. Within days of the raid, the YBM story (and the history of Mogilevich et al in the U.K.) appeared on television news, and in newspapers and magazines around the world - from London?s The Observer and The Financial Times to Hungary?s HVG and The Financial Post and The Globe and Mail in Canada.

In May of 1999, David Baines, a reporter with The Vancouver Sun newspaper, and I received a National Newspaper Award (Canada?s top print journalism award) for our breaking coverage of the YBM-Russian mafia story.

In handing out the award, the NNA noted:

?The Vancouver Sun?s David Baines, working with freelance securities investigator and writer Adrian du Plessis, unraveled the intriguing tale of YBM Magnex International Inc., the Canadian company that operated as a money laundering vehicle for the Russian mafia. The Sun began its early work on the company?s murky business dealings and links to organized crime even as investors were driving its share prices to record levels on the Toronto Stock Exchange. Judges called it a thoroughly comprehensive effort that combined extraordinary initiative, research, analysis and writing.?

YBM Magnex and the Mob ~ is there room for everybody in the life-raft?

The case of YBM Magnex represents a surfeit of riches for those interested in the standards of practice and levels of due diligence exercised within Canada's securities industry.Public company principals, lawyers, accountants, promoters, brokers, underwriters, mutual and pension fund managers, analysts, regulators and more all contributed their own special talents in making YBM such a "success".

Now that the various players in this scandal are locking horns, it's hoped that they will wrestle out of each other all the ugly details that will educate the public as to how the stock business really works in this country.

The Ontario Securities Commission has, this week, fashioned a notice of hearing that, understandably, focusses upon disclosure issues concerning matters about which it alleges YBM, its principals and associates, failed to inform the regulators. Those targetted by the OSC will, hopefully, respond by telling the public what the OSC also knew about YBM's Russian mafia origins and links and its history of incomplete or false disclosure.

In the end, if there is to be some real benefit from this mess -- we may all learn why none of the industry players, be they securities regulators or stock hustlers, informed the public of those damning details about YBM which were known to them long before the company's stock became the latest and greatest embarrassment to the once-prestigious TSE 300.

On August 10 1995, Britain?s Home Secretary signed an order excluding Russian organized crime leader Semion Mogilevich from the United Kingdom. Despite the findings of U.K. police about Mogilevich and the Channel Islands-registered entity Arigon, identified as a principal conduit for Russian organized crime, Mogilevich and his associates saw their vehicle Arigon welcomed into Canada's public stock markets and nurtured.

Arigon, essentially, went public on the Alberta exchange and then graduated to the TSE, despite the company's continuing pattern of misleading or false public disclosure. The company's publicly filed documents from 1994/95 report multimillion dollar Canadian sales that never existed. These same filings, among other omissions, failed to disclose the management role of YBM director Michael Schmidt with the scam company Technigen Corp. (one-time VSE-high flier). Subsequent filings by YBM falsely claimed that the company had generated $20 million in sales during 1996 from an oil desulphurisation process. The Financial Times of London journalist Ted Alden has revealed that OSC officials were told, before they approved YBM's 1997 prospectus, that the oil desulphurisation claims could not be substantiated.

And so it goes...

By late 1997, and much earlier in some instances, YBM players and securities officials, knew or ought to have known, that: the company's origins could be traced back to the Russian mafia, that principal businesses and associates were believed (by the world's top police intelligence corps) to be engaged in money laundering activities, and that YBM was making misleading and false public claims about its products and sales.

At what point does someone within the securities industry structure blow the whistle and say, "This must stop!"?

We all know the answer to that question. The game is over when more than five dozen U.S. government agents raid the company's headquarters, as happened in the case of YBM Magnex on May 13 1998.

What Canadians knew and did between 1994/95 and 1998 should be told. If it is, YBM may provide a more valuable study of Canada's prevailing securities culture than any scandal since the mid-1960s Windfall Oil & Gas fallout.

02/11/99

YBM Magnex: linking Wayne Deans' ghost-writer, jumbo shrimp and a cure for cancer...

On May 20 1998 - one week following the FBI et al raid of YBM?s Pennsylvania headquarters, and almost three years after alarming details of YBM?s affairs first became accessible on the public record -- Canada?s Navigator Fund Company issued a release to Financial Planners marketing the Navigator Value Investment Retirement Fund (one of YBM?s institutional investors).

The letter, which stated it was from Wayne Deans, Portfolio Manager of the fund, assured readers that: ?YBM is a legitimate company that produces real products. This is not a Bre-X.?

When Deans, a partner at Deans Knight Capital Management, was contacted by a reporter about this release hailing YBM?s legitimacy, he, at first, claimed that it was a phantom -- a product of imaginative minds in the business press. When it was confirmed that, indeed, copies of the letter circulated to the mutual fund sales force were in the hands of financial journalists, Deans' tack shifted.

?I would never say something that stupid,? the Vancouver-based money manager told Jon Ferry of B.C. Business magazine. An October 1998 B.C. Business feature captured Dean?s remarkable explanation: ?He says the letter was put out, without his knowledge, by the Navigator Fund Company, two of whose funds he manages. ?They sent it out under their letterhead, but signed it me, put ?Wayne Deans? at the bottom of it. I never saw it. I never edited it. They claimed that they checked with someone in our office about it. It definitely was not me? I think they took some liberties here and they admit that?.?

When it becomes impossible to trust or rely upon words issued in a hard copy press release issued by a well-known mutual fund group in Canada, how, then, is an investor to navigate and find their bearings in the comparatively ephemeral environment of cyberspace?

YBM provides an entry point to examine this question - following up on news reports earlier this month (December 1998) that an anonymous group of investors located somewhere unidentified, has proposed to buy YBM?s stock for $2 per share and relaunch the Russian mafia-associated magnet maker as a public venture.

This bizarre bid is reportedly backed by Jonathan Curshen, a self-styled investment banker whose private Sarasota, Florida-registered vehicle, Southern Assurance Group, Inc., maintains a web-site presence (@ http://www.sagi.com) that can also be accessed (@ http://members.home.net/jcurshen/) A photograph of ?Master Jon?, as Curshen tags himself, is available on-line to members at the ?Award-Winning Kinky Contacts? site (@ http://www.kinkycontacts.com/pictures/originals/MasterJon.jpg)

By compiling, and cross-referencing, Curshen?s various web-site, newsgroup and chat group postings from a list of inter-related email addresses, a web-profile emerges of a character that appears excited, equally, by, stock market and S&M activities.

Master Jon may be the first investment banker, real or imagined, who?s openly touted a ?cure for cancer? as well as the benefits of bondage.

Under his familiar handle, Curshen has posted 248 ?unique messages? to usenet groups - most in such predictable categories as alt.personals.bondage, alt.personals.spanking.punishment and alt.personals.festish. He has, however, posted, with less regularity, to more diverse groups including alt.sex.bestiality, at.sex.enemas, alt.sex.teens, alt.sex.fetish.power-rangers.kimberly.tight-spa, and alt.invest.penny-stocks.

Numerous of Master Jon?s messages to newsgroups are repetitious requests similar, or identical, to this one:

?Female Sub Needed 941, 813, 305, 954

Author: Jonathan Curshen

Email: jonathan@sagi.com

I want the following:

1) You must be 18-28 years of age.

2) You must be heterosexual, bi-sexual, or bi-curious.

3) You must be facially attractive, curvy and have great tits and a great ass

4) You must be experienced orally and anally.

5) You must be severly obedient.

Hair color unimportant.?

Until this past summer, when group discussions on the Silicon Investor web-site flagged the distinctive contents of his home page, Curshen unabashedly detailed his personal interests alongside his professional. Describing himself as an ?Investment Banker and Venture Capital Fund Manager? located in Sarasota, Fla. and San Jose, Costa Rica, he claimed: ?I own and operate several successfull (sic) world wide enterprises.? Hobbies: ?Shooting, Traveling, Shopping, Motorcycles, Dominating Young Women, Looking for the right Sub.? The President of Southern Assurance offered as his own special quote: ?Where ever you go, there you are.?

It seems that wherever YBM goes, there are police investigators. And it?s Curshen?s experience with stocks and bonds, not stocks and bondage, that may prove of greater significance to those following this Toronto Stock Exchange scandal.

Curshen has posted about speculative shares and investment opportunities to various internet groups and sites using a range of email addies - pitching on-line investors such lines as this one for Imagica Entertainment (IMEA): ?I don?t know about you, but 100% return on your money in a couple of week i(s) pretty darn good.?

One of his most enduring, and entertaining, picks has been Cryogenic Solutions, Inc, ( ) a Nevada incorporated entity, with an address in Houston, Texas, that began trading on the U.S. OTC Bulletin Board in January 1996.

Cryogenic (symbol CYGS) was originally floated at US $7 per share. The company?s intended business was to offer an alternative to pregnant women who were in the position of having to choose between an abortion or having a child. This junior public venture proposed to be able to freeze the embryo or fetus leaving open the possibility of someone being able to birth a child at a future date.

By August 1997, when Curshen started up a Silicon Investor discussion ?thread? (@ http://talk.techstocks.com/) to tout CYGS stock, the company?s focus had been transplanted to the medical areas of anti-aging/cancer treatments. ?CYGS has a three year high of 7 dollars. This could be a huge play,? posted Curshen ?At a current bid .28 ask .31 CYGS could not only be an instant double but a super homerun to 3 or 4 (dollars). ? (The stock did, subsequently, make a run over the US $3 mark.)

On November 13 1997, then CYGS President Steve Sloat revisited SI?s on-line chat forum to explain the transformation: ?Unfortunately, there was negative press about cryogenic preservation of fetal material and the stock plummeted to a low of 5 cents 14 months ago.? Although Sloat commented upon how ?the same processes? were viewed ?in a positive light ever since Dolly the sheep and Polly the cow were publicized,? he noted that Cryogenic S. ?has not been in that business for over a year and has redirected efforts in genetics R&D.?

Days later, jonathan@sagi.com was reposting Cryogenics? latest news release to a financial chat group using the subject header: ?CYGS Finds a Cure For Cancer.?

The less-assertive CYGS announcement opened with: ?Studies Show Proposed Anti Aging Therapy Kills Cancer Cell? and related how company staff ?while perfecting the patent on their anti aging therapy, became aware of studies indicating that the same technology intended to rejuvenate healthy cells actually killed cancer cells in laboratory and animal studies.? Mike Skillern, Cryogenic?s Vice President, proclaimed, ?On paper, this looks a lot like the ?silver bullet?.?

Skillern would soon replace the web-surfing Steve Sloat as CYGS President. On January 5, 1998 the company disseminated a pair of releases through the Houston, Texas office of the PR service, Business Wire that further illuminated the special nature of this favourite of Master Jon and other stock touts.

Proposing a corporate name change to US Biogenix, the new President Skillern explained: ?The original name reflected the use of cryopreservation in our proposed pregnancy suspension technology, but unfortunately the social, ideological and political opponents made it impossible to deliver that service so we redirected our efforts toward telomere biology and its applications to aging, cancer and other therapies.?

A cure for cancer may be a goal sufficient for some to achieve, but CYGS saw wider benefits to be realized from ?optimizing the value of the TeloVector ? in all its manifestations.? This technology, it was stated, was expected to have application to the shrimp farming industry and the company reported it would ?spin off (its) aquaculture division into a separate corporation.? CYGS director of research Craig Tomlinson, PhD, said, ?We believe we can grow more shrimp, faster and larger, and produce a ?clean? shrimp, free of environmental or viral contaminants.?

Cancer cures and bigger, healthier, shrimp promised by a OTC stock venture trading for dimes and promoted by an S&M advocate may not raise too many eyebrows in today?s investment climate, but Cryogenic?s other press release of January 5 1998 did cause some dissonance in financial chat circles on-line.

CYGS announced that it had agreed to license its TeleVector ? technology to something called Clinica Lirpa, S.A. of Costa Rica. According to Mike Skillern, ?Clinica Lirpa, S.A. is especially interested in the gerontology (anti-aging) and oncology (anti-cancer) applications of the TeloVector.? Such an arrangement with an obscure Central American entity is not that out-of-the-ordinary for a typically surreal junior public company.

(I recall investigating one Canadian public company, Technigen Corp., that claimed to be selling over CDN $100 million worth of computerized golf driving ranges to Corporacion Relacio, S.A. - purportedly a Swiss company. Even though it was documented that Relacio, S.A. was, in fact, a Panamanian-registered shell whose signing representative in Canada was an ex-convict stock swindler who?d been banned for life from the Vancouver Stock Exchange, VSE officials were satisfied. Coincidentally, a founding Technigen shareholder, and its subsequent head of Investor Relations, Michael Schmidt, was one of the founding directors of Pratecs/YBM.)

What drew the disdain of several internet stock-watchers was the company?s declaration: ?As a condition of the license agreement, Clinica Lirpa has agreed to ?preferential access? for anyone owning 5,000 or more shares of (Cryogenic Solutions) common stock as of March 1, 1998. ?Essentially, Clinica Lirpa will confirm reservations to qualified individuals with at least 5,000 shares registered in their name,? said Skillern. ?Everyone else will be served on a space available basis. This preferential service access will be for all services offered by Clinica Lirpa, not just services developed from our TeleVector ? ?.?

When Silicon Investor posters reacted by calling this news ?spooky and unethical?, ?PREJUDICIAL? and ?completely bizarro? one of a tag-team of on-line boosters, Barry R., jumped to the defense of CYGS: ?Overall I think it?s a great idea to make patients part owners of the company so they can receive the benefits of the treatment and profit from the success of the company at the same time.? Still, another SI threader brought things back to a more orthodox perspective, pointing out that CYGS was "probably years and years away from treating humans and to start to make these ridiculous statements throws a major kink in their credibility.?

Internet financial forums often receive a negative rap, sometimes based on ignorance or a misunderstanding, most often as a result of the shills that operate in cyberspace. But penny stock touts have long been a part of the market culture and this new communications technology, rather than worsening the odds for carrying out some honest due diligence, actually gives the average investor a better-than-historical opportunity to probe the layers of a dubious or fraudulent stock hype.

Over the course of 1998, individuals participating in such internet discussion groups as Silicon Investor and Stockhouse uncovered and documented elements of the background and operations of Cryogenic Solutions, Jonathan Curshen and others that would be helpful to any person wanting to gain a better understanding of, either, these entities in particular, or, the penny stock market in general. There appeared the transparent hyping by Barry R. - e.g. ?I still think I?m going to retire on this one? - and others of that ilk, but some harder, factual, information also emerged.

The Houston office address listed for CYGS -- 6524 San Felipe, Suite 388 -- was found to be a mail drop rented from Mail Boxes, Etc. Mike Skillern, president of CYGS, was discovered to have been fined in connection with an investment scheme that saw his father, Bud Skillern, sentenced to a lengthy jail term in the early 1990s. (The younger Skillern, who successfully plea-bargained, testified that he had installed a command in a computer system to erase traces of a fraudulent annuity investment plan that his father created involving the insolvent American Teachers Life Insurance Co.)

And Master Jon Curshen of Sarasota, Fla., was identified as promoting penny stocks in association with such characters as Barry Ross of Miami, Fla. and Jimmy (Ray) Carter of Arlington, Texas. In 1992, as several on-line investors learned, Carter (formerly a broker with Eppler Guerrin and Turner) had been fined by the NASD, (following fines in 1988, 1990 and 1991), for serious securities violations and ?barred? from association with any member of the NASD in any capacity.?

At today?s close, on the OTC Bulletin Board, CYGS last traded at US $0.54.

Curshen, ?outed? on the SI CYGS thread in mid-1998, has kept a low profile in related chat groups for many months now -- unless he?s adopted the guise of pseudonymous postings. (YBM's would-be-$2-per-share-saviour, however, appears to have found a different platform from which to launch his penny stock prognostications; J Curshen's picks and pans of recent months can be found on the Rocket Stocks page @ www.rocketstocks.com) It was with some amusement that the emergence of his name in the YBM Magnex story-line was greeted recently by those members of the SI on-line community familiar with, and not enamoured by, his activities.

Investors purportedly lined up by Southern Assurance to bail out YBM?s shareholders with a CDN $88 million offer may prove to be as colourful as Curshen himself or some of the associates behind the stock plays of Imagica Entertainment, Cryogenic Solutions et al. Or, the rescuers -- and their money -- may turn out to be a chimera, like Cryogenic?s cure for cancer or jumbo shrimp.

And, in the end, Master Jon could claim that the web-site postings, and hundreds of email messages identified as being his handiwork are really the product of some unknown party taking liberties with his name, business and IDs.

After all, would an investment banker - no different to, say, a money manager or other market professional -- really say or do ?something that stupid?? - 31/12/98 -

YBM Magnex: will Arigon?s public trail be avoided by a**-covering, alibis and amnesia?

In oft-told tales of the recent Bre-X gold fraud, a Filipino geologist, Mike de Guzman, was fingered as the, figurative and literal, ?fall guy?.

The case of YBM Magnex, another fallen Bay Street wonder stock, illustrates that the practice of pointing fingers is not a survival instinct exclusive to the core perpetrators of a scam. The public record of YBM, more graphically than does the Bre-X file, shows how securities regulators, brokers, analysts, money managers, accountants and other members of the financial establishment combine in a fiasco - and, further, how they may strive to disassociate themselves from such a collective, compounded, failure.

Although documented history reveals it as a charade, there is an emerging dynamic within the Canadian securities firmament to try and hang the YBM can primarily on auditors Deloitte and Touche, LLP (called in by the Ontario Securities Commission in mid-1997 to review YBM?s books).

No doubt, there?s enough blame to be shared in connection with this latest TSE mega-bust. Still, an attempt to focus public attention on the events of mid-1997 and later - while serving the purposes of some securities officials, stock brokers and money managers - neglects the critical, formative, stages of the YBM scandal.

In effect, Arigon Company, a vehicle linked (by numerous international police intelligence, and news, reports) to Russian Organized Crime activities, went public in Canada through the good graces of the Alberta Stock Exchange. As detailed elsewhere in this "Magnex Files" section of the ?howenow? web-site, beginning in 1994, the pieces were put in place to enable Arigon to gain an ASE-listing through a ?blind pool? originally called Pratecs Technologies (later renamed YBM Magnex).

Despite having easily identified rogues on its board of directors, YBM Magnex gained the approval of Alberta stock market regulators and the support of Canadian brokers such as Michael Prew, a Vice-President of Yorkton Securities and a former Chair of the ASE. Broker Prew, operating out of Yorkton?s Calgary office (the same branch which launched the Timbuktu gold swindle onto the ASE in 1995/96), sponsored YBM taking Arigon public.

At the same time that Russian mafia godfather Semion Mogilevitch was being banned from Great Britain, and his associated companies and bank accounts shut down - in another region of the commonwealth, Canada -- Arigon, Mogilevitch and associates (Konstantin Karat etc.) were being granted welcome access to the public markets.

As early as mid-1995 Canadian officials became aware of money-laundering investigations into Arigon, Mogilevitch and others - but failed to ensure that the investing public was adequately informed of such alarming matters.

YBM shares began trading on the Toronto Stock Exchange on March 7 1996.

In early 1996, the motley management crew aboard Pratecs/YBM was augmented by a pair of Bay Street names: on January 26, First Marathon VP Robert Owen Mitchell (whose brokerage firm served to underwrite and tout YBM stock) became a director; and, on April 29 1996, ex-Ontario Premier David Peterson joined the team. (Peterson?s law firm, Cassels Brock and Blackwell, provided legal services to YBM in connection with its 1997 prospectus financing.) What type of due diligence Mitchell and Peterson conducted before lending their names to the YBM promotion may be learned as various class action civil suits make their way through the court system.

It can be seen that YBM (which absorbed Arigon and its related companies like so many Russian matrioshka - or stacking -- dolls) was seeded on the ASE in 1994/95 and had been listed and established on the TSE in 1996 (well before auditors Deloitte and Touche were invited to the party). It?s hard to fathom how regulatory officials at the TSE, OSC, ASE and ASC can defend their 1995 - 1997 response to information such as is contained in the UK police intelligence report reprinted below.

(As London?s Observer newspaper was first to report, British authorities investigating Arigon and its related entities alleged, as early as November 1995, that Canada was ?used purely to legitimise the (Russian) criminal organisation by the floating on the stock exchange of a corporation which consists of the UK and USA companies whose existing assets and stocks have been artificially inflated by the introduction of the proceeds of crime?.)

It?s worth asking how Canadian stock analysts like Rob McConnachie (of Canaccord Capital and then Scotia Capital Markets), money managers such as Sceptre Investment Counsel?s Allan Jacobs (who, with seemingly unintentional irony, noted how he liked YBM?s ?strong entrepreneurial management?), Wayne Deans (of Deans Knight Capital Management) and other boosters of the company?s shares, could issue public recommendations or votes of support when, with a modest level of research, they could have known of YBM?s Russian mafia associations through Arigon and its core assets and the allegations of money laundering which surrounded Arigon et al.

There was sufficient material on the public record to alarm prudent financial players long before the Fall 1997audit report of Deloitte and Touche flagged other, serious, problems at YBM. In these days of managed money mania, however, those entrusted with informing, and/or investing for, the public are insulated and are rarely called to account for their actions.

Even after the trade journal Canada Stockwatch began, on March 10 1998, to highlight public misrepresentations and dangers evident in YBM?s affairs, some Canadian securities professionals acted as cheerleaders. On April 2 1998, Nesbitt Burns? analyst Peter Sklar described the weakness in YBM?s share price, which he attributed to the coverage in Stockwatch, as presenting ?a buying opportunity.?

By April of 1998, North American news agencies were aware of the links between Russian organized crime and YBM, then a member of the TSE 300 Index. Due to various (and, in some instances, serendipitous) circumstances - ranging from other business story priorities, a lack of committed resources, lengthy lead-times, security concerns and, even, simple fear - the news of YBM?s roots in the Russian mafia ended up becoming publicized in the west contemporaneously with the May 13 1998 raid of YBM?s Pennsylvania headquarters by dozens of agents for the FBI and other U.S. law enforcement agencies.

Now, particularly as the class action suits stack up, those that knew, or ought to have known, of YBM concerns about which public investors had not been alerted must stake out their positions of defence.

Unlike past Canadian stock debacles - such as the Bre-X salt-job - various professionals may find it difficult to plausibly defend themselves or claim surprise about certain damaging details reported in the YBM scandal. And there is an extensive public record which would challenge the claims of those who would like a convenient, all-encompassing, ?fall guy? - such as Deloitte and Touche.

More than anything, the YBM case shows how the Canadian brokerage establishment embodies the spirit of the three monkeys - hear no evil, see no evil and speak no evil.

Most monkeys, however, have a legitimate excuse for not following the Arigon/YBM trail. They can?t read.

What explanation is there for those money managers or market regulators that can read?

SOUTHEAST REGIONAL CRIME SQUAD

REPORT

To: Regional Coordinator -- 10 November 1995

From: Detective Sergeant J. WANLESS

Money Laundering Investigation Team, Spring Gardens

Subject: Operation SWORD

This report concerns the investigation into Operation SWORD, which was a development package passed from the National Criminal Intelligence Service (NCIS) to the South East Regional Crime Squad?s Money Laundering Investigation Team on 9th December 1994 for investigation.

Operation SWORD concerned the activities in the United Kingdom of a Russian Organised Crime Group headed by one Semion Yudkovich MOGUILEVITCH, Born 30.06.46 The operation centred around MOGUILEVITCH?s relationship with two English solicitors who were partners in a legal practice called BLAKES SOLICITORS, based at 20-22 Bedford Row, London EC4 and a number of companies which had been set up by these two individuals.

Initial investigations confirmed the information provided by NCIS that MOGUILEVITCH was strongly linked with the two solicitors Adrian Bernard CHURCHWARD, Born 17.02.46 Romford, N/T CRO and Peter BLAKE-TURNER, Born 04.05.50, N/T CRO via three separate companies, these being ARIGON COMPANY LTD, CREATEBURY LTD and LIMEGOLD LTD. It was also identified that Churchward was linked with Moguilevitch via a company called PENDOSI and that Churchward?s wife, Galina Vassilyevna CHURCHWARD had a son called Yuli as a result of an earlier relationship with MOGUILEVITCH.

Intelligence became available from a number of Law Enforcement Agencies in Eastern Europe, the United States of America and Canada which indicated that the Moguilevitch Organisation was involved in large scale extortion, prostitution, arms dealing and drugs trafficking, and that profits from these criminal activities were being laundered by BLAKES Solicitors in London, through a number of bank accounts held at the Royal Bank of Scotland, 67, Lombard Street, London.

As a result of this information, between December 1994 and May 1995 a total of 37 Ordes (sic) under Section 27, Drug Trafficking Act 1986 and Section 55, Drug Trafficking Act 1986 were sought. The effect of the information amassed as a result of these Orders was that it was established that approximately $50 million had passed through the client accounts of Blakes Solicitors in a three year period. It also showed that because the monies were banked or credited to the Blakes client accounts, none of the transactions came to the notice of the Money Laundering reporting officer of the Royal Bank of Scotland. One reason for this was the banks attitude that the solicitors company was itself regulated in respect of money laundering matters by the Law Society and as such there was no requirement for the Royal Bank of Scotland to persue (sic) these matters. However, it had become apparent that there was no money laundering identification system in existence at Blakes.

In the months between December 1994 and May 1995 officers from the MLIT were required to conduct extensive enquiries in a number of countries. This was in order to properly develop the investigation and these enquiries identified the world wide structure of the Moguilevitch and other Russian Organised Crime Groups.

As the investigation gathered pace it became apparent that the funds passing through the Royal Bank of Scotland accounts were unregulated and also originated from a variety of dubious sources in the former Soviet Union. However, as with all money laundering operations conducted in the UK, the criminal origin of the funds that have been laundered have to be proved beyond all reasonable doubt and this of course was extremely difficult.

It was established that the Moscow Police were investigating an advanced fee fraud whereby a man known only as MYSINKOV had set up a company in Russia called PERIGEY. This company had entered into a total of one hundred and eleven contracts with the Russian Central Government to provide food stuffs. The Russians had then advanced $3.3 million in respect of goods to be provided in the future which never were. This money was then immediately transferred to PENDOSI Ltd and CREATEBURY LTD and subsequently to account in the U.S.A. and Hungary.

Enquiries made by the Moscow Police showed that the (sic) MYSINKOV had died in unknown circumstances and that prior to his demise his wallet and passport had been stolen and altered.

As a result of this substantial evidence relating to the handling of stolen money from an identified crime, applications were made for warrants to be obtained under Schedule 1, Paragraph 12A P.A.C.E. 1984 to search the premises of Blakes Solicitors and the home addresses of the Churchward?s and Blake-Turner.

On 16th May 1995, the addresses were searched and all three were arrested on suspicion of handling stolen goods and interviewed at Paddington Green Police Station. All three were released on Police bail pending the arrival of evidence from Russia in a format which would be acceptable to an English Court. During the course of the search of Blakes Solicitors? office over one hundred files which contained extensive intelligence relating to financial transactions conducted by the Mguilevitch Organisation were recovered and extensive evidence was obtained by way of interviews. It was also established that the Royal Bank of Scotland held a total of $2,096,145.00 in three separate accounts for ARIGON Company.

As the enquiries continued it was decided to take further action against MOGUILEVITCH himself and another suspect called Konstantin KARAT. This action took the form of obtaining first instant warrants of arrest of both men from Horseferry Road Magistrates Court for conspiracy to handle stolen goods. At the same time a sworn Affidavit was laid before the High Court and the funds in the Royal Bank of Scotland were restrained. The restraint of funds in the ARIGON accounts was conducted by the Crown Prosecution Service, Central Confiscation Unit (C.C.U.). The C.C.U. had given advice in relation to all parties in the investigation and in relation to the unregulated monies which had passed through the Blakes practice. The C.C.U. had claimed that the Practice?s breach of the Money Laundering Regulations was in itself a Money Laundering Offence.

Whilst the High Court action proceeded all efforts were made to obtain the evidence from Moscow of the Perigey/Pendosi crime in order that criminal charges could be brought in the UK. It was by now that the slowness of the Russian judicial system became apparent. The request had been passed to the prosecutors department and the case had even been discussed at a high level whilst officers from NCIS and SERCS were in Moscow, however it was to no avail and to date no clear decision on assistance has reached the investigating officers. The effect of this was that criminal proceedings for conspiracy to handle stolen goods had to be abandoned in the absence of Russian evidence, this left the investigating team with the prospect of a prosecution for a minor money laundering regulations offence. It was however established that the Money Laundering regulation 1993, which concerned the manner in which the solicitors practice had conducted itself applied only to new clients. As these had been long term connections with Moguilevitch it was deemed that no successful prosecution could be brought.

In view of this the Restraint Orders were discharged and the legal costs of Mr and Mrs Churchward and Mr Blake-Turner were awarded against the C.P.S. No application for costs has ever been made by any part of the Moguilevitch Organisation.

The above is a brief resume of how Operation SWORD originated and the investigation that followed. As SWORD was the first package of its type to be produced by N.C.I.S., it is right to say that the manner of its investigation should be examined in order that any lessons may be learned for the future. With this in mind the investigation into SWORD produced some 545 Nominal Records and 1,325 exhibits, these were as a result of the 37 Orders obtained under Drug Trafficking legislation and 3 Search Warrants under Schedule 1 of PACE 1984.

CONCLUSIONS

The aim of the South East Regional Crime Squad is with the utmost vigor to bring justice and disrupt the activity of the top echelon of criminals, and it is within its criteria that Operation SWORD must be judged. Semion MOGUILEVITCH is one of the world?s top criminals who has a personal wealth of $100 million. He is a target of Law Enforcement Agencies and Security Services in several countries and as a result of the effect of his financial impact on the City of London he clearly falls in the category of an NCIS core criminal.

During the course of Operation SWORD no criminal prosecution was brought against any person, however, every company controlled by Moguilevitch has been closed down. All bank accounts, both National and International within the jurisdiction of the UK have been closed down and his entire organisation has withdrawn from UK shores.

Moguilevitch?s principal method of operation in the UK was through Blakes Solicitors and in particular Adrian Churchward. As a direct result of the operation the BLAKES Partnership has been dissolved and Churchward is presently unemployed and subject to Civil litigation by the Royal Bank of Scotland. Further, in the respect of the Royal Bank of Scotland they have been the subject of a high level internal enquiry by the Special Investigation Unit if (sic) the Bank of England.

Amongst the intelligence gathered in the investigation of Operation SWORD was a record of every financial transaction conducted on behalf of Moguilevitch and other Russian Organised Crime figures by Churchward in the last five years. All of the intelligence has now been passed to NCIS for distribution to other Law Enforcement Agencies, with the added bonus that if required the South East Regional Crime Squad are in a position to produce any part of intelligence as evidence in any Court of Law.

Finally, in respect of Moguilevitch himself on 10th August 1995 the Home Secretary signed an order excluding him from entering the United Kingdom.

(signed)

John WANLESS

Detective Sergeant, MLIT.

(NB this is just one of numerous reports dated 1995 - 1997 linking Arigon to Russian organized crime - the formatting is slightly altered due to a lack of facility with HTML language - the text, however, is exactly the same as in the original letter)

- 27/12/98 -

YBM Magnex: the inevitable happens

With the YBM universe unfolding as it should, there could be interesting times ahead as the company's derelict ex-directors -- such as former Ontario Premier David Peterson and First Marathon brokerage VP Robert Owen Mitchell -- scramble to explain (and hopefully they will be asked repeatedly to explain) why they failed to concern themselves with serious, and long-standing, public record issues involving YBM's affairs and its links to the Russian mafia (and money managers like Connor Clark and Lunn -- which hired ex-First Marathon YBM tout Kaan Oran -- may also face probing questions); one can only hope that this case, which even more explicitly than the Bre-X scandal, illustrates the systemic corruption of the Canadian securities industry, will result in brokers, mutual fund and securities analysts, money managers, TSE regulators and others being held to account...

TORONTO, Dec. 8 /CNW/ - YBM Magnex International, Inc. (``YBM'') announced today that it has applied to the Alberta Court of Queen's Bench for the appointment by the Court of Ernst & Young YBM Inc. (``E&Y'') as receiver and manager of the assets, property and undertaking of YBM.

A summary of the background and reasons for the Board of Directors' decision to make this application is set out below.

Background

On March 23, 1998, during the course of performing its audit of YBM's 1997 financial statements, Deloitte & Touche LLP (``Deloitte'') raised concerns at a meeting of YBM's audit committee about certain transactions conducted by one or more of YBM's Eastern European subsidiaries during 1997.

On April 20, 1998, Deloitte advised YBM that ``(o)ur preliminary search has also indicated that certain individuals associated with these entities and certain other related entities are reputed to have ties with organized crime. The information obtained heightens our serious concerns that these transactions may be bogus and are being used to cover the flow of money between these companies for other purposes''.

On May 13, 1998, the head office of YBM in Newtown, Pennsylvania was the subject of a search and seizure warrant by representatives of the U.S. Attorney's Office, the Federal Bureau of Investigation, the Internal Revenue Service, the Immigration and Naturalization Service, the U.S. Customs Office and others under the umbrella of the Organized Crime Strike Force (the ``U.S. Authorities''). Also on May 13, 1998 the Ontario Securities Commission (``OSC'') issued a temporary cease trading order in respect of the securities of YBM. On May 14, 1998 the Alberta Securities Commission (``ASC'') issued a similar order.

Formal investigations or proceedings relating to YBM are ongoing in the United States by the Organized Crime Strike Force and in Canada by the ASC and the OSC. These investigations and proceedings, as well as the public announcements of YBM and the press coverage they have received commencing in May 1998, created a significant state of uncertainty and resulted in a material deterioration in the business and financial condition of YBM.

On September 22, 1998, a substantial group of YBM's shareholders supported an application to the Alberta Court which resulted in an order replacing the majority of the then existing board of directors. Since that time, the new board of directors has attempted to review the principal issues affecting YBM, to cooperate with the regulatory authorities and to preserve and protect as much as possible the value of the assets of YBM for the benefit of its shareholders.

The new board of directors of YBM has been advised or has concluded as follows:

- YBM's U.S. criminal counsel has advised that YBM is certain to be indicted by a grand jury in the United States, absent prior agreement by it to enter into a guilty plea agreement, and there is good reason to believe that the U.S. Authorities will be able to marshall substantial credible evidence of criminal wrongdoing in connection with YBM;

- YBM may well not be able to defend a criminal indictment initiated by the U.S. Authorities;

- the issues facing YBM have resulted in the resignation of YBM's President and Chief Executive Officer and have created a set of circumstances such that it will be virtually impossible to find a suitable replacement for him;

- in light of the current circumstances facing YBM and the serious issues which have been raised regarding YBM's prior business activities, the board of directors does not consider that it has the ability to adequately or responsibly supervise YBM's ongoing business and affairs to ensure that such business and affairs are lawfully and appropriately conducted;

- based on the results of a forensic investigation conducted by Miller, Tate & Co. (``Miller Tate'') a Philadelphia-based forensic accounting firm retained by counsel for YBM, there is no realistic possibility of YBM obtaining audited financial statements for 1997 nor is there a realistic possibility of YBM ever retaining a competent auditor, and therefore there is no real likelihood of the shares of YBM ever resuming trading or for YBM to have access to financing on commercial terms, whether from a financial institution, through access to the capital markets or otherwise;

- in light of serious unresolved issues regarding YBM's Eastern European business operations, which in the past have generated a majority of YBM's reported profits and revenues, there is a substantial risk that such operations or a substantial portion of them may not be sustainable in the future. The overall ongoing operations of YBM on any reasonable set of assumptions will likely continue to generate negative cash flow;

- if the major elements of the status quo continue, the cash and other assets of YBM likely will be exhausted or diminished in value with the result that there will be no prospect of any return for YBM's shareholders through a distribution; and

- a court supervised process is the optimal method available to preserve and realize on the assets of YBM and its subsidiaries for the benefit of all its stakeholders.

Investigations by the New Board of Directors

On September 23, 1998, the new board of directors formed a special committee (the ``Special Committee''). The mandate of the Special Committee was to independently identify and assess the principal issues which affect the business and affairs of YBM and to consider all alternatives available to preserve and enhance shareholder value for the benefit of all shareholders.

Pursuant to this mandate, members of the Special Committee or their representatives conducted numerous interviews with:

present and former legal advisors and consultants to YBM;

- present and former members of senior management of YBM and its subsidiaries;

- representatives of the Organized Crime Strike Force;

- representatives of the OSC and The Toronto Stock Exchange; and

- representatives of YBM's principal North American banks.

A meeting with Deloitte, who resigned on June 24, 1998 as the auditor of YBM, was requested but refused.

The members of the Special Committee and its advisors also reviewed reports to YBM prepared and provided by management of YBM and its subsidiaries and other documents considered appropriate including various reports prepared by the committee of the board of directors formed in March 1998 to review certain transactions conducted by one or more of YBM's Eastern European subsidiaries during 1997.

Financial Management and Control Issues

The new directors believed that, as a first priority, it was critical to implement strict controls over YBM's activities and to safeguard its cash resources. The steps taken by the board of directors included:

- requiring that approximately (U.S.)$18.1 million held by United Trade Limited (a Cayman Islands subsidiary of YBM) be returned immediately to a bank account in Canada of YBM by way of repayment of inter-company loans;

- directing that the signing authorities in respect of specified bank accounts maintained by YBM and its subsidiaries be amended so that transactions in excess of (U.S.)$75,000 require the written authorization of one of the new directors;

- requiring that all cheques, wire transfers or contracts of YBM or its subsidiaries in excess of (U.S.)$75,000 be subject to prior board approval; and

- directing that there be no further transactions between YBM or its subsidiaries and certain specified entities that had been identified as being involved in suspect transactions with United Trade unless and until the board was satisfied as to the legitimacy of the entities concerned and of the proposed transactions themselves.

To date, notwithstanding repeated efforts by the board of directors of YBM to exert control over the operations of YBM and its subsidiaries, particularly in Eastern Europe, there have been continuing difficulties in securing compliance with these controls.

Financial Condition

In October 1998, the board was advised by management that, among other things:

- the business of YBM's Eastern European subsidiaries had deteriorated badly and that, although some orders continued to be received, payments in respect of new orders and aging accounts receivable were extremely slow;

- YBM's business in Eastern Europe would continue to suffer badly pending resolution of the ongoing regulatory investigation in the U.S.;

- the ongoing U.S. regulatory investigation is the critical problem facing YBM and its subsidiaries and, in management's view, representatives of the board of directors should meet with the U.S. Attorney's Office, offer full co-operation, and attempt to resolve all issues;

- each of YBM's subsidiaries in Eastern Europe and the UK were cash-flow negative;

- if the status quo continues, YBM will have exhausted its cash resources within one year;

- without a quick resolution of the U.S. regulatory investigation, many key employees would soon resign, which would permanently and irreparably damage the future prospects of YBM; and

- the board of directors must either immediately implement a credible plan for resolving the U.S. regulatory investigation or effect a fundamental restructuring of the operations of YBM, otherwise the business of YBM and its subsidiaries would be destroyed forever.

Also in October 1998, YBM's management provided the board with an ``Operations Overview'' report for September 1998 which included an overview of YBM's purported September 1998 financial performance stating that:

- YBM had net sales of (U.S.)$8.2 million (budget (U.S.)$16 million) and a net loss of (U.S.)$13.9 million (budget net income of (U.S.)$2.8 million) during September 1998;

- the amount of YBM's net loss during September 1998 was largely attributable to a (U.S.)$14.3 million charge taken during September 1998 in respect of uncollectible accounts receivable owing to United Trade;

- YBM had net sales of (U.S.)$99.2 million (budget (U.S.)$135.5 million) and a net loss of (U.S.)$6.3 million (budget net income of (U.S.)$26.5 million) for the nine months ended September 30, 1998; -- as at September 30, 1998, YBM and its subsidiaries had cash and liquid assets of (U.S.)$27.7 million;

- immediately prior to recording the (U.S.)$14.3 million charge in respect of its outstanding account receivables, United Trade had outstanding accounts receivable from Eastern European entities of approximately (U.S.)$25 million. YBM management stated that, unless there was a material change in the Eastern European economic environment in the near future, no more than 10% to 20% of these accounts receivable may be collected.

More recently, YBM's management provided a draft ``Operations Overview'' report for October 1998 which included an overview of YBM's purported October 1998 financial performance stating that:

- YBM had net sales of (U.S.)$7.2 million (budget (U.S.)$16.7 million) and a loss of (U.S.)$1.2 million (budget net income of (U.S.)$2.9 million) during October 1998;

- YBM had a net decrease in cash and cash equivalents of (U.S.)$2.6 million during October 1998 and (U.S.)$34.1 million for the ten months ended October 31, 1998; and

- as at October 31, 1998, YBM and its subsidiaries had cash and liquid investments of (U.S.)$25.1 million.

The board of directors has not independently verified any management financial reports which it received.

On December 2, 1998, members of the Special Committee were advised by management that United Trade's sales had decreased to nil and that YBM's Eastern European management had decided, in light of the fact that neither United Trade nor Magnex RT (a Hungarian subsidiary of YBM) was presently generating any meaningful levels of sales, to shut down substantially all of Magnex RT's manufacturing operations at least until February 1999. This decision was made without the knowledge or prior approval of YBM's board of directors.

As at November 27, 1998, YBM management advised that YBM and its subsidiaries had an aggregate of approximately (U.S.)$23.6 million in their bank accounts, substantially all of which was in YBM's bank accounts in Canada.

As contemplated in the YBM press release dated September 24, 1998, the directors reviewed the reduction in cash on hand from May 31, 1998 to August 31, 1998 of approximately (U.S.)$20 million. The directors commissioned a report which shows that these funds were spent on the repayment of loans, payments to suppliers, capital expenditures, salaries and general administrative expenses, the majority of which were made in North America.

United States Regulatory and Criminal Investigation

YBM's management has stated to the board of directors that public knowledge of the existence of the U.S. investigation has negatively impacted, among other things, YBM's financial results, its credibility and relationship with its customers and suppliers, its credibility and relationship with Eastern European governmental authorities, its banking relationships, its ability to raise financing, its ability to obtain an audit opinion in respect of its 1997 financial statements and its management and employees.

Since September 22, 1998, members of the Special Committee and its representatives have met on several occasions with representatives of the Organized Crime Strike Force who are investigating YBM. While the new directors do not know the precise scope of the Organized Crime Strike Force's criminal investigation of YBM, they believe that at least some of the factual allegations likely to form the basis of an indictment are reflected in the concerns expressed by Deloitte and the OSC and that the U.S. investigation may involve or relate to the possible links between YBM and certain alleged organized crime members.

Based upon investigations conducted by members of the Special Committee, including legal and other advice received by it, the new directors believe that there is a substantial risk that YBM would face a number of significant hurdles in presenting a defence to the extent that it is indicted by the grand jury. The directors have been advised by YBM's U.S. criminal counsel that, should YBM be convicted of criminal wrongdoing, the financial consequences are likely to be severe and, in the absence of agreement on the terms of a guilty plea, could include a fine and restitution order sufficient to deprive YBM of substantially all of its assets.

While members of the Special Committee have had discussions with representatives of the Organized Crime Strike Force regarding a basis upon which YBM might resolve the matters of concern to the Organized Crime Strike Force, no agreement has been reached. The directors believe it would be in the best interests of YBM's shareholders for E&Y, if it is appointed as receiver and manager of YBM, to have the power to continue to explore discussions with the U.S. Attorney's Office regarding a possible settlement of the matters of concern to the Organized Crime Strike Force. The directors believe that a major concern of both the Organized Crime Strike Force and the OSC is to ensure that the innocent shareholders receive as much of the remaining value of YBM's businesses as possible.

Inability to Resolve Concerns Raised by Deloitte and the OSC

Following the reconstitution of the board, the members of the Special Committee asked Miller Tate to continue its detailed forensic investigation of certain business activities conducted by United Trade during 1996 and 1997 in order to permit the board to understand and address the issues raised by Deloitte and the OSC.

On December 4, 1998, Miller Tate delivered an interim written report to YBM's board of directors outlining the information reviewed and analyzed as of that date by Miller Tate, its findings and certain other information which had come to Miller Tate's attention.

The Executive Summary to Miller Tate's interim report dated December 4, 1998 states, in relevant part, that:

``1. The issues raised by the OSC and Deloitte & Touche are real and require a full explanation by YBM. Despite Miller, Tate's repeated requests for information and relevant supporting documentation, we have to date been unable to assemble the necessary evidence which in our view is required to provide a satisfactory explanation of the transactions which were challenged by both the OSC and Deloitte & Touche. In fact, Miller, Tate's review of documentation provided to it has raised additional concerns regarding the bona fides or legitimacy of transactions entered into by United Trade and various parties to these transactions.

2. We have been unable to obtain what we would consider normal, generic supporting documentation for the transactions effected by United Trade with which the OSC and Deloitte & Touche raised concerns. The type of documentation requested by Miller, Tate is of a nature which, in our opinion, should in the ordinary course be maintained in the records of any properly managed public (or private) company. In most instances, significant transactions involving substantial sums of money are not supported by corroborative evidence. ... To date, we have been unable to assemble ``competent auditable evidence'' -- (and, in some instances, no evidence at all) -- with regard to the questioned transactions. The concerns raised by Deloitte & Touche regarding the nature of certain transactions and the relationships among parties to these transactions have not been resolved.

3. ... While YBM's management continues to insist that adequate supporting documentation exists in Hungary, such documentation has not been provided to Miller, Tate. The failure of YBM's management to fully and completely cooperate with our Engagement by providing any and all documentation and assistance is extremely troubling.

4. ... Despite repeated requests, YBM has not supplied supporting bank document information for 1997. The failure of United Trade to maintain underlying wire transfer information for 1997 related to substantially all of its 1997 business transactions precludes our investigation of those transactions and precludes us from determining the bona fides of such transactions ...

5. During the course of the Engagement, Miller, Tate became aware of several transactions effected by United Trade involving the movement of substantial amounts of money though bank accounts controlled by United Trade. These transactions, which have several indicia of money laundering, were never adequately explained by YBM's management.

6. The apparent inter-relationships, including shared addresses, among parties which conducted business with United Trade during 1996 and 1997, and the unexplained nature of many of the transactions pursuant to which significant amounts of money flowed between these apparently related parties through United Trade's bank accounts, raises the spectre, absent a properly documented explanation, that certain transactions conducted by United Trade may not have been bona fide. To date, no such adequate explanation has been received by Miller, Tate.

7. Miller, Tate could not substantiate YBM's geographic segmentation data in respect of its sales revenues presented in either of its two sets of audited financial statements for 1996.

Indeed, Miller, Tate uncovered a ``third'' version which had been created by YBM's management and showed sales to non-existent United States customers.

8. During 1996 and 1997, United Trade effected substantial purchases and resales of samarium and neodymium magnets. These transactions ... played a greater and greater role in YBM's revenues and profits in 1996 and 1997. ... Miller, Tate was never supplied with adequate third party documentation to demonstrate the legitimacy of these purchases and resale transactions.

9. United Trade also effected substantial purchases and sales of diesel oil during 1996 and 1997. ... Despite repeated requests, Miller, Tate was never provided with adequate evidence of the existence of the diesel oil or the legitimacy of these transactions. ...

10. Miller, Tate has been unable to satisfactorily resolve the issues raised by Deloitte & Touche and the OSC relating to technology contracts, equipment upgrades, repair and maintenance contracts, plant acquisition agreements and other capital contracts entered into by United Trade during 1997. Notwithstanding the significance of these transactions, Miller, Tate was not provided with adequate supporting documentation to establish their legitimacy. Further concerns have been raised by the nature and extent of the apparent inter-relationships among the parties to these transactions.''

The directors are concerned about the accuracy of YBM's prior financial results, including for the years ended December 31, 1996 and 1997.

Conclusion

On the basis of the foregoing the board believes that shareholders of YBM have no reasonable prospect of being able to sell their YBM shares and no means of liquidating their investment in YBM, other than through a distribution made to them by YBM in respect of their shares.

In all the circumstances, the directors believe that an international accounting firm of the stature of E&Y, which has offices throughout the world, would be better able to preserve and realize on the assets of YBM than its current board of directors. Therefore, the directors have tendered their resignations as directors of YBM, conditional upon E&Y's appointment as receiver and manager of YBM.

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For further information: G. Wesley Voorheis, Chairman, (416) 947-1400
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(2nd YBM release of the same date)

NEWTOWN, PA, Dec. 8 /CNW/ - YBM Magnex International, Inc. (``YBMI'') announced today that Ernst & Young YBM Inc. has been appointed by the Alberta Court of Queen's Bench as the receiver and manager of the assets, property and undertaking of YBMI. YBMI is a public holding company that is the direct and ultimate shareholder of operating subsidiaries in the United States, United Kingdom and Hungary. The Receiver confirmed that, pending completion of its preliminary assessment, the subsidiaries continue under existing management, reporting to the Receiver.

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For further information: Eusis Dougan-McKenzie, Ernst & Young YBM Inc., (416) 943-2127 begin_of_the_skype_highlighting (416) 943-2127 end_of_the_skype_highlighting

08/12/98

Message to readers: VSE hits all-time low; YBM series goes to 11

Today the Vancouver Stock Exchange index dropped 8.39 points to close at 488.97 -- an all-time record low.

When last the VSE composite index was at such a depth (bottoming at 493.94) it was early 1991 and the local market was still remembering its exposure on ABC TV's Primetime Live. (For three weeks prior to the October 4 1990 air-date of the award-winning Primetime segment, "Too Good To Be True?", the VSE had hit consecutive record lows on an almost daily basis.)

For a market that has, historically, relied upon the power of illusion to seduce victims, debunking media exposure (crowned by Forbes' May 29 1989 "Scam Capital" expose) has proven a potent antidote. Public investors -- alerted to the risks of the stock market by the Crash of 1987 -- were further educated about the unique dangers of Canada's "wild west" exchange by extensive coverage in regional, national and international media.

Unlike junior and senior stock exchanges worldwide, the increasingly marginalized VSE has never regained the robust position it held prior to October 1987 (when the market index crested above 2000 points). Market share and financing business lost to Vancouver has flowed elsewhere -- especially to Alberta, Toronto and NASDAQ.

For the public this exodus in the junior stock trade has not been entirely healthful. A lowering of standards in other securities environments -- aided, and masked in part, by an enormous influx of capital through mutual and pension funds -- has resulted in a corporate culture once primarily associated with Howe Street (Vancouver's securities community) being evident across the country.

The late Murray Pezim, known as Canada's most flamboyant penny stock promoter and, occasionally, a solid mine-finder as well, observed of last year's major gold mining swindle, Bre-X happened "because some Eastern (Canadian) guys took over this junior market and added a couple of zeros to it."

Like Bre-X, last year's biggest Canadian stock scandal, the YBM Magnex affair helps illustrate how indistinguishable now may be the operational fingerprint of brokers, analysts, fund managers, promoters, company management, securities regulators and other professionals found in Alberta, Ontario and British Columbia.

Unlike Bre-X, essentially a traditional "salt-job" on steroids, YBM, a business whose original core was spawned by senior members of the Russian mafiya, represents a more complex scandal unique in the history of Canada's junior markets. Using the ready mechanisms of this nation's junior markets, an entity (Arigon Co. of the Channel Islands) associated with organized crime, was absorbed into an Alberta-listed public company and layered from public view -- like the Russian matrioshka dolls that stack neatly inside each other. From there, with the support of Canada's top brokers and money managers, this enterprise graduated to the Toronto Exchange (and entered the once-prestigious TSE 300 Index).

The history of Arigon, Semion Mogilevich, Sergei Mikhailov and others was, and is, a matter of public record. There is no reason that interested members of the Canadian securities establishment -- including brokers, money managers and regulators on Toronto's Bay Street (and beyond) -- could not inform themselves of the origins of YBM Magnex and the potential risk to the public therefrom.

To help illuminate various issues of systemic failure, neglect and corruption that are highlighted by this case, I have been serializing the YBM Magnex story under the title, "Securities industry due diligence in a post-Bre-X market." (Part 10 of the YBM Magnex series was published earlier this week.)

Serials have a grand tradition in the methodology of investigative journalism. Some stories have a deeper context, and wider implications, than can be packaged and condensed in a few articles.

When Ida Tarbell took on John D. Rockefeller and Standard Oil in the early years of this century, she tackled America's richest and most powerful figure and helped "bust the trusts" with a 19 part series of articles published in the mass circulation journal McClures. For some 19 years (from 1953 - 1971), I.F. Stone published his Weekly reader -- and provided serial commentary on matters of politics and policy.

Even in the smaller, specialized, world of Canada's financial markets serials can have a lasting impact. In the early 1990s John Woods, (editor/publisher of Canada Stockwatch), constructed an analytical series on one archetypal VSE promoter and his house of cards, "Harry Moll and the Pineridge Affair", which took some 18 months, and over 69 installments, to complete.

I'm happy to say that, after some 4 1/2 months researching and writing about YBM Magnex I am about to close off my series on Magnex and the Russian mafiya. What began originally in urgency to alert the public has been able to evolve more gracefully in the wake of the May 13

1998 raid on YBM's HQ by dozens of U.S. federal agents. The internet, like a modern-day equivalent of I.F. Stone's newsletter, has shown itself to be an invaluable journalistic medium.

But, it's summertime, and this livin' ain't easy. Like the extra-loud guitarist's amp in Spinal Tap, this one's going to 11 -- and then, the series will be complete.

Have a great summer, everyone. Enjoy life when you can. Thanks for reading.

Cheers, Adrian du Plessis

July 28 1998

Mafia informer, innocent bystanders killed by bomb blast

Tamas Boros, Hungarian restaurateur, night-club owner and mafia figure, was killed last week when a powerful car bomb exploded in Budapest's Vaci Street tourist and shopping district. The remote-controlled bomb, estimated by police to contain 20 sticks of dynamite, was set off shortly before noon on Thursday, July 2 and killed three bystanders. Dozens more were injured by the blast. The target of the bomb, Boros, had been providing Hungarian police with information on mobsters including Semion Mogilevich, one of the founding interests of YBM Magnex and a current YBM shareholder. The now-dead informant had reportedly provided authorities with details of Mogilevich's loan interest in an automobile trading company and had been particularly helpful to investigators probing the theft of large quantities of petroleum in a fraud known as the Energol case. (Diesel oil and other grades of petroleum products are primary commodities in the mafia-controlled black markets and smuggling rackets of Eastern Europe and the former Soviet Union.) Budapest's chief of police, Attila Berta, told Reuters: "After Boros's death, the police do not have any more witnesses who knew so much about the underworld, its entertainment industry or who would have an interest in oil." In recent years turf wars have broken out in Hungary between rival criminal gangs and there have been over 150 bombings and fire-bombings. Last week's deadly blast was the first to claim the lives of innocent bystanders. - 08/07/98 -

Magnex million$: What, if anything, does Wayne Deans know that the public doesn't?

Wayne Deans, sometimes referred to as a "wily" or "savvy" money manager based in Vancouver, has told his, apparently faithful, followers: "YBM is a legitimate company that produces real products. This is not a Bre-X."

These words of Deans, portfolio manger of the Navigator Value Investment Retirement Fund, match published statements of other money managers whose funds are holding shares in YBM Magnex International Inc. YBM Magnex stock, a former TSE 300 high-flyer, hasn't traded since May 13 1998, the day that 60 agents for the FBI, IRS and other US Federal agencies raided the company's Pennsylvania headquarters as part of an investigation into suspected money laundering, securities fraud and customs and immigration violations.

On May 21, the day after the wily Deans made his pronouncement, mutual fund managers across Canada agreed, (in a private conference call arranged by the Investment Funds Institute of Canada), to devalue, once again, their YBM holdings to between CDN $1 and $3 per share. (Soon after the FBI et al sweep, these savvy money managers dropped YBM's quoted value to $5.00 - sharply below the last pre-raid trade price of $14.35 per share.)

The result of this second devaluation of the funds' YBM holdings was to peg the company's market value between CDN $44.2 million and $132.6 million - down from a March 1998 high of $895 million. Even more amazing is the realization that between CDN $762.4 million and $850.8 million can be erased from an issuer's market capitalization and money managers aren't seen to be raising serious questions about the company's affairs.

Years ago, when a stock promotion went sour on the Vancouver Stock Exchange, there was a real chance that public investors who'd lost money under questionable circumstances would not appear satisfied with the status quo. Today the game has shifted to the Toronto Stock Exchange and the big money managers call the shots. These managers and advisors seem remarkably content to not turn over loose stones on behalf of those investors whose money they employ.

One Bay Street fund company, holding hundreds of thousands of YBM Magnex shares, has told its friends and clients: "YBM Magnex has a legitimate magnet manufacturing plant in Hungary, which has been visited by numerous analysts, and has other legitimate operations. Deloitte and Touche did an extensive, four month long audit of the company's books before it listed on the TSE and uncovered no major irregularities. It is worth noting that the FBI has not publicly revealed why they are investigating YBM; the money laundering allegation is only speculation on the part of the press."

The last two sentences of this fund explanation are incomplete, inaccurate or false at best face (and can be revisited in a later article). Perhaps most significantly, they highlight that the fund manager's motivation is not to seek answers, but, rather, to deflect concerns and explain away serious problems surrounding a company in which they have buried their investors' dollars.

The first sentence in this particular fund alibi points to another due diligence breakdown.

It would be interesting to learn the identities of the numerous analysts said to have visited the Magnex Rt plant in Budapest - and to determine if they know as much about magnets as the numerous analysts who visited Busang knew about gold.

There has been no question as to whether or not there exists an actual plant in Hungary. And, since raising over $100 million in hard western currency, the Magnex group has, of course, been able to buy other physical facilities in the United Sates and the United Kingdom in 1997 and 1998. Unanswered questions, however, surround the level of legitimate representation as to what these facilities may create in terms of sales and profits (or losses).

Well before Deloitte and Touche refused to sign off on YBM Magnex's financial statements and it became publicly known, through an OSC notice, that the company's auditors were concerned that "one or more illegal acts may have occurred which may have a material impact on (YBM's) 1997 financial statements", there was reason to question the company's incredible reports of success.

In addition to probing the reality of the purportedly huge, and ever increasing, demand for permanent magnets in Russia, the Ukraine and Eastern Europe - among various issues - a prudent money manager or investor could have questioned the substance of the core business assets upon which the YBM Magnex stock promotion was founded.

Until relatively recent times when YBM Magnex acquired money-losing subsidiaries of legitimate companies in the U.S. and U.K., its sole magnet producing facility was the Magnex Rt plant located on Csepel Island in Budapest. Financial statements filed by Magnex Rt show that this enterprise along the Danube River is modest.

(Magnex's auditor in Hungary is a private individual, Istvan Kanyurszky.)

For the year ended December 31 1994, Magnex had sales of US $1,137,171 and incurred a loss after tax of US $660,568; for the fiscal year end 1995 Magnex sales totalled US $3,130,519 and the magnet company suffered a loss of US $1,168,571; for year end 1996 Magnex sales dropped to US $1,774,394 and the company recorded a small profit of US $21,631.

Thus, for the three years 1994 - 1996, Magnex Rt reported sales of US $6.04 million and recorded a loss after tax of US $1.81 million. During this same fiscal period, YBM Magnex, the parent of Magnex Rt, was reporting magnet sales of US $120 million and an operating profit of US $28.3 million. (During these years, relative to the U.S. dollar, the value of the Hungarian Forint fell dramatically. The official rate of currency exchange in 1994 was 111 HUF = US $1; in 1996 it took 160 HUF = US $1.)

One obvious question arises: since Magnex Rt, the core business of YBM Magnex in Hungary, is a marginal enterprise -- what accounts for the huge sales and profit figures that have been attributed to the public company's subsidiaries Arigon/United Trade and Arbat International over the years? Magnets?

Can this be answered by Wayne Deans or any of the other prudent fund managers or analysts who have been supporting YBM stock?

Can this be answered by YBM vice-president, Jim Held, (a Pennsylvania-based accountant) by way of his bartering explanation (e.g. Held has explained one transaction in which magnets were traded for small motors which were then swapped for food-processing machines which were next exchanged for cans of meat which were then sold for cash to a car manufacturer)??

Can this be explained by Semion Mogilevich, the Russian mafia godfather, who, together with associates, helped spawn Magnex Rt, Arigon and Arbat International???

It's fanciful to imagine that Bay Street's financial brains would balance their reputations on a mountain of Spam. So, surely, there is an answer more satisfying than the canned responses of various officials to date. - 02/06/98 -

TSE's changing tune on the Magnex/Mafia scandal

When Mindy McCready asks, "Is he just being clever, or what?!", in her recent hit song, "What If I Do", the American country music star is debating some fella's motivation.

Members of the investing public might consider the same question when weighing the evolving comments of John Carson, the Toronto Stock Exchange's senior vice-president of market regulation, and other officials in the wake of the YBM Magnex scandal.

On Wednesday May 13 1998, about five dozen U.S. federal agents swarmed the Newtown, Pennsylvania headquarters of YBM Magnex - removing numerous boxes of documents as part of an extensive investigation into suspected money laundering, securities fraud and customs and immigration violations. Officials of the FBI, IRS, Immigration and Naturalization Service and U.S. State Department executed a precision raid that sealed off the YBM Magnex building at 10:30 a.m.

Twenty-three minutes after the raid began, trading in YBM shares was halted on the TSE. Less than 48 hours laters, John Carson was vocally defending his organization's decision to list YBM Magnex on Canada's senior stock exchange and to include its stock in the once-prestigious TSE 300 Index.

Reporters for The Globe and Mail newspaper first pointed out that Arigon Co., a private Channel Islands company that spawned the public vehicle, YBM Magnex, was publicly linked to Sergei Mikhailov, a notorious godfather of the Russian mafia. Mikhailov, nicknamed "Mikhas", has been in preventive custody in Geneva, Switzerland since late 1996 on charges of money laundering, illicit real estate dealings and being a member of a criminal organization.

The newspaper noted that stock market regulators need have looked no further than the internet to learn of the organized crime associations to Arigon, and two original YBM Magnex subsidiaries, Magnex Rt and Arbat International, as detailed in international police reports and news articles.

Carson told the Globe that it is unrealistic to expect exchange officials to amass information on everything and every individual associated with a company when it applies for an exchange listing. Carson's response suggested that unearthing this public record information was beyond the purview of his staff: "If you have to carry out a? forensic accounting audit any time somebody wants to list here, we'd have to go out of business." He said that other regulatory agencies were woefully understaffed and that few of the numerous investigative reports forwarded by the TSE to the Ontario Securities Commission and the police "actually are acted upon." Carson told the Globe: "I would love to have the ability to call upon 50 RCMP agents when we identify a problem. We're lucky to get even one guy to read a file."

On the same day, Carson disclosed to a different financial journal that YBM Magnex was no longer deemed suitable for listing by the TSE. Still, in comments made to The Financial Post, he defended the review process that permitted its original listing. "It is a vetting process," he said. "What it is not is a criminal investigation. There seems to be some kind of suggestion around situations such as YBM that the fraud squad should be on the case in order to be listed here or on another exchange. But the fraud squad is a police matter and we don't believe it's necessary to carry out a criminal investigation to determine whether a company can be listed."

By the date these words appeared in print, on May 16 1998, The Vancouver Sun newspaper was first to reveal that another powerful Russian mafia figure, Semion Mogilevich, nicknamed "Uncle Seva", was identified in YBM Magnex documents as a significant shareholder and vendor to the company. Mogilevich, whose criminal organization has been reported by international police to engage in "large scale extortion, prostitution, arms dealing and drug trafficking", has been closely associated with each of Arigon, Arbat and Magnex Rt.

The names of Mogilevich and various mafia associates were disclosed in documents filed by YBM Magnex with Alberta securities regulators prior to regulatory approval being granted for transactions that resulted in Arigon, Arbat and Magnex Rt being absorbed into an Alberta Stock Exchange-listed shell company.

On Sunday May 17 1998, The Observer, one of England's most venerable broad-sheets, published further details of the infamous activities of Russian mafia godfathers Mogilevich and Mikhailov and their association with those core entities that formed YBM Magnex.

The Observer disclosed that British detectives concluded in a 1995 report that Semion Mogilevich was "one of the world's top criminals". The UK police investigation, code-named Operation Sword, alleged that Canada was "used purely to legitimise the (Mogilevich) criminal organization by the floating on the stock exchange of a corporation which consists of the UK and USA companies whose existing assets and stocks have been artificially inflated by the introduction of the proceeds of crime."

An attempted criminal prosecution of Mogilevich and associates in Britain fell apart and the allegations were dropped in 1995 following a lack of documentation from Russian authorities. Officials in Moscow failed to supply evidence sufficient to proceed. A money laundering case against Mogilevich's London lawyers failed, in part, because of a technicality that allowed for "grand-fathering" under the law. It was held that Britain's money-laundering rules applied only to new clients and the lawyers, it was established, had "long term connections" with Mogilevich.

Russian mob boss Mogilevich was, however, banned from entering Britain after Operation Sword concluded in 1995. Details of the investigation carried out by the U.K.'s National Criminal Intelligence Service and National Crime Squad were passed on to Canadian authorities prior to YBM Magnex moving from the ASE and listing on the TSE in 1996.

The first news stories following the 1998 FBI raid on the Pennsylvania offices of YBM Magnex left an impression that stock exchange regulators in Canada had been unaware of reports, widely published in Europe, of Russian organized crime links to the company's operations in Hungary, Russia and the Ukraine (where the company purports to sell hundreds of millions of dollars worth of magnets) - and that it was too much to expect the TSE to obtain such knowledge.

On May 20, three days after the story broke in Great Britain, The Financial Post told its Canadian audience about the involvement of godfather Semion Mogilevich with the Magnex-related entities and of the conclusions of Operation Sword.

By this date, Toronto exchange official John Carson was shifting his public refrain. Confronted with questions about the British intelligence investigation and the 1995 report which was available to such agencies as the Royal Canadian Mounted Police, Carson told the Post: "We don't as a matter of course check with the RCMP. If we became aware of information that suggested we should check with the RCMP on something, then we would do so." When asked if the TSE had checked in connection with YBM Magnex, Carson said: "I don't know."

On May 21, The Globe and Mail broke the news that just less than one-third of the shares of YBM Magnex were held by Russian mob boss Mogilevich and five associates shortly after it went public on the ASE in 1995. (As ever in such distributions, other possible associates or nominees remain to be identified.) On this same date, The Financial Post was first to report that unidentified sources said that TSE officials knew of the damning British police investigation into Mogilevich prior to granting YBM a listing on the senior exchange in 1996. The TSE's Carson had nothing to say and was reported to be reviewing the circumstances surrounding the original listing of YBM on his exchange.

By this time, YBM Magnex, which had originally claimed to be somewhat dumbfounded by the FBI raid, was admitting for the first time that Semion Mogilevitch held shares in it. Company president and CEO, Jacob Bogatin, acknowledged this fact but downplayed any significance to the company. On May 21, various Canadian media were reporting on a YBM Magnex issued press release that Bogatin had promised would "answer all? questions".

The company's actual statement was not fully responsive to serious, and far-reaching, issues that had been raised publicly, but, instead, walked a carefully circumscribed territory in its brief explanations concerning mafia godfathers Semion Mogilevich and Sergei Mikhailov. When it came to characterizing the company's public disclosure of the major British criminal investigation, Operation Sword, in 1995, YBM's press release appeared studiously oblique.

On Friday May 22 and Saturday May 23, at the end of the first full week of a growing international scandal, John Carson's tune, as recorded in news articles from Canada to the U.K., began to echo more closely that of such YBM Magnex spokespersons as Jacob Bogatin. Carson acknowledged in an interview with The Wall Street Journal that his exchange knew of the 1995 British investigation into Russian organized crime - before it allowed YBM Magnex to list. The Financial Times of London summarized: "John Carson, TSE senior vice-president of market regulation, says the exchange was aware of the 1995 allegations, but says they are unsubstantiated and that Mr Mogilevitch's links to the firm are tenuous."

Such a startling declaration by a TSE official might bemuse diligent parties familiar with the details and findings of Operation Sword, and who had reviewed the Arigon company filings or other corporate records in Europe, and had analyzed YBM Magnex documents filed with the Alberta Securities Commission. (It might also seem puzzling to F.S. VanAntwerpen, the U.S. District Judge who granted agents of the FBI and U.S. Customs Service a broad warrant to search the Pennsylvania offices of YBM Magnex after reading a 70 page affidavit in its support. That affidavit remains sealed.) Even to those with more casual interest, Carson's new refrain may sound a remarkable distance from his initially transcribed public comments.

"Is he just being clever, or what?!"

More charitably, it appears that Carson, typical of a manager lacking hands-on familiarity with an investigation file, has been speaking without really knowing the full history of what he's been talking about from Day One. Now that TSE staff have brought him up to speed and provided him with their own explanation of how YBM Magnex was originally listed, he's left to style the best possible rendition of the material he's been handed.

In the previous week, Carson had said the TSE took comfort from the endorsement of the company's 1996 financial statements by auditors Deloitte & Touche. But, as a March 10 1998 article in Canada Stockwatch highlighted, this Deloitte & Touche audit raised alarming questions about the operations and practices of YBM Magnex. Such concerns, when combined with a knowledge of the Russian organized crime links to Arigon, Arbat, and Magnex Rt, could be expected to have spurred some different action by market regulators who had watched YBM's incredible climb from its level as a penny stock on the ASE to $20 per share on the TSE with a market capitalization approaching CDN $900 million.

Amazingly the North American public never learned - not from the company itself, nor from any brokers, securities analysts, mutual fund managers, advisors, or stock market regulators (all of whom were in position to have informed themselves) - about the dubious origins of YBM Magnex entities or details about the Russian organized crime links publicized in Europe.

(Now that the TSE is admitting to having been aware, for years, of the British intelligence investigation into Semion Mogilevich et al, it may be asked whether or not the TSE informed Deloitte & Touche of such circumstances before the auditors were asked to review YBM Magnex financial affairs last year. Deloitte has suspended its most recent audit of the company, citing, among other points, concern that "one or more illegal acts may have occurred which may have a material impact on the 1997 financial statements.")

On Saturday May 23, in what appears to be another astounding admission, The Financial Post quoted Michael Walsh, a vice-president of First Marathon Securities as saying that his brokerage firm was aware of the Russian organized crime allegations at the time it and other Canadian securities dealers helped YBM Magnex raise CDN $52.8 million from institutional investors (in late 1997). Walsh told the Post: "I've been told by people working on it that there's nothing knew in this information, that it was all known and all reviewed at the time of issue."

Another vice-president of First Marathon, Robert Owen Mitchell, has been a director of YBM Magnex since January 1996. Fellow director David Peterson endured his share of controversies (involving the DelZotto brothers and another Ontario real estate developer, Marco Muzzo), while he was premier of Canada's most populated province. Two other Canadian YBM Magnex directors, Mike Schmidt and Kenneth Davies, (as pointed out in a March 16 1998 Stockwatch article), have been previously associated with failed Vancouver penny stock promotions and, based upon their track record, were hardly "blue chip" management even for a junior public company.

Aside from those comments issued by Walsh at First Marathon, lacking in specificity, the big brokerage boosters of the company, including Griffiths McBurney & Partners, have yet to reveal the depth of their knowledge about the company's background. It's possible that a familiar chorus will be heard from those Bay Street backers of the deal.

What may not be learned, outside of a court of law, is what, if any, independent investigations were carried out by brokers prior to them lending their imprimatur to the multimillion dollar YBM Magnex financing. It may also be asked why these brokerage firms failed to inform the public of matters that could potentially impact upon an investor's decision-making process. Mutual fund managers and advisors may also be called upon to explain their due diligence practices.

For the moment, Jacob Bogatin, YBM Magnex CEO and president, does not give weight to the published police and news reports linking Russian mafia members to his company's subsidiaries (Arbat International, one of the three European entities that originally formed YBM Magnex, was sold off by the public company in the first quarter of 1996).

Bogatin's view of such matters as irrelevant or unsubstantiated was placed in a new context by revelations contained in the current issue of The Village Voice. The magazine's May 26 cover story, "The Most Dangerous Gangster in the World", is a lengthy feature about Semion Mogilevich and his ruthless criminal organization. The Voice notes: "YBM Magnex vehemently denies that it is connected to Russian organized crime or has engaged in any criminal activities. Bogatin is no stranger to the mob, however. His brother, David, a top Russian crime figure? is now serving an eight-year term in a New York State prison for a multimillion-dollar gasoline tax fraud scheme."

The Toronto Stock Exchange holds its annual meeting in downtown Toronto this Thursday, May 28 1998. As the Magnex/Mafia scandal continues to unravel, it's a safe bet, (or, at least, a more secure investment than shares in certain TSE 300 companies of late), that no matter what tune TSE officials are singing by Thursday, no one - not even in sweet-natured ol' Nashville - will mistake them for being clever. - 24/05/98 -

Russian mafia links to Magnex, Arigon, Arbat et al

Earlier this year I began looking into YBM Magnex International, a most curious company listed on the Toronto Stock Exchange which had a market capitalization at that time of close to CDN $900 million. The company claims to be selling huge amounts of magnets in Russia, the Ukraine and Eastern Europe.

Information obtainable - much of it on the public record for years - from various European sources (including corporate registries, court files, press reports, and police intelligence reports), combined with data easily available in Canada, (from the Alberta Securities Commission, university libraries etc.), establishes that several core entities (e.g. Magnex Rt in Hungary, Arbat International in Russia, and Arigon Co. Ltd. registered in the Channel Islands) that were central at the formation of YBM Magnex were vehicles associated with godfathers of the Russian mafia.

The two most notorious Russian mafia figures to be associated with these entities are Sergei Mikhailov (sometimes anglicized as Mihailov, and nicknamed "Mikhas") and Semion Mogilevich (sometimes spelled Mogilyevich). Mikhailov is the acknowledged leader of one of Russia's largest and most dangerous criminal organizations, known as the Sons of Solntsevo (Solntsevskaya). Mogilevich, while closely associated with Mikhailov's group, heads his own criminal organization.

Sergei Mikhailov has been in custody in Geneva, Switzerland since October 15 1996 held on charges of money laundering and being a member of a criminal organization. Semion Mogilevich still runs free. Their associates are now widespread.

I had been preparing a series of articles, entitled "YBM Magnex: Securities industry due diligence in a post-Bre-X market", that highlights how Canadian mutual fund managers and brokerage analysts fail to properly concern themselves with the interests of public investors and the integrity of the marketplace.

Welcome events of the past few days, including the cease trading of YBM Magnex stock by the Ontario Securities Commission, news of an investigation by the FBI, and disclosure of the refusal of auditor Deloitte & Touche to accept the company's financial statements as they stand, has altered the necessity and timing of publication of my series.

I feel less urgency to proceed now knowing that the public is better protected. Consequently, my series on the failure of Canadian stock brokers and analysts, mutual fund managers and other industry players to investigate the origins of entities that they actively promote will continue after this Victoria Day holiday weekend in Canada.

Best wishes for a healthy and happy future. - 14/05/94 -

YBM Magnex: Securities industry due diligence in a post-Bre-X market - Part 1

The first thing that alarmed me about YBM Magnex was a cluster of Canadian brokerage analysts' reports touting the company's stock.

While visiting offices in the Vancouver Stock Exchange tower I'd initially come across four reports - two published by Nesbitt Burns, and one put out by each of First Marathon Securities and Griffiths McBurney & Partners. All contained positive buy recommendations. The analysts - Peter Sklar at Nesbitt, Mike Middleton at Griffiths McBurney and Kaan Oran at First Marathon - uniformly projected significantly higher share prices for YBM Magnex based upon their stated analysis of the company and its prospects.

In this case, (as is standard), not one of the brokerage firms, at the same time it promotes an issuer's stock, stands behind the claims of their in-house analysts. Each YBM Magnex report included detailed disclaimers, noting such pertinent points as: "Neither First Marathon Securities Limited nor any of its affiliates accepts any liability whatsoever for any loss arising from the use of this report or its contents"; Nesbitt Burns "takes no responsibility for any errors and omissions which may be contained herein and accepts no liability whatsoever for any loss arising from any use of or reliance on this report or its contents"; and "The information contained in this report is drawn from sources believed to be reliable but the accuracy or completeness of the information is not guaranteed, nor in providing it does Griffiths McBurney & Partners assume any responsibility or liability whatsoever."

What public value is there in a broker's "buy" recommendation for which the brokerage firm will not accept "any responsibility or liability whatsoever"? Such reports are routinely fed to financial news agencies which dutifully regurgitate the analysts' views and hype. In general practice, the press, even more dutifully, removes the legal disclaimers in its recycling motions.

Further complementing this form of stock market circle jerk, YBM Magnex distributed the Nesbitt Burns, First Marathon, and Griffiths McBurney analysts' buy recommendations to the media with an official disclaimer of its own prominently stamped onto the front page of each report: "Please be advised that we have not independently reviewed or verified the assumptions upon which this analyst's report is based and accordingly assume no responsibility for the accuracy thereof."

Having spent more than six months during 1997 researching the Bre-X Minerals swindle, I was acutely aware of the terrible job done by Canadian brokerage house analysts in their coverage of that company. It's an accepted truth of the junior stock markets that the track record and history of the principals and asset(s) of a venture represent material information upon which investment decisions can be based. Knowing something about the people behind a stock deal, and how the public company has travelled from Point A to B to C and so on in its life, can be helpful - even critical.

In the case of Bre-X, during that stock's promotion, many analysts failed to inform their clients, (and, by extension, through their comments to the press, the broader public), that Bre-X's David Walsh had a history of exaggerating and misrepresenting the affairs of his public companies. These analysts failed to note the history of regulatory violations and stock scandals associated with several other, lower-profile, Bre-X group principals. As well, these analysts failed to adequately detail the history of the Busang property and the backgrounds of those parties involved with the group in such places as Indonesia and Australia.

Without such background information being provided, the public lacks an appropriate context in which to place and consider a company's current claims. Whether the company is a scam or fraud, like Bre-X Minerals, or a legitimate speculation, such as Dia Met Minerals (soon to begin production at its Ekati diamond mine in the Northwest Territories), the history of the people and entities involved represents fundamental knowledge.

After reading and rereading the 15 pages of YBM Magnex "analysis" churned out by three of Canada's senior brokerage firms I was left with many unanswered questions. For example, the reports told me nothing useful about the company's principals or founders, "whatsoever". Not a single member of management, not one principal, not one founder of any of the company's operating entities was named or described in the reports. These buy recommendations also contained little or no information that would tell a reader how the company began and had progressed to its present status - reportedly a highly successful venture with geometrically increasing sales and profit figures, the shares of which were going up and up in price on the Toronto Stock Exchange (TSE).

Wonderful companies - and dreadful ones, for that matter - all start somewhere. Somebody has a product or a vision and works to develop it. That's usually an interesting story. That it didn't interest the Bay Street brokerage analysts to make the origins of YBM Magnex publicly known prompted me to begin my own, independent, due diligence.

My objective? To start to fill in some of the holes apparent in the Magnex coverage put out by the brokerage analysts. And to be prepared, unlike them, to accept responsibility for the results.

End of Part 1 - 12/05/98 -

YBM Magnex - Securities Industry Due Diligence... Part 2: The myths of Arigon?

Brokerage houses and financial advisors can, individually and collectively, generate for themselves hundreds of thousands, even many millions, of dollars in commissions, agents and underwriters fees and other benefits associated with share and financing transactions in a single public company.

A worthwhile, and independent, due diligence review of a company such as YBM Magnex can be conducted for as little as a few hundred dollars. After a few hours work, involving some very obvious and standard background checks, a market analyst worth their salt should be able to determine if there are aspects of a company's affairs that may require further, more intensive, review. Curiosity, however, appears to be a characteristic that may be singularly lacking in some mutual fund managers, fund advisors and brokers as they direct other peoples' money into some curious places.

To start my YBM Magnex-related research, after breakfast one morning I logged onto the on-line services of Canada Stockwatch, an electronic data base and news service that covers all public companies listed on Canada's stock exchanges. (All the data I pulled from the Stockwatch site can be obtained by paying a monthly fee of only $4.95 - $19.95 + GST - the higher rate enables faster/greater volume data printouts. The Stockwatch service alone, or combined with a search of newspaper databases that have similarly reasonable fee structures, can provide a view of a public company and its principals from the perspective of not only the company itself, but also such external observers as securities regulators, auditors, journalists, litigants etc.)

I learned that this public company, then known as Pratecs Technologies Inc., (a Junior Capital venture or "blind pool"), had commenced trading on the Alberta Stock Exchange (ASE) on August 3 1994.

Even before it had begun public trading on the ASE, Pratecs had announced its plans to acquire Canadian distribution rights for YBM Magnex Inc. products and, further, to acquire all the shares of YBM Magnex. Both of these represented non-arms length transactions as the president of Pratecs, Robert Ventresca, and a director, Jacob Bogatin, were also principals and/or shareholders of the private entity, YBM Magnex. The Canadian distribution rights for magnetic materials produced by YBM Magnex were to be purchased for 4,000,000 Pratecs shares valued at $0.20 each. The acquisition of 100% of YBM Magnex was to be effected through the issuance of 110,000,000 Pratecs shares to the vendors (this large number included the four million shares issued for the distribution rights).

Jacob Bogatin had no track record with Canadian public companies. Robert Ventresca, Pratecs president, had earlier been a participant in publicly traded Technigen Corp. In 1990 Ventresca had taken down a securities position (a convertible debenture with warrants attached) in Technigen which had delisted from the Vancouver Stock Exchange (VSE) in 1989 after the company's president was called to a hearing before the British Columbia Securities Commission (BCSC). Between April 1987 and August 1989, Technigen had been widely revealed in Canada as an outrageous stock market fraud. (This stock market and tax grants scandal was so elevated as to be raised repeatedly in the Legislature of two provinces, B.C. and Saskatchewan.) The company's management had repeatedly made false claims about the status of its operations and sales of its product - a computerized golf driving range. In November 1989, as a result of various misrepresentations, the BCSC banned Technigen's president, Larry Nesis, from the B.C. securities market for three years. After being thoroughly exposed as a scam in Canada, Technigen's trading and misrepresentations carried on, primarily through the U.S. over-the-counter market. (Just last month, the U.S. Securities and Exchange Commission issued a complaint against Technigen that outlined a scheme of stock manipulation and corporate misrepresentations that the SEC alleges was carried out between January 1992 and May 1993.) Pratecs/YBM Magnex principal Robert Ventresca was based in Fountainville, Pennsylvania and, from consideration of the public record, it was just as possible that he had been in the role of an innocent investor, perhaps even a victim, rather than a perpetrator or facilitator, of the Technigen swindle.

The same could not be said of Ventresca's fellow Pratecs director, Michael Schmidt. Schmidt, then identified as a friend of Technigen's president, Larry Nesis, had been an original "seed stock" shareholder in Technigen. For years, straddling both the Canadian and American promotional eras of the company, Schmidt had been in charge of "Investor Relations" for Technigen. Schmidt helped distribute and defend the company's misrepresentative literature. A Financial Post article of February 24 1989 - entitled "Technigen is a disgrace to the VSE" - captured Schmidt failing in an attempt to mislead Diane Francis about the distribution of promotional materials to an U.S. investor. Michael Schmidt's last Canadian media appearance came in July 1989 when he could be found explaining to Globe and Mail reporters why Technigen's purported employees were not visible on a tour of the plant. It was lunch hour, he said.

It was not even my lunch hour yet, and my review of YBM Pratecs - its history and principals - was already creating a disquieting feeling in my stomach.

By the time I reached just the seventh and eighth entries in the Canada Stockwatch database of the company's own press releases my original level of concern was significantly heightened. I wondered what independent investigations may have been conducted by the brokerage analysts at Nesbitt Burns, First Marathon and Griffiths McBurney in connection with this most unusual of announcements.

On June 22 1995 trading in Pratecs shares was halted on the ASE and the company issued a vague public statement about unspecified "information? regarding a subsidiary company associated with its proposed major transaction." The following month, in an obliquely worded announcement, Pratecs (soon to be renamed YBM) disclosed that the lengthy trade halt was the result of "allegations made in London, England against two individual shareholders of YBM Magnex." According to this Pratecs/YBM press release: "The allegations were aimed at two companies in the UK and the attorneys of these two companies. The companies are in no way related to YBM or its subsidiary, Arigon. However, because the companies are owned by an employee and a former director of Arigon, and the companies' monetary affairs were handled by the same solicitors that Arigon used in the past, it had put Arigon also under scrutiny."

An announcement like this is a yellow flag that calls for follow-up review. I decided to skip lunch and keep digging. Mutual fund gurus and brokerage house analysts were enthusiastically touting Pratecs/YBM stock to their clients. What depth of due diligence had they carried out into solving those mysteries surrounding YBM subsidiary, Arigon?

End of Part 2 - 13/05/98 -

YBM Magnex: Securities Industry Due Diligence... Part 3 - Business as usual?

There's a quaint myth -- still surfacing on occasion, like the Ogopogo creature in British Columbia's Lake Okanagan -- that Canada's stock markets are governed according to such bedrock principles as "full, true and plain disclosure."

Stock exchange policy manuals traditionally advise that public companies are supposed to issue press releases that are "factual and balanced, neither over-emphasizing favorable news nor under-emphasizing unfavorable news." There is supposed to be timely disclosure of any "developments relating to the business and affairs of the company that would reasonably be expected to significantly affect the market price or value of any of the company's securities or that would reasonably be expected to have a significant influence on a reasonable investor's investment decisions."

But, like the Sasquatch, or Ogopogo (Canada's version of "Nessie", the Loch Ness monster), clear examples of market principles being enforced are rarely sighted.

The unusual press releases issued by Pratecs/YBM Magnex in June and July of 1995 failed to indicate, fully and plainly, the nature of underlying events for a reasonable investor. And, experience shows, when a public company obscures the nature of some event or the identity of any parties, those will usually prove to be details worth knowing.

The company's oblique wording, supposed to explain the basis for a six-week halt in share trading, was hardly an exemplar of "full, true and plain disclosure." It left me, as a member of the public, wondering: just what were the unspecified allegations?; and precisely who were the unnamed parties against whom these unspecified allegations had been made?; and exactly who was making these unspecified allegations against unnamed parties?; and could these unspecified allegations against unnamed parties made by unidentified parties potentially influence a reasonable person's investment decision in Pratecs/YBM?

In short, what the hell was going on in London, England that the company's management wasn't telling the public?

Finding absolutely nothing in the brokerage research reports I'd gathered that would shed any light on this highly questionable situation, I began the process of searching for clues on the public record about YBM's subsidiary, Arigon. A couple of calls were placed to London, England ? kick-starting court and corporate registry searches. The Canadian filings of YBM/Pratecs were ordered from the Alberta Securities Commission (which will sell anybody, even brokerage analysts and mutual fund managers and/or advisors, a microfiche file on any Alberta-listed company for only CDN $10.00 plus $0.70 GST.)

The public was informed by Pratecs/YBM in its July 1995 announcement that Arigon's unnamed legal counsel had confirmed that the unspecified allegations against unnamed entities made by unidentified parties were "unsubstantiated."

That might be enough to satisfy Canada's provincial securities regulators, but, to an experienced observer of junior, or small-cap, stocks this sort of disclosure appears more alarming than a stack of cheer-leading research reports churned out by senior Bay Street brokerage houses.

YBM Magnex had reported incredible growth since its 1995 beginnings as an ASE-listed shell. Little more than two years after trading for pennies a share, this magnet-bicycles-oil-and-more company was well on its way to the billion dollar market cap level and, yet, right from its inception as a public company there existed serious, unanswered, questions.

While waiting for some answers to return in the form of public record files from London and Edmonton, I carried on with my review of the company's history as outlined in Canada Stockwatch.

(For the purposes of maintaining narrative flow, a fuller chronology of the YBM Magnex history and contextual elements will be described later in this multi-part series.)

One of the first brokerage analysts to publicly endorse YBM Magnex stock was Rob McConnachie. McConnachie started pitching YBM when he was employed by Canaccord Capital and carried on touting the company and its stock when he moved to Scotia Capital Markets in early 1997. I'd had opportunity to fact-check some of McConnachie's work in 1994 ? when he was turning out reports for a different employer, the now-defunct boutique Marleau Lemire Securities.

As noted in considerable detail elsewhere on this web-site (e.g. in the 09/03/98 feature on "Mumble and Rumble"), in those days McConnachie was keen on a scandalous ASE and Amex-listed company called Cycomm International Inc. He put his name to a research report which failed to note Cycomm's continuing history of making misrepresentative and false public statements, its lengthy involvement with an ex-convict inventor, its trumpeting of non-existent products and other troubling elements. Instead, the MBA analyst focused upon what he saw as extremely favourable prospects for growth in Cycomm's revenues and profitability (which, naturally, failed to materialize). When questioned by the B.C. Securities Commission as to its dubious content, Marleau Lemire claimed McConnachie's boosterish report had not been damaging to investors since the brokerage was aware of its inaccuracies and failings and had not released it to the public.

Along with brokerage industry supporters such as Rob McConnachie, YBM Magnex was attracting mutual fund players including Steven Misener, described admiringly in print by fund-guide writer Gordon Pape as a "rumpled, articulate portfolio manager" at BPI Capital. In 1996, in the wake of personal trading scandals involving Canadian mutual fund gurus Veronika Hirsch and Frank Mersch, I'd had occasion to research one Vancouver penny stock, Serengeti Diamonds Ltd., in which, a few years earlier, Misener family members had invested in advance of, and alongside, BPI mutual funds managed by their rumpled, articulate, relative.

Unlike those cases brought to public light involving Altamira's "rock star" Mersch and AGF/Fidelity's "diva" Hirsch, the Serengeti units and shares which Steven Misener's family and friends purchased did not enjoy the good fortune of benefiting from a price boost following the fund's participation. That's the nature of the junior stock market ? not every deal can be a winner, even temporarily. And, unlike those celebrated cases involving fund managers' personal share dealings, the Misener group activities were never publicized.

In any event, questions about possible conflict of interest and/or appropriation of opportunity may not have arisen in the case of Serengeti Diamonds as Steven Misener had, in apparent hindsight, the foresight to not purchase any shares.

In June 1994, Serengeti announced a private placement of two million units (one share + one share purchase warrant) priced at $0.45 each. A group of fund manager Misener's friends and family members, including his sister and brother, picked up 133,000 units in aggregate. The certified filing for this placement was dated September 12 1994 and the units were approved for issuance by the Vancouver Stock Exchange on September 14 1994.

On September 13 1994, following up on a public announcement of the previous week, Serengeti filed a notice with the VSE concerning another private placement. This time, the company was going to issue 586,000 units (one share + one-half share purchase warrant) at a price of $0.55 each. The company disclosed that 550,000 units were being purchased by BPI Financial Corporation, "a public company listed on the Toronto and Alberta Stock Exchanges", and 36,000 units were being bought by Steven Misener, "a Senior Vice President of BPI."

On September 28 1994, Serengeti wrote to the VSE further to its September 13 filing and explained: "Subscriber Steven Misener has reconsidered his investment. As an officer of the fund which is the other investor, he believes it is best not to participate in his private capacity." The company went on to state that another investor had been located and it sought the VSE's approval for the replacement of Misener as subscriber with the new party that had come forth, Florence Jucker.

On October 25 1994 the VSE approved the issuance of units in this second Serengeti private placement ? with BPI (on behalf of its Canadian Small Companies Fund) buying 550,000 units as originally disclosed, and the balance of 36,000 units being picked up by the other investor that had been located in place of Steven Misener. Nowhere on the VSE's public record was it noted, however, that Florence Jucker had another role ? that of being Steve Misener's mother.

Despite his faith in the deal, and his mother, brother, sister and others close to him riding it, Serengeti failed to perform as Misener may have liked. After flat-lining at the $0.65 level in October 1994, Serengeti's shares began to slide and the company's lack-lustre African diamond and gold exploration was no cure.

By October 25 1995, when Serengeti announced another private placement -- of which the BPI Canadian Opportunities RSP Fund (co-managed by Misener) acquired 750,000 shares (and Prudential Insurance bought another 750,000) ? the price of this VSE small-cap stock had slipped to $0.20.

Possessing this sort of historical knowledge about those industry players in the orbit of YBM Magnex, such as analyst Rob McConnachie and money manager Steve Misener, can be interesting but the most valuable due diligence material is that which directly concerns the company and its origins, principals and activities. The fact that McConnachie previously issued a bullish report on a scam company and that Misener felt it was inappropriate for himself ? and his mother was found instead -- to invest alongside his funds (following his siblings' lead) may say more about the standards of the Canadian securities industry as a whole than it does about YBM.

So, after letting my mind wander through such other amusements as are to be found in Bay Street and Howe Street research, I returned to considering the particular company file at hand. The public record as contained in Canada Stockwatch suggested that YBM Magnex had an uncanny knack for meeting or exceeding earnings and profit projections.

The last company I had investigated that was so able to repeatedly excite analysts by its pre-ordained-like growth was the Indonesian gold explorer Bre-X Minerals Ltd. In that case, tragically, the public eventually learned that the company was well able to meet or exceed its progressive targets by fabricating the results.

When sports legends like baseball hall-of-famer Babe Ruth pointed to the exact spot in the stands he was to hit a homer, or ice-hockey's powerhouse Mark Messier predicted a victory in a key game in his team's Stanley Cup quest and then made it happen, these were seen as rare and special events. If someone in sports was able to predict the outcome of almost every game or race or forecast the points total of each match, one would quickly suspect something was rigged.

In the world of Canadian stocks, however, when a junior company performs astounding financial feats on cue it may be no cause for alarm. Bay Street analysts appeared reassured, rather than concerned, by YBM's continuing ability to improve its numbers at a phenomenal rate. Another achievement lauded by the securities professionals was the ability of YBM's stock price to continually meet or exceed the securities analysts' own share price targets. Under such circumstances everyone looks smart and can boast, proud of their crystal balls.

Between 1993 and 1996 the company had reported compound annual revenue growth of about 63% and claimed a compound earnings growth of rate of some 31% per year. Carrying this trend further, Mike Middleton, an analyst for Griffiths McBurney & Partners projected for YBM Magnex a net income increase of 44% in 1997, 30% in 1998, and 23% in 1999.

How could an upstart venture with murky origins, competing in an established industry, become such a sensational money-spinner virtually over-night? The answer was not evident from reading the brokerage analysts' reports, nor was it evident from examination of the backgrounds of those YBM Magnex principals with a public company track record in Canada.

In late 1997 and early 1998 references appeared in connection with an unqualified audit that had been performed by Deloitte & Touche. An independent audit carried out at the behest of provincial securities regulators was not a common event - but, somehow, this yellow flag flashed green in the eyes of the Bay Street money merchants.

On February 3 1998, analyst Kaan Oran, then with First Marathon Securities, stated that YBM Magnex had come out of this "forensic study? with flying colours." At the same time Oran was gushing in research reports and to the press, a vice-president of First Marathon, Robert Owen Mitchell, was a director of YBM Magnex - having become an insider of the company on January 26 1996, exactly three months after Mitchell certified, on behalf of First Marathon, a YBM preliminary prospectus as constituting "full, true and plain disclosure of all material facts." (YBM's final prospectus was dated January 19 1996 and receipted by the Ontario Securities Commission on January 22 -- four days before Mitchell joined YBM's board.)

Just like cheer-leading research reports that show a lack of intelligent, or independent, due diligence, and mutual fund managers and/or advisors with questionable proximity to their small-cap picks, the sight of a brokerage house analyst touting a stock that could benefit a senior executive at the same firm is not something that is out of place in Canada's financial community.

While such a situation may be par for the course on Bay Street, rather than just take Kaan Oran's word for it, I thought I'd see for myself how eminently YBM had passed its audit by Deloitte & Touche.

I refilled my coffee-mug with water and logged on to the free-access SEDAR regulatory filing site (@ http://www.sedar.com).

End of Part 3 - 06/06/98 -

YBM Magnex: Securities Industry Due Diligence... Part 4 - Off the beaten track...

With the popularization of the internet, it's becoming increasingly simple to build one's own due diligence, or research, file on any Canadian public company from any remote location - as long as you have power and a telephone line. At the same time as it's becoming possible to study an investment prospect from, say, a computer terminal on-site in the jungles of Borneo, it appears that the capacity for independent research may be being lost, or, at least, overlooked, by some professionals operating in the corporate jungles of Bay Street or Howe Street.

In addition to those web-sites that offer free access to filings of North American public companies (such as SEDAR @ http://www.sedar.com and EDGAR or SEC filings at @ http://www.sec.gov) there are sites that offer corporate and other related data for a fee (such as Canada Stockwatch @ http://www.canada-stockwatch.com) and numerous choices for data on corporate registrations, legal cases and judgements etc. (including Lexis/Nexis @ http://www.lexis-nexis.com).

And, in addition to on-line news-services that cover almost every populated geographic location, there are internet newsgroups and discussion groups that sometimes help to gather and focus this world of on-line information within the confines of a stock market context. Sometimes these groups just provide entertainment value. Sometimes, not even that?

By far the most popular internet chat forum is Silicon Investor (@ http://www.3.techstocks.com). On a Silicon Investor, or SI, discussion "thread" one may encounter members of the public who are so well-informed, and enthused, about a favourite company's prospects that their words can be more valuable to study than those uttered by the company's own PR or investor relations flak. That holds for whichever way you view them - as electronic sages or as wired shills.

Bre-X Minerals Ltd., for example, the best known Canadian stock ever to become a hot topic of discussion on SI, enjoyed the on-line attentions of Merrick Walsh, brother of the late Bre-X chief, David Walsh. During a critical stage of Bre-X's public life, Merrick Walsh, posting under the pseudonyms "drumbeat" and "mikesloan", waged an avid campaign for the hearts and minds of investors.

Before the Bre-X gold fraud was publicly exposed, Walsh worked relentlessly to attack naysayers on the internet discussion threads and to encourage, or reassure, investors in his brother's company's stock. Once the Busang swindle was publicly exposed - with some finality - in May of 1997, Walsh kept busy steering criticism away from Bre-X's Calgary office and consistently praising his brother's qualities of leadership and integrity.

"drumbeat" Walsh made his first SI posting on January 22 1997 during the heat of the battle for Busang then being waged by Placer Dome and Barrick (and eventually "won" by Freeport McMoRan) - and one week before fire destoyed the geology room of Bre-X's PT Westralian Atan outpost in Indonesia thereby signalling that the scheme was near unravelling.

Some of the first words that Merrick Walsh shared with the on-line community offered this insight about his brother, David: "Mr Walsh doesn't talk very often but listen very carefully when he does." The upbeat "drumbeat" later added more nuggets of wisdom to, or created a toxic tailings dump on, the SI archives: "The most important person in the gold-digging business is David Walsh," said his brother on February 18, 1997. That same day he noted: "What a great time to buy!!!!" The next day he contributed: "Don't be fooled into selling your (Bre-X) stock. I'm sure it will not be at these prices for long." On February 21 he commented: "Without Mr Walsh we would probably have nothing right now? the only mistake Bre-X made was to find too much gold."

By March 23 1997 Merrick Walsh had dropped his handle of "drumbeat" and was posting under a different pseudonym -- "mikesloan." By this date, the literal and figurative Bre-X "fall guy", Philipino geologist Mike de Guzman, had apparently plunged to his death from a helicopter and an Indonesian news report had questioned the existence of a mineable gold deposit at Busang. For David Walsh's brother, it was time to take off the gloves - if not the mask - and taunt, "come on, Freeport, step up and be counted. Let's have a public statement saying the deposit is worthless if that's what you think. I double-dog dare you to CANCEL THE DEAL!!!" His dogged support for his brother never flagged: "Mr Walsh is competent and brilliant and is ferreting out the truth?" As late as April 29 1997, Merrick Walsh AKA "drumbeat" AKA "mikesloan" was telling whoever would listen on Silicon Investor: "When all the gold is discovered at Busang it will exceed most people's wildest expectations."

On May 4 1997 the interim report of Strathcona Minerals was released to the public and confirmed that the Busang gold deposit was a fraud. After months of advising people on-line to hold onto their Bre-X stock or to buy more shares, Merrick Walsh found a new edge. On May 21 he chastised one Bre-X victim: "Get a grip man? let's start taking some responsibility for our actions and stop trying to blame someone else for our own mistakes. Bre-X's Calgary management or staff did nothing wrong?" By May 22, things were a little nastier, as Walsh dedicated this message to Michael de Guzman's brother: "Shut your mouth jerkface!!!!!" On July 9 "mikesloan" posted to SI that a CBC cameraman, Mark David Fuller, had "been charged with assault against Brett Walsh (David's son and a Bre-X employee)? Let's hope this makes the front page." An understandable sentiment for an uncle, perhaps.

Brother/uncle/investor/netizen Merrick Walsh carried on with his Silicon Investor chatting - on some days making dozens of postings - until July 29 1997 when he was "outed" by others on the Bre-X main discussion thread who had grown increasingly irritated by the tenor of his post-meltdown pitch.

The benefits of this sort of activity being conducted in a forum such as Silicon Investor, rather than through the traditional stock market networks and arenas of mining and hi-tech conventions, "dog and pony" shows, strip joints and cocktail lounges, is that there remains a permanent record of what's been said on-line. Promoters of junior stocks routinely find their words coming out of the mouths of brokerage house analysts, mutual fund managers and advisors and others who trade in speculative, small cap, issues (that, with their help, can balloon into mid-cap stocks or, even, TSE 300 contenders). The "street' has long operated this way. Through the medium of the internet, these traditional "inside" lines can be used to lure investors in a potentially much larger pool. As a counter-weight to this effect, the postings create an electronic audit trail for government securities investigators, police, or lawyers should they ever choose to become more expansive in casting their own nets.

The understanding of this new medium represents a steep learning curve for some. Even though the on-line discussions about Bre-X - in usenet newsgroups, on Silicon Investor and elsewhere -- remain archived for anyone to research today, the Bre-X internet experience has, so far, been mischaracterized in media coverage and books. While there exists evidence that public investors bought and sold shares based upon inaccurate and false reports published - in hard copy and electronic formats -- by the Bre-X group and/or North American brokerage firms, there has been no evidence presented to support the much-parroted urban myth that Bre-X shares rose and fell on hype and rumours that originated on the internet.

Ironically, the only specific instance that's been cited as grounds for claiming that internet discussions affected the stock price of Bre-X can be shown to be completely wrong-headed. Analysis of the chronological events in this instance reveal that on April 23 1997 a rumour that Freeport McMoRan's CEO Jim Bob Moffett had resigned, (supposedly falling on his sword over his firm's "mistake" in finding no gold at Busang), spread through the Canadian brokerage community. As is the nature of the (frequently reactive) medium, this rumour was picked up and questioned by posters on the internet. The on-line discussion of the false Moffett story did not get going until after the Bre-X stock price spike - from $3.00 to $5.75 - was substantially completed. On-line commentators quickly debunked the rumour and traced its source back to offices of one senior Bay Street firm. Somehow - either through simple ignorance or, possibly, efforts of Bre-X supporters and/or those in the brokerage community to establish a smokescreen - this circumstance has been repeatedly used by off-line commentators to illustrate the dangers posed by the net -- even though it demonstrates just the opposite.

Fortunately, not all situations are as twisted as those in the realm of Bre-X. It's unusual to find direct family members being fervent posters in support of a relative's public companies. Still, with the common use of pseudonyms on Silicon Investor and in most on-line communities, it becomes essential to judge a posting by its content rather than by the name or title of its author. Which isn't a bad rule of thumb when it comes to junior stock watching - period. Only when a particular poster has shown a pattern to their content, is it possible to assign some credibility rating to the author. There is a certain equalizing force to this sort of empirical assessment.

In the case of the YBM Magnex, the company's drum was beaten capably by a more typical on-line poster, Richard Lam. Lam joined SI in July 1996 and created the first YBM discussion thread the following month. (By December 1996, he was so excited by the company's prospects that he launched a second, separate, discussion thread but there was not enough "traffic" to support more than one YBM chat group on SI.) Like many of those who appear as fans of stocks, Lam may fit within the investor category of inexperienced true believer.

The posts of Richard Lam and others informed on-line readers, or "lurkers", as to the company's ever-improving fortunes, and provided such details as the names of Canadian mutual fund managers who were highly touting YBM stock. Inexplicably, on January 25 1998 Richard Lam stopped posting to the YBM thread he'd created (and made his last post to any Silicon Investor thread on April 24 1998). His final words on YBM were characteristically enthusiastic: "At 15x historical earnings, superb profitability, and strong cashflows, still a great investment."

Regrettably, investor friends and confidantes found on-line can vanish almost overnight. Some return after a hiatus in the three-dimensional world, others are just plain gone. In the confusing days since FBI, IRS and other U.S. federal agents raided the Newtown, Pennsylvania headquarters of YBM Magnex as part of an extensive criminal probe, the SI discussion thread has experienced a decrease in the number of individual posters. Almost all of those who'd kept the thread buoyant for some 18 months prior to the May 13 1998 raid have sunk from view.

Of course, YBM Magnex has never appeared to enjoy a wide base of interest and support among the individual, or "retail", investor community. Being a former floor-trader, and having investigated stock trading patterns in numerous cases in the more than ten years since I left the trading floor of the Vancouver Stock Exchange (after reporting my employers to the authorities for their role in facilitating and orchestrating a gross stock manipulation), one of the elements I look at when performing a due diligence review, in addition to corporate history, background of principals etc., is the trading history of shares in a public company.

The public disclosure record of YBM Magnex (e.g. regarding Arigon and its founding interests), the dubious Howe Street background of two of its founding public directors, Michael Schmidt and Kenneth Davies, the promotional research reports issued by Bay Street brokerages? these were cause for circumspection or alarm. The company's extraordinary trading pattern, as evidenced by public record data (readily available through Stockwatch and other sources), can better be characterized as intriguing. Without gaining access to brokerage company records or "blotters" it is not possible to say much more than that.

One of the most immediately remarkable features that is apparent when looking at the trading pattern of YBM Magnex stock (that is, when it was still trading) is the fact that the buying and selling of shares in the company appears to be very narrowly distributed. A junior company whose stock has made the phenomenal climb from the level of a penny stock up to a peak over CDN $20 and a market capitalization (= stock price X number of outstanding shares) of almost CDN $900 million might be expected to have attracted quite a legion of fans en route.

Such does not appear to be the case with YBM Magnex. Even with more than 44 million shares issued and outstanding, YBM's stock trading is concentrated within a relatively small group of hands.

On many trading days about 80 to 90 percent of YBM's share volume on the Toronto Stock Exchange is accounted for by a handful of trades, often large "blocks", executed by a core group of the same Bay Street brokerage houses. Frequently these block trades are "crosses" - transactions in which the same brokerage house acts as, both, buyer and seller. This pattern may be evident regardless of the volume of shares traded -- whether it be on YBM's more typical days trading stock in a range of tens of thousands up to the less frequent sessions when hundreds of thousands of shares, or more, are shuffled. (Naturally, on those lighter trading days when the activity is dominated by one or a few houses the individual trades are not of the same magnitude as they are on bigger volume days.)

An example of a typical heavy-trading day for YBM Magnex on the TSE would be February 23 1998 when 374,920 shares traded at prices between $19.15 and $19.60 per share. On that date two crosses by First Marathon Securities - one of 250,000 shares and another block trade of 50,000 shares - added up to 300,000 shares or 80.0% of the day's total. There were a total of 73 separate transactions on the day, including the two First Marathon crosses.

The busiest day ever on the TSE for YBM stock was February 4 1998 when a total of 3,655,945 shares traded. From a distance, say, looking at this statistic in a newspaper summary or scanning a chart of the company's stock, this would appear to indicate a very active market in YBM stock and lots of investor interest. But, again, examination of the trading data suggests further that YBM lacks a widespread public base of individual, or "retail", investors.

On February 4, YBM's record high volume trading day on the TSE, First Marathon crossed two YBM blocks (1,204,500 shares + 762,900 shares) creating volume of 1,967,400 shares. Griffiths McBurney & Partners crossed two blocks (1,566,900 shares + 104,500 shares) in YBM totalling 1,671,400 shares. These four trades carried out by First Marathon and Griffiths accounted for 3,638,800 of the day's trading total of 3,655,945 shares traded - representing an amazing 99.53 percent of the YBM stock moved during the session. In total, there were 39 separate transactions on this date. Four trades accounted for 99.53 percent of the volume, the other 35 trades contributed 0.47 percent.

On May 13 1998, the day that five dozen agents for the FBI and other U.S. federal agencies swarmed the headquarters of YBM Magnex, the company's stock experienced uncharacteristically high share trading volume on the TSE. Still, this was not the result of market activity by large numbers of retail investors. Before YBM stock was halted - 23 minutes after the fed's raid began - a total of 1,134,011 shares were traded. Of this amount, four crosses by Griffiths McBurney acounted for 1,052,800 shares -- or 92.84 percent of the daily volume. There were a total of 110 separate transactions on the day.

Who has been behind these large trades executed by First Marathon, Griffiths McBurney and a few other houses? Mutual funds? Pension funds? YBM insiders? Hungarians? Russians? Israelis? What is the significance of these trades? The records needed to answer such questions can only be obtained by police, securities regulators, civil litigants or others empowered to access confidential brokerage records.

One thing is evident from review of YBM's stock trading pattern - the company, in terms of retail investors, is not nearly as public a venture as some other junior high flyers that have made news in recent times. For example, Bre-X Minerals, when it was trading on the TSE in a price range similar to that of YBM, would trade heavy volumes of shares made up of hundreds, or thousands, of small, individual, transactions. On YBM's most-active-ever day on the TSE, a total of 3,655,945 shares traded in just 39 separate transactions (and just four trades accounted for close to 100 percent of this volume). On a typical multimillion share day for Bre-X, February 24

1997, a total of 3,767,703 shares were traded in 2604 transactions.

A lack of retail public distribution likely accounts for the lack of widespread discussion of YBM Magnex on the internet. Until recently - and the FBI et al raid, auditor's concerns raised, the trading halt, public awareness of the company's Russian mafia roots -- outside of mutual fund managers, advisors, and brokerage analysts, there existed a comparatively small number of people who followed the stock intently. Prospective class action lawyers will find that, although they are out there, it will take more work to locate small investors in YBM than in such past Canadian stock promotions as Bre-X Minerals or Harvard International Technologies (the overheated french-fry vendor that flamed out in the mid-1990s with Canada's ex-Prime Minister John Turner wearing a director's apron).

It's a feature of the Canadian stock markets today, driven by managed money accounts (e.g. mutual and pension funds), that when a stock promotion falters or crashes, the institutional managers of accounts routinely fail to pursue possible financial remedies on behalf of their unitholders, pensioners etc.

In the near-decade since forestry company Doman Industries' shares clearcut a portion of the CBC news network's pension fund - and led to insider trading charges against British Columbia's former premier Bill Bennett and others - there has been curiously little legal response from burned pension and mutual funds in this country. Lawyers for the CBC extracted a settlement on behalf of that pension fund, but those money managers who play with other peoples' money by buying shares in small or mid-cap stocks, particularly those spawned on the speculative, high-risk, Alberta and Vancouver exchanges, are remarkably sanguine when losses result from their questionable picks.

Why do industry professionals backing stocks like YBM Magnex appear so content to write down such purchases and leave it at that? That's a question the public may well ask some day. Questions about the levels of due diligence carried out by mutual fund managers, advisors and securities analysts, naturally, dovetail with this line of inquiry.

My own YBM due diligence review had brought me to the SEDAR web-site where I located the report of auditors Deloitte & Touche LLP along with various related notes, schedules and management discussion documents that had been filed in late 1997. The one thing I didn't find was the basis on which First Marathon's analyst, Kaan Oran, could claim that YBM Magnex had passed this audit "with flying colours."

Certain findings of the audit were disturbing and when viewed in an overall due diligence context -- informed by knowledge of other questionable elements of the company's history, principals, and public disclosure practices - they heightened a growing sense of alarm about YBM Magnex.

That any professional would put such a positive spin on this situation seemed more than bizarre - it appeared downright negligent or reckless.

I was a long-time follower of the trade journal and news service Canada Stockwatch, a regular user of its helpful data library, and an occasional contributor of research and writing. I spoke with John Woods, the editor and publisher of Stockwatch, about a need to inform public investors who might be following the words of securities analysts and the like and, consequently, not be fully aware of YBM's unusual corporate affairs.

Woods, who had been a veteran floor trader before starting up Stockwatch as a research vehicle, has no difficulty spotting a skewed trading pattern or smelling a questionable stock deal.

Over the previous decade, Stockwatch had been alert to bring to public attention many securities industry troubles and trouble-makers. Technigen Corp., the golf machine scam which had given YBM director Mike Schmidt some practical investor relations experience, had first been exposed by the publication (in a market summary I'd written for Woods). Stockwatch helped drive VSE promoter Harry Moll (infamous for the Pineridge affair scandal that cost European investors many million$) to tax exile status in the Cayman Islands. It had revealed the links of more than 50 inflated VSE promotions to accounts of a pension fund in the West Midlands of England, the Wolverhampton Borough Council Superannuation Fund. John Woods was first to highlight the dubious dealings of promoters Ed "The Shadow" Carter and David Ward (since slain execution style and found in his car). In the mid-1980s Carter and Ward had bribed a Texas mutual fund manager over $1 million to bury more than $20 million under his management into more than a dozen virtually worthless VSE stocks. Stockwatch had written about questionable trading by Altamira funds under "guru" Frank Mersch in the shares of a small cap stock promoted by mining deal hustler Robert Friedland as early as 1993. Stockwatch writer Brent Mudry investigated the dealings of AGF/Fidelity fund "diva" Veronika Hirsch and broke the news of her personal trading violations in 1996. These and numerous other stories chronicling Canada's ever-broadening market in junior stocks and the embracing culture of the securities industry were to its credit.

John Woods assessed this new situation and published my first report on YBM Magnex on March 10 1998, the same day that YBM shares hit their all-time high mark of $20.15. Following is the feature as it originally ran in Stockwatch:

Unusual corporate affairs leave analysts and investors happy

YBM Magnex International Inc ------------------------- YBM

Shares issued 44,222,901 -------------------- Mar 9 close $19.90

Tue 10 Mar 98 --- Street Wire

FROM SHELL TO $900 MILLION

by Stockwatch Business Reporter

YBM Magnex is the sort of success story that makes shell creators on the Vancouver and Alberta stock exchanges swoon. Its journey from Junior Capital Pool shell to today's $20 mark has taken the 1994 shell from worthless to almost $900 million. It has been a fascinating trip.

For over a year, the company and its Canadian analysts have been complimenting YBM's rapid penetration of the North American magnet market. A recent audit, however, has shown this penetration to be non-existent. Apparently, neither this awkward fact, nor other curious elements of the successful promotion, has tempered anyone's enthusiasm. On Monday March 9 the company's shares closed at an all time high of $19.90 giving YBM a market capitalization of close to $900 million.

In August 1996, YBM's vice president of business development, James Held, misled Dow Jones News Service with the claim that US revenue totalled US$5 million for the first six months of the year alone. This was up sharply from US$2.9 million for all of 1995. Mr Held said that YBM was working on "several significant contracts" in the US and Mexico and was close to securing a US $2 million deal in Canada although he declined to provide specifics. Mr Held pointed out that YBM does not provide earnings forecasts but the spokesman said he had no trouble with the numbers being churned out by brokerage industry analysts. Kaan Oran of First Marathon Securities gushed to Dow Jones: "The company has beat my estimates for the last three quarters."

Then in October 1996, James Held reported that "YBM's strong results are due to a number of factors, including the continued penetration of the North American permanent magnet market which contributed approximately 15% of total sales through nine months, compared to 5% for the year 1995." YBM's 1996 annual report dated March 4, 1997, again highlighted this significant growth in the North American market. The company's Philadelphia accountants, Parente, Randolph, Orlando, Carey and Associates, certified statements showing that YBM's N.A. sales had more than doubled between 1994 and 1995, from US$1.4 million to US$2.9 million, and then jumped to US$13.6 million by year end 1996. According to these figures, since 1994, (when YBM began public life through an Alberta Junior Capital Pool RTO), and 1996, operating profit for North America had increased from just US$7,000 to over US$3 million. The only other region to experience such exponential growth in sales was the Middle East, where YBM reported 1996 sales of US$3.3 million and operating profit of US$1.2 million. Unfortunately, many of the figures were bogus.

Last fall, in order to satisfy Canadian securities regulators and clear the path for a large YBM prospectus financing, Deloitte & Touche LLP was called in for an audit. The company and its analyst promoters have been quick to point out that the review by Deloitte & Touche resulted in no adjustments to overall sales numbers, which is true. The rest of the truth, so far, is the explanation for "certain adjustments" that resulted from the audit.

Perhaps most significant among the unusual notes to the Deloitte & Touche audit has been the company's North American sales that went poof. Instead of US$13.6 million sales in this market as originally reported by the company, YBM actually sold just $1.8 million in 1996 - a drop from the 1995 numbers. Similarly, N.A. operating profit has devolved - shrinking from a reported US$3 million down to $600,000. Contrasting with previously published reports, the company's growing Middle Eastern sales and operating profit has been identified as US$0.

Where did the sales go?

According to YBM management, this bizarre circumstance is the result of "certain geographic sales information previously reported based upon the location of the company's distributors" being restated "to reflect the "ultimate end user." When YBM executive James Held was touting major developments in North American sales deals to the press, apparently, he should actually have been talking about more sales in two of the world's most inhospitable business climates: the notoriously murky arenas of Russia and the Ukraine where the company concentrates the bulk of its activities.

Instead of showing an accelerating trend toward sales in US, Canada and Mexico, YBM's audited results show how the company remains dependent upon unstable and inflationary regions. For year end 1996 net sales were reported as being US$90.3 million, YBM previously stated that European markets accounted for 81%, North America was at 14%, and the Middle East accounted for 4% of this total. In truth, North America accounted for just 2%, and Europe represented a whopping 98%. The Middle East was zero. Of the European amount claimed, 79% of sales were centred in the wild-west financial environment that exists in Russia and the Ukraine today.

How the company managed to mistake $15 million in Russian and Ukrainian sales is anything but clear. Nor is it evident what may be driving a tremendously multiplying demand for the company's magnets in Eastern Europe. YBM management and Canada's financial analysts covering the stock, are confident that the North American thrust will be successful in future.

Likewise, some of the other jarring notes from the Deloitte & Touche report are billed as signs of past problems. The audit uncovered a "weakness in inventory controls" that YBM says can be avoided in future by "the implementation of a corporate wide information system" to "assist management in centralizing accounting controls." Triggering this recognition was a "non-cash adjustment to inventory and cost of sales of US$5.2 million." The magnet company explains this circumstance came about after it provided US$5.2 million in diesel oil inventory to an unidentified distributor. "The contract called for payments to be made to the Company as such time as the diesel was consumed by end users and profits were realized." Company management blames its credit-good-to-the-last-drop of diesel oil on the decentralized nature of its international operations and on its rapid growth.

As at December 31, 1996, YBM "had $3,000,000 of uninsured deposits in a Russian financial institution." But if this or any other financial notes should give pause to the casual reader of corporate statements, there's a stack of brokerage research reports that tell investors why YBM stock is about to break the $1 billion market cap level.

In a February 3 1998 buy recommendation, First Marathon Securities analyst Kaan Oran described how YBM had come "out of the forensic study by Deloitte and Touche with flying colours." That's a perspective likely shared by others. Vice president and director of First Marathon, Robert Owen Mitchell, also sits on the board of YBM Magnex.

As the company continues to report ever-increasing sales and earnings, the YBM bandwagon has become increasingly crowded of late. Early boosters included Rob McConnachie of Canaccord Capital (now with Scotia Capital Markets), Peter Sklar of Nesbitt Burns and Mike Middleton of Griffiths McBurney Partners. But in today's over-heated mutual fund driven market, there's always room for one more voice telling people what stock to buy.

Hours after this article was published electronically I put my files away for the day, not knowing that tomorrow the YBM Magnex investigation would start to take on an even stranger tone. Small wonder that securities professionals may choose to wear blinkers - there's more than enough to scare the horses on this track? or to shock Oscar Wilde.

End of Part 4 - 11/06/98 -

YBM Magnex: Securities Industry Due Diligence in a post-Bre-X Market - Part 5 - The melting pot starts to bubble...

In the securities business, as in other social realms of human activity, there are prevailing subcultures. Those entrepreneurial characters who populate the world of penny stocks tend to behave in a particular fashion, and follow certain patterns, that differ, say, from the processes and interactions of executives of blue chip companies. It's expected that chartered accountants typically operate in a different milieu, and maintain a different mindset, to the everyday gangster. White collar scam artists and street criminals may share certain sociopathic traits in common, but they will usually frequent different watering holes and exhibit different taste in haberdashers. Habit and custom die harder than Bruce Willis.

(Although, as the continuing debasement of Canada's senior financial market, the Toronto Stock Exchange, may be used to illustrate, certain traditional lines of distinction are becoming blurred. For example, Bay Street securities analysts and fund managers were once considered to possess greater integrity than penny stock touts hustling on the "wild west" exchanges in Calgary and Vancouver. Today, case histories show, a more significant difference may be in the number of decimal places contained in the hyperbolic share valuations pitched by these increasingly homogenous stock market barkers.)

Alarmed by the unusual corporate affairs of YBM Magnex, as documented on the public record, I'd prepared an initial article to alert investors to concerns that the brokerage analysts and money managers were not highlighting. Canada Stockwatch published the first article questioning YBM's activities on March 10 1998. This event stimulated a response from the company and its supporters that added a refreshing dimension of personality to the paper trail.

Early on the morning of March 11 1998, an unidentified male telephoned the Vancouver office of Stockwatch to ask who had written the YBM article published the previous day. (John Woods, taking a cue from such publications as The Economist, prefers the focus to be on the content of Stockwatch rather than on any individuals who contribute to his service and eschews bylines in most cases.) The caller was told my name and hung up.

Later on that same morning, James Held, vice-president of business development and investor relations for YBM Magnex, spoke to a Stockwatch representative of his dismay: "We were really surprised by the article you published yesterday, really taken aback by it. There was no indication who wrote the article. I don't know why it was published at this time because this is basically old news." Held expressed the opinion: "It seems there must be a motive for this."

Jim Held, identified by the company as an Allentown, Pennsylvania-based chartered accountant, had been the Chief Financial Officer of YBM Magnex before taking on the investor relations role - a job switch not often seen. Held's successor as CFO, Daniel Gatti of Woodlyn, Pa., had previously been audit manager of the Pennsylvania firm of Parente, Randolph, Orlando, Carey & Associates (the accountants who had been doing YBM's books prior to Deloitte & Touche being asked to conduct an independent audit following concerns raised by Ontario securities regulators). Gatti's old firm was handling the accounting duties and a Philadelphia law firm, Wolf Block Schorr & Solis-Cohen LLP, took care of YBM's Form 40-F regulatory filing in 1996. (Lawyer Richard A. Silfen was identified as the contact person at Wolf Block et al.)

Held told Stockwatch the March 10 1998 article was fundamentally off-base: "We're probably undervalued? In the U.S. there are companies with no earnings (trading) at 50 - 60 times projected earnings. Absolutely amazing." The CFO-turned-investor relations flak continued: "We just think the timing of this article, we don't understand it. It's almost as if there's a reason for it. And it depressed the stock and I wanted to get your opinion on it."

Held seemed perturbed that Stockwatch was alone raising concern over the company's financial irregularities - and that these matters had not been viewed as similarly negative by commentators up to this point. It's understandable that, after a comfortable positioning in the junior stock-peddling culture of Bay Street analysts, YBM would be jolted by such critical analysis.

And Jim Held wasn't finding satisfaction in his call to Stockwatch. He noted: "Actually, the facts that you have in here is what we put in a press release. And in fact almost everything else in here where I am quoted came from press releases. So I can't dispute the content that's in here. What I'm disputing is the timing and the wording." He stressed how thorough Deloitte & Touche had been in its review of the company's business and how the article amounted to insinuations about YBM Magnex based on findings that were almost five months old, or, in his estimation -- "ancient history".

"And I think if you read this (Stockwatch article), it's very, very misleading. Very negative," continued Held. "You know what happened to the stock yesterday. High of over $20 and it was down to $18.10 this morning, so we're very concerned about this. I mean, you're on our mailing list. We send you our press releases, you and John Woods, and we allow you your definition of information to the investing public. Just the tone of it is very negative."

Held was invited to fax over to Stockwatch any press releases or other data that could make the company's position better-known and was promised the material would be reviewed. "Okay, I will. Just like we discussed here", the YBM spokesman agreed. Held's promised fax has yet to arrive.

One fax that wasn't long in coming, however, was a two page missive authored by "Private Investor", a YBM backer listing a phone/fax number in Saskatchewan @ (306) 664-1991 begin_of_the_skype_highlighting (306) 664-1991 end_of_the_skype_highlighting. After the close of trading on March 11, this letter addressed to myself was sent to Stockwatch. The pseudonymous letter-writer, obviously unaware that I don't work there, began: "As you didn't show up for work today you were probably out looking for a job with the National Enquirer."

I had heard this trite line numerous times when investigating Vancouver penny stock promotions - it was almost reassuring to find that I was entering familiar territory looking at a TSE 300 company. "Your tabloid article on YBM yesterday really makes Canada Stockwatch look like a 'Mickey Mouse' operation," wrote (306) 664-1991 begin_of_the_skype_highlighting (306) 664-1991 end_of_the_skype_highlighting. The writer shared Jim Held's view on the article's content and timing: "All the facts in your hyped-up article are about six months old - have you been sleeping for the past six months?"

"Private Investor" went further than Held in articulating another predictable charge -- that the article was motivated by "dummies" engaged in short-selling (a practice in which a person, through a specially set-up account, sells shares in a company in the expectation that the stock will drop in price; if the stock does drop, the short-seller closes the transaction by purchasing shares they'd previously sold - in selling high and then buying low they can pocket the difference as profit just as if they had first bought low and then sold high in the traditional sequence).

The letter-writer(s) closed with a supposed warning: "Perhaps the OSC should look into your trades and the staff of Canada Stockwatch during this period - what a good idea I think I'll phone them first thing in the morning."

While the content of the body of this letter was typical of the milder forms of abuse one receives when investigating questionable penny stocks, the writer did add something original -- a sign, perhaps, of the character of those hitched to the higher investment grade qualities of a TSE star. The "dummies" letter was cc'd -- not only to John Woods of Stockwatch, but also to brokerage analysts Kaan Oran, of First Marathon Securities, Rob McConnachie, at Scotia Capital Markets, Peter Sklar, with Nesbitt Burns and Mike Middleton, of Griffiths McBurney Partners. One day, I figured, someone would ask these YBM brokerage boosters if they'd received this letter. And, I strongly hoped that this "Private Investor" had taken the time to call the OSC.

The January 31 1997 edition of Investor's Digest, a Canadian securities trade paper, contained an interview with Allan Jacobs, a ballyhooed portfolio manager with Toronto-based Sceptre Investment Counsel. The largest holding of a Sceptre mutual fund under Jacobs' management was YBM Magnex International. He explained that one of the key things he liked about YBM was its "strong, entrepreneurial management."

The next article I prepared looked at this under-recognized element of YBM's history (in the context of a more extensive review of plans by the VSE to begin listing the lowest grade of shell company - known as a "blind pool"). Following is the feature originally published by Stockwatch on March 16 1998:

Lowering standards

YBM Magnex International Inc ----------------------- YBM

Shares issued 44,222,901 -------------------- Mar 13 close $19.00

Mon 16 Mar 98 --------------------------------------- Street Wire

See Vancouver Stock Exchange (VSE) Street Wire

SHELLS AHOY

By Stockwatch Business Reporter

If one sea of shells is good, are two seas twice as good?

Apparently the answer is yes. Just enough years have passed for the wheels at the Vancouver Stock Exchange to forget how trafficking in shell companies gave both the exchange and BC a very bad name. That name, invented by Forbes magazine and carried around the globe, was Scam Capital of the World. It was the shell creators' horrible legacy. Even local market supporters such as ex-Superintendent of Brokers Rupert Bullock eventually grew publicly critical of the flood of worthless paper then swamping the VSE. Finally, after a vigorous campaign and a tongue-lashing by the exchange's most influential member, then president Donald Hudson reluctantly turned off the river of rubbish.

Unfortunately, it was too late. As years of shell trafficking culture begat years of jokes and scams, the VSE lost much of its Canadian market share. Long before Michael Johnson became president and brought his talk of "zero tolerance" to the exchange, its importance, relative to the country's other exchanges, had dwindled. In the early 1980s, before the shell makers ran amok, the VSE had 40 to 50 percent of Canada's overall share trading volume and between six and 11 percent of total value. By 1995 these numbers had fallen in half, as the VSE accounted for 20 to 25 percent of overall volumes and only three to four percent of value. Even in the boom times of recent years, while other markets have hit successive record highs, the VSE's composite index has remained one of the worst performers in the world.

VSE president Michael Johnson says in speeches that his exchange is not in competition with others, such as the similarly speculative Alberta Stock Exchange, and that each of Canada's exchanges has its own special niche. The VSE's chosen niche happens to be a two-step affair: (1) financing mineral exploration, and (2) quickly seeing exploration successes off to other exchanges.

Bre-X Minerals, and other business killing calamities such as Hixon Gold, have evidently caused a 180 degree change in heart - not to mention change in revenue -- at the Vancouver Stock Exchange. In an effort to win back some of the non-niche business that pours steadily elsewhere, especially over the Rockies to the ASE, the VSE now proposes to return to the shell game in a big and better way. Although senior Vancouver Exchange officials are in no-comment mode, a major back room lobby has been underway since last May to adopt Alberta's junior capital pool program locally. For obvious reasons, nobody on the lobbying team that must convince the BC Securities Commission this is a good idea, refers to this line of business as trafficking in shells.

The Alberta experiment with JCPs, formerly "blind pools," began auspiciously in 1986 with Audit Resources. Audit was a shell company that shared brokers and promoters with VSE-listed Hi Peg Resources. Both companies were fraudulent vehicles that met sorry ends, bringing down with them an Alberta brokerage firm, First Commonwealth Securities, and a good old boy from Arkansas, Floyd Leland Ogle, who did jail-time for his part in manipulating Audit shares on the ASE.

Nonetheless, since the days of Audit the JCP program has brought the Alberta exchange and its members many dollars and, it appears, turned the once sleepy little bourse into the envy of Howe St.

By giving shell makers a way to peddle their wares in BC, the VSE reckons it should be able to accommodate a sea of asset-bereft companies that could not possibly satisfy today's modest listing standards. Unofficially, a JCP is a legally incorporated entity that has nothing going for it except a gleam in somebody's eye and a stock structure that lends itself to rigging. Such a structure, in the view of the VSE, will provide promoters with the means to go hunting for new ideas that they can then list on the exchange. Simply remove the rig-word, replace "promoter" with "entrepreneur," "idea" with "business opportunity," and you have the exchange's back-room lobby position.

Indeed, the lure of junior capital pool dollars is a powerful magnet for the VSE. Its pitch is that using the Alberta experience over the past three years, the VSE can expect to increase its listing base by 150-165% per year. They even have pictures. Eyeing the success of their counterparts at the ASE, the VSE takes the position that shell quality can be maintained by ensuring that management has a successful history of involvement with public companies. In essence, the VSE believes, the successful track records of JCP directors will be the only assets upon their listing of these good-for-business shells. A look at how this formula has succeeded with Alberta JCPs makes for a powerful argument in their favour, says the VSE.

Or does it?

One of the latest stock market winners to come bobbing out of the ASE's sea of shells is a marvel called YBM Magnex International, originally incorporated as Pratecs Technologies, and now touted by First Marathon Securities and Griffiths McBurney Partners. On July 18, 1994 Pratecs became a junior capital pool corporation under the regulations of the Alberta Securities Commission. On July 27, just nine days later, Pratecs entered into a letter of intent to merge with YBM Magnex and its subsidiaries. Under Alberta rules a JCP has up to 18 months to complete its "Major Transaction" and gain assets but the quick-out-of-the-blocks team at Pratecs/YBM were on course before their shares began public trading on the ASE on August 3, 1994.

YBM's history exemplifies the VSE's point -- benefits of having directors on board with a background in junior public companies. While most of the original Pratecs directors were initiates to the local world of penny stock promotions, the company started out with two directors that boasted a public company track record and remain with YBM today as the magnet/bicycle/diesel oil and more venture climbs to the $1 billion market cap level on the TSE.

YBM director Michael Schmidt is described in the company's literature and on its corporate web-site as an "independent businessman." An original director of Pratecs, Mr Schmidt, a resident of Burnaby, BC, honed his public company skills through handling investor relations for a Saskatchewan-rooted, VSE-listed scam called Technigen Corp. Technigen was a VSE high-flier that reached $16 a share in 1987 based upon the company's false claims to have sold more than $100 million in computerized golf-driving ranges to a Swiss entity, Corporacion Relacio S.A. It turned out that the Swiss company was really the front for a Panamanian-registered shell whose only known representative was an ex-convict stock swindler from Maple, Ontario, named David Charles Stuart. Mr Schmidt appeared at Technigen's 1987 AGM at a Vancouver hotel most upset with press reports questioning the company's legitimacy. At that time he presented himself as an independent shareholder. Technigen's president, Larry Nesis, was subsequently banned from the BC market by securities regulators over his golf machine lies. Mr Schmidt became Technigen's investor relations representative after the stock promotion was exposed publicly as a fraud. By the time he joined Pratecs' board years later, Technigen stock was trading OTC in the US for pennies a share.

YBM's other experienced director with an acceptable track record upon the JCP being listed is Kenneth Davies, a citizen of the world identified by the company as "Principal Montello Resources Ltd." In 1993 Mr Davies and his wife, Ann, were the original shareholders of something called the International Diamond Syndicate which failed to sparkle in efforts to locate or develop diamond prospects in the Northwest Territories through arrangements with various VSE listings. Also in the early 1990s, Mr Davies, along with his daughter Jeannine, was aboard VSE-listed Golden Rainbow Resources which failed in ugly fashion to become a producer and marketer of "quality hair care and beauty aid products." During this time, the entrepreneurial Mr Davies billed himself as the representative of Pacific Coast Fish Oil, Processing and Sales Inc. of Blaine, Washington and a specialist in "Real Estate Acquisition, Financing & Development."

YBM Magnex specializes in sales of products to unidentified end-users in Eastern Europe (and, in particular, Russia and the Ukraine). Perhaps the experience most relevant to Kenneth Davies' YBM post, and certainly the only one mentioned by YBM on its web-site, is his years acting as a consultant to controversial Montello Resources. Mr Davies was involved with ASE-listed Montello in the early 1990s when the company was hyping plans to acquire an interest in an airplane manufacturing entity in Europe identified as Promovia SA. Financing for Promovia, described as a maker of trainer jets and other aircraft, was to be helped along by Salim Rana, an associate of Mr Davies who was also involved with Golden Rainbow's botched hair care enterprise. (At last public report, the shell-makers associate, Mr Rana, was under R.C.M.P investigation in connection with an alleged theft and fraud involving GHK Resources Ltd. - see Stockwatch dated April 12 1996). The Promovia affair (with a daisy-chain of links stretching from Tortola to Dublin and beyond, including Swiss nominees Incagest and Univalor SA) proved to be extraordinarily messy and required lengthy public explanations by the company when it became grounded. By 1993 Montello's stock was two cents. The company was suspended by the ASE and trading was not allowed to resume for a full year. The dubious aircraft interests were sold to a former Montello principal "for nominal consideration" and the company took up mineral prospecting. Since returning to public trading in 1994, Montello has kept a lower profile and stock price and Kenneth Davies has added YBM to his resume. As shell directors and company employees, Mr Schmidt and Mr Davies successfully passed the regulatory scrutiny of two stock exchanges and one securities commission, and the due diligence process of two blue chip brokerage firms.

Whatever experienced directors a JCP can initially attract, a successful shell like Pratecs/YBM can entice even more high profile figures to its board once the promotion is up and running. In the tradition of past juniors, such as Harvard International, the french fry finagle that had Canada's ex-Prime Minister John Turner on board as it fried investors, the magnet merchants have attracted ex-Ontario premier, David Peterson, to their stable. In April of 1996, Mr Peterson was granted options on 50,000 YBM shares exercisable at $3.23 each. At today's close, Mr Peterson is a soon-to-be magnet millionaire with a paper profit of more than $800,000.

When such huge rewards and prestigious players can come from shell creation, it is small wonder that a forgetful VSE wants back in the game. According to Michael Watson, the acting executive director of the BC Securities Commission, his organization has had detailed discussions with, and received official submissions from the VSE on its proposed shell venture in December. "They have made a proposal and we've responded, outlining some things that caught our attention." Mr Watson said of his views that "concerns" would be too strong a word.

Whether it was because Jim Held, YBM's CFO-turned-IR-spokesman, was away for a few days, or that this article raised temperatures in company headquarters higher than had the first Stockwatch piece, a quick response was heard from YBM president and CEO Jacob Bogatin.

End of Part 5 - 14/06/98 -

YBM Magnex: Securities Industry Due Diligence in a post-Bre-X Market - Part 6 - Get yer lucky number program here!

The second article to highlight less than stellar aspects of YBM Magnex, then on its ascendancy in the TSE 300 constellation, was published by Canada Stockwatch and carried over its electronic news wire before the Toronto stock market opened on March 16 1998.

A few hours later, Stockwatch received a phone call from a ?pissed off? sounding Jacob Bogatin, the president and CEO of YBM.

(Bogatin, a resident of Richboro, Pennsylvania, had replaced Robert Ventresca of Doylestown, Pa. as YBM?s head following the company?s shares gaining a public listing in Alberta. Ventresca, reported to be a Certified Public Accountant, was also identified by the then ASE-listed shell as president and a shareholder of Alpha Financial Group. Alpha?s other shareholders were Jacob Bogatin and Michael Bachurski. Ventresca, named as co-owner of the private YBM Magnex alongside Bogatin, appears to have personally vacated the Fountainville, Pa. offices of his Alpha Financial Group sometime in April or May of 1998.)

Jacob Bogatin?s initial call suggested a potential legal threat. By the time editor/publisher John Woods arrived at Stockwatch on March 16 and returned Bogatin?s call, however, several hours had passed. By this time YBM?s president sounded frustrated rather than angered.

Bogatin advised Woods that Jim Held, his investor relations manager who was away at the moment, would provide Stockwatch with YBM documents so that there would be no further misunderstanding of his company.

An example of the type of disclosure practices that I have questioned - not just in YBM?s case but in connection with other, unrelated, public company files - involves certain comments made during the ?waiting period? of the company?s 1997 prospectus financing.

On May 30 1997 a preliminary prospectus was filed in connection with a CDN $52.8 million underwriting of YBM shares (3.2 million shares priced at CDN $16.50 each) to be completed by a syndicate of Canadian brokerage houses: First Marathon Securities, Griffiths McBurney & Partners, ScotiaMcleod. Canaccord Capital, and Gordon Capital.

The prospectus noted that this financing was ?subject to the approval of certain legal matters on behalf of the Corporation (YBM) by Cassels Brock and Blackwell.? YBM director and stock optionee, lawyer, David Peterson is a senior partner at Cassels Brock & Blackwell. Legal approvals on behalf of the underwriters were to be provided by the law firm of Fogler, Rubinoff.

The ?waiting period? is that time between the filing of a preliminary prospectus and the issuance of a receipt by market regulators of a final prospectus. In YBM?s case this period stretched from May 30 until the latter part of November 1997.

The Ontario Securities Commission, which vetted YBM?s prospectus, has published a position that: 1) ?No interviews should be given to the financial media by directors or senior officers of an issuer immediately prior to or during the waiting period?; and 2) ?No director or senior officer of an issuer should make any statement during the period of distribution of securities (which includes the period immediately prior to the waiting period, the waiting period and the period following the waiting period until completion of the distribution) which constitutes a forecast, projection or prediction with respect to future financial performance, unless that statement relates to and is consistent with a forecast contained in the prospectus.? The OSC has advised issuers and their legal counsel to consider the SEC guidelines in this area - which note that principals of issuers should avoid: 1) ?issuance of forecasts, projections, or predictions relating but not limited to revenue, income or earnings per share? and; 2) ?publishing opinions concerning values.?

During the waiting period of YBM?s 1997 share distribution, a company director, Jacob Bogatin, and senior officer, James Held, both, gave interviews to the media and their statements, as reported around the globe, contained forecasts, projections or predictions.

In September and October 1997, international media announced that YBM had signed a letter of intent in Peking about a US $40 million investment in China. One newspaper explained: ?(YBM) invest in China because this is the founding place of the important materials needed for the special magnets which are ten times stronger than traditional ones. The company registered in Canada was founded by Jacob Bogatin, an ex-engineer of an ex-Soviet military research institute. Bogatin first settled in Budapest, then went to Canada, where he established the Russian-Hungarian-Israeli company, which has its seed in Magnex Rt, Budapest.?

YBM president and CEO Bogatin was reported as saying: "The small Canadian stock exchange (TSE) has become too narrow for us. So in 1998 we will probably appear on the New York Stock Exchange."

YBM vice-president Held was cited as the source of other comments not contained in the company?s prospectus: ?Russia is a big customer of the company - said Held - we sell magnets there for US 28 million dollars per year. (YBM) took over a factory in Sheffield, England, and in the summer of 1997 they bought an American company called Crucible Magnets. The company?s sales in 1996 were US 90 million dollars and this year they plan US 120 million dollars. The value of the company is estimated to US 360 million dollars by vice president Held."

Following disclosures in the foreign press, in late September 1997 YBM issued its own press release to disclose it had ?entered into a non-binding letter of intent to enter a joint venture with three mainland China manufacturers of rare-earth permanent magnets.? The company identified its three would-be-partners but added: ?Contrary to published reports, YBM has not formalized financing for its expansion into China, nor has it formalized plans to trade on a US stock exchange.?

YBM?s news release, identifying Jim Held as contact person, failed to note that those published statements the company was now claiming to be untrue had resulted from interviews with, and statements attributed to, two senior members of YBM?s management - Jacob Bogatin and Held, himself.

Was the company suggesting that its executives had been misunderstood or misquoted? Or was it seeking to distance itself from statements that could cause it problems with regulators in Canada - at the same time it enjoyed the promotional benefits of these statements overseas? As long as ?full, true and plain disclosure? remains a stock market myth, the public may never know.

It wasn?t until March 19 1998 that Jim Held spoke with a Stockwatch representative as a follow-up to Jacob Bogatin?s conversation with John Woods. Contrary to Bogatin?s assurance of cooperation, vice president Held explained: ?We?re not going to send any more information out. I think we?re no longer going to have any communications with Stockwatch.?

?I was out of the office for three days and I am just reading this latest (March 16) article. Right now that?s in front of me and this morning I had a conversation with our president and, you know, that?s where it stands,? Held continued. ?I mean everybody views it as negative and there isn?t one phone call that I have received that?s been positive. I?ve received phone calls from all over Canada about it and, you know, it?s really - it?s taken me back. I don?t know what to say about it.?

YBM?s former CFO pointed to the company?s strengths: ?Well, the brokerage firms aren?t only touting it (YBM), they actually had visited our facilities and saw that this is a real operation. They visited Budapest. Every analyst has visited Budapest and they have visited our latest acquisition in Kentucky, which? is the second largest magnet company in the United Sates. So, whatever these articles are inferring about some of these companies in the past, you know, I don?t know what you?re trying to say. Really, we?ve had a big six public accounting firm, Deloitte & Touche, audit ?96 - re-audit ?96, and they?re also - they?re finished with the 1997 audit and I don?t know what really more to say about it.?

(The 1997 audit being positively billed as ?finished? by Held was the cause of great concern to Deloitte & Touche which suspended its audit prior to final completion. The auditors questioned the validity of certain significant transactions underlying YBM?s business and uncovered evidence ?that one or more illegal acts may have occurred which may have a material impact on the 1997 financial statements.? Deloitte?s concerns were brought to the attention of YBM?s audit committee on March 23 1998.)

Jim Held concluded: ?These two articles have been very, very damaging to our company and I just think at this point there would be nothing for us to gain by providing Stockwatch with more information about us. Obviously, it seems like you know, Stockwatch knows an awful lot about our company because they were able to put together these two articles (in) which they?re providing information that I didn?t even know. As I told you, I?m sitting here reading it, because I?m learning things.?

In no danger of being blacklisted by YBM management -- and having his firm?s access to the public company?s promotional materials withheld -- was Peter Sklar, an analyst with Nesbitt Burns. The suddenly controversial magnet-bicycle-diesel-oil-and-more company had a lot to gain from boosterish reports published by Sklar and his Bay Street peers.

And Peter Sklar, CA - as they say in the business - delivered.

On April 2 1998, Nesbitt Burns sent out a Sklar buy recommendation for YBM that found a silver lining in the questions being raised about the company?s unusual affairs: ?We believe that these (Canada Stockwatch) articles have caused the recent weakness in YBM?s stock price. Since March 9, when YBM had its high close of $19.90, the stock has declined to current levels ($17.70). During this time, the TSE has risen by about 4%. We believe that the fundamental prospects for the company are intact and that the recent weakness presents a buying opportunity.?

In reference to long-time YBM directors Mike Schmidt and Kenneth Davies, whose track record with dubious VSE penny stocks had been outlined by Stockwatch, the brokerage analyst said that YBM had ?accepted these two directors on the basis of advice provided by its financial advisors.? According to Sklar: ?The two directors who are the subject of these allegations are not involved in the management of the company, and we believe that their role is largely limited to attending board meetings.?

Peter Sklar added: ?We understand that at the upcoming Annual General Meeting of Shareholders, YBM intends to add two additional directors to the board, both of whom are expected to be individuals who would be unlikely to attract any further public criticism towards YBM?s board of directors.?

After providing this reassuring, inside, scoop on YBM affairs, Sklar concluded his report: ?Given YBM?s growth rate, we believe that the stock should trade at a much higher multiple. Our one-year target price of $24 is about 18X our 1999 earnings estimate.?

As ever, this tout came attached to a legal disclaimer from the issuing brokerage, in this case Nesbitt Burns Inc. (NBI), a majority owned subsidiary of the Bank of Montreal: ?NBI makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions which may be contained herein and accepts no liability whatsoever for any loss arising from any use of or reliance on this report or its contents.? Etc.

The rosy picture seen through Peter Sklar?s soft focus lens, framed without the acceptance of any liability, hung in contrast to the sharper view of newsletter writer John Kaiser, an analyst without ties to any brokerage house employer.

On March 17 1998, Kaiser, a San Francisco-based tracker of junior companies (particularly the sub-species he terms ?bottom-fish?) commented on Stockwatch?s second YBM article and suggested that ?ringside seats should be quickly secured? for what was to follow. As Kaiser later told The Vancouver Sun: ?I had no doubt that this story was going to have an unhappy ending.?

End of Part 6 - 16/06/98 -

YBM Magnex: Securities Industry Due Diligence in a post-Bre-X Market - Part 7 - The road well-travelled

In mid-March 1998 I was off for three weeks - taking a rare break from a routine of daily stock market investigations. By the time I resumed examining the affairs of YBM Magnex International the microfiche files of YBM/Pratecs ordered from the Alberta Securities Commission had arrived - as had answers about Arigon Co. of the Channel Islands and details of other entities that had helped to spawn a Canadian stock market phenomenon.

Things had not been dull in my absence. On my return they turned darkly surreal.

A Stockwatch subscriber in Vladivostok jettisoned a cranky email to the publication: ?It?s not really cool, fellows! We urgently expect you to send us something more interesting. Or we?ll be forced to fuck you off. We really mean it, buddies!?

The writer didn?t cite the cause of this ill temper, a condition that could be easily attributable to innumerable circumstances unrelated to YBM Magnex -- an absence in Russia of a good Philly cheese steak, for example.

Independent securities analyst John Kaiser had secured his ringside seat. Bay Street brokerage analyst Peter Sklar had, instead, secured his loyal reputation. On March 24 and April 2 1998 he issued separate, but equally encouraging, YBM buy recommendations to Nesbitt Burns clients.

Interestingly, Kaan Oran, the analyst at First Marathon Securities who?d proclaimed YBM had passed the ?forensic study by Deloitte and Touche with flying colours?, found new employment between the time of his dubious line being published (February 3 1998) and the date of the raid on YBM?s Pennsylvania headquarters by agents with the FBI, IRS, U.S. Immigration and Naturalization and Services and U.S. State Department (May 13 1998). Oran left his position at First Marathon in Toronto to work for Vancouver-based money managers Connor Clark & Lunn Investment Management Ltd.

Connor, Clark and Lunn had stepped into the breach the previous year during the waiting period of YBM?s CDN $52.8 million prospectus financing. As explained by Mike Middleton, an analyst with YBM underwriter Griffiths McBurney & Partners: ?Given the time delay in clearing the company?s prospectus, it was impossible for YBM to issue the full C$100 million in equity in time to close the Crucible acquisition on August 22 1997. Fortunately, a Canadian investment fund purchased C$48 million senior subordinated secured convertible notes at 8%, due August 2002, with a conversion at $12.00 upon clearing of the prospectus.?

In this way, the public company YBM received CDN $48 million in August 1997 and a further CDN $52.8 million was raised in November 1997. Prior to it ?fortunately? picking up the CDN $48 million notes which converted into 4,000,000 shares (at CDN $12.00 each) Connor, Clark and Lunn already held 2,529,000 shares of YBM Magnex on behalf of funds and accounts under its management. With the hiring of Kaan Oran, one of YBM?s biggest financial backers was directly teamed with one of its most effusive cheerleaders.

Oran?s former employer, First Marathon, Canada?s largest independently-owned brokerage house, still lists YBM director Robert Owen Mitchell as one of its vice presidents. Mitchell, whose securities firm was part of the underwriting syndicate that floated YBM?s CDN $52.8 million financing last November, took on added duty this spring as one of the unidentified members of an ?independent committee? appointed by YBM to review serious concerns raised by auditors Deloitte & Touche in March and April 1998.

A previous review of YBM?s affairs by Deloitte & Touche, in 1997, had highlighted those public misrepresentations of sales data, and other questionable elements of the company?s financial affairs, that had added to my sense of alarm and led to my first writing about YBM Magnex.

YBM?s final prospectus dated November 17 1997 was certified as representing ?full, true and plain disclosure? by company principals Jacob Bogatin, Daniel Gatti, Harry Antes and David Peterson alongside brokerage principals Peter Jones (First Marathon), Eugene McBurney (Griffiths McBurney & Partners), Brian McChesney (ScotiaMcLeod), Mark Polubiec (Canaccord Capital) and Christopher Blackwell (Gordon Capital). The prospectus (to qualify the sale of $52.8 million in shares and the conversion of $48 million in debentures) contained these notes:

?In order to address the special risks inherent in carrying on business in Hungary in particular and Eastern Europe in general, YBM:

(a) has established improved cash controls at its Hungarian facilities;

(b) has developed more detailed end user and distributor approval criteria;

(c) is in the process of establishing a more accurate database respecting its distributors and end users;

(d) is in the process of implementing new management information systems;

(e) is in the process of improving an centralizing controls over all of its international accounting activities at its Newtown, Pennsylvania head office.

The intent of the foregoing initiatives is to ensure that despite the fact that YBM carries on a substantial portion of its activities in Eastern Europe, its internal controls and financial reporting standards will be in accordance with those otherwise generally applicable to Canadian public companies.?

Should this not have been reassurance enough, the YBM final prospectus also stated: ?Management believes that the various steps taken to improve the Corporation?s controls, monitoring, reporting and other information systems will ensure that its financial information is and will continue to be accurate and complete.?

Almost seven months, and CDN $100 million, after publishing these reassurances - and following a major raid of YBM?s Newtown, Pa. Headquarters coordinated by the U.S. Attorney?s Organized Crime Strike Force, the OSC?s public disclosure that YBM had failed to tell investors that its latest audit had been suspended by Deloitte & Touche, and other troubling revelations -- the company issued an ?entirely qualified? statement saying that an ?independent committee? (on which, according to news reports, First Marathon?s Mitchell sat) recommended ?documentation of contracts and other business documents be upgraded as close as possible to North American standards.? As well, among other measures, the unsung Mitchell trio recommends YBM ?institute heightened oversight of its Hungary-based operations.?

YBM?s summary report of June 8 1998 appears to represent another classic example of oblique public disclosure (in regard to unidentified ?significant breaches in corporate policy? by unnamed company officers, of YBM?s ?apparent market share? etc.). It, however, seemingly unavoidably, suggests that the company?s internal controls and information reporting is not of an acceptable standard. The company itself now says a recently completed investigation of unidentified scope found that ?adequate documentation of customers and suppliers did not exist? and that ?substantial transactions? did not receive required Board of Directors approval. (Like much of the material content of this 1988 release, YBM fails to provide detail sufficient to enable a member of the public to better assess the nature of these transactions and their full implications.)

Back in November 1997, YBM executives Jacob Bogatin and Harry Antes issued a statement to shareholders: ?In conclusion, our Company is one that has experienced significant growth in a relatively short period of time and one that has operated with a tremendous amount of entrepreunuriel (sic) spirit. As such it is not unreasonable to assume that we will face challenges from time to time. However, we have and always will view any challenge not as impediments, but as opportunities.?

Trading in YBM shares remains suspended by the Toronto Stock Exchange (the initial halt occurring on May 13 1998 - 23 minutes after the raid of YBM offices by U.S. federal agents began in Pennsylvania). As a consequence, it?s not possible to determine how investors - many of whom are represented by their mutual and pension fund managers - may view yet another opportunity being welcomed by YBM management to explain that the company?s documentation, reporting etc. failings will be fixed and that its business has integrity.

But, in April 1998, when I returned to my YBM due diligence investigative work, the company?s stock was still trading and the company?s insiders and backers were anxious about questions being raised by myself and others in the financial community.

YBM vice-president Jim Held had already made it clear to Canada Stockwatch ?that there would be nothing for us (YBM) to gain by providing Stockwatch with more information?. With his public company refusing to provide the news service with any materials - such as those it was passing out to mutual fund managers, brokerage analysts and other key supporters - I posted a message to internet financial newsgroups and chat groups in mid-April: ?Looking for copies of YBM promo bumpf, brokerage touts etc. If anyone has copies of YBM promo materials (in any format) and any brokerage analyst recommendation reports (or any other materials used to pitch YBM stock) that they no longer need or can spare a copy it would be greatly appreciated. If you do, please contact my e-mail address ?

Curiously, YBM representatives did not contact me directly at my address which was posted and available to anyone in the world with internet access. Instead, company president Jacob Bogatin approached Stockwatch. Unlike his initial call, in which he accused Stockwatch of ?sleazy? and ?unethical? activities, this approach by Bogatin was more in line with his first conversation with editor/publisher John Woods - an expression of frustration and annoyance. Bogatin once again told Woods that Jim Held would provide anything that was helpful in understanding his company. He felt it was wrong that I could post items on an internet chat group (at the Silicon Investor site) that he felt, in some proprietary context, was YBM?s discussion group.

On April 29 I wrote to Jim Held and the message was acknowledged as received by YBM through its corporate web-site. I told YBM?s ex-CFO-now-IR-spokesman:

?My name is Adrian du Plessis. I am a financial researcher based in Canada. Recently I have been collecting materials on your company through on-line sources.

John Woods, the editor/publisher of Canada Stockwatch (an on-line and hard copy trade publication and news service), informs me that Jacob Bogatin contacted him in recent days and assured him that you would provide copies of any and all promotional, research etc. material that your public company has available.

I understand that you previously told a Stockwatch employee that you would provide no such materials. However, the call from Mr. Bogatin to Mr. Woods, followed your call and was insistent that YBM (through you) would be providing this information.

Accordingly, I am taking this opportunity to follow up on Mr. Bogatin?s promise and make the appropriate arrangement for the delivery of these materials.?

I provided Held with an email address to contact myself and another address for John Woods at Stockwatch - leaving him the choice of dealing with whomever he preferred. Later that same day I received an email response from someone at YBM who was using the internet address Eyull@aol.com . ?Eyull? asked me for a mailing address which I promptly supplied. (Seven weeks later, these communications have yet to result in a single page being received by myself or Canada Stockwatch.)

YBM may have been slow, or failed to cooperate, in providing information to interested parties from whom it saw ?nothing to gain?, but, at least, it was quick to contact those parties that questioned its affairs.

I learned that an employee of a brokerage firm in Vancouver had also been researching YBM Magnex. They?d concluded that the company?s fundamentals did not add up - raising further doubts about the firm?s purported claims of dominance in sectors of the permanent magnet industry and its vaunted sales and profits figures. As part of their due diligence process, this Howe Streeter had sent out questions to various members of the magnet industry. Almost comically, a query had been forwarded to one of the U.S. magnet-makers that had recently been acquired by YBM Magnex. Brass at the public company, YBM Magnex International, were not amused, however, and aggressively complained to the Vancouver brokerage.

In late April 1998 an unidentified male telephoned my Internet Service Provider. The caller?s accent was so heavy that, at first, the ISP representative couldn?t decipher the words being voiced in an accusatory tone. It then became understood that the annoyed party was demanding to know how to locate me. (If they simply wanted to contact me, my email address has been public for years.) When such information was not forthcoming, the caller made comments to the effect that the ISP would be responsible for what I was doing.

By this time I had learned about YBM?s Russian mafia origins and links. I knew from the file of data amassed on the company that this had the potential of being the most serious - as well as the most bizarre - case I?d investigated in my 18 entire career. I was warned about the dangers of proceeding by: a Russian who?d been assisting me with translations; a senior Canadian journalist and editor; American and Canadian stockbrokers; and several other professional and personal contacts. Even John Woods at Stockwatch and my own family - for the first time ever - did not think it would be safe to dig deeper.

The people behind those companies which formed YBM Magnex International - Arigon Co., Arbat International, and Magnex Rt - were not beer-bellied good-ol?-boys from Calgary. Over the years investigating junior stocks in Canada I?ve encountered bikers, cocaine traffickers, a billionaire arms-dealer, a deposed dictator, South African mercenaries, ex-convicts of many stripes, and other ?heavy? types mingled with the more presentable faces of such wayward entrepreneurs as money launderers, corrupt fund managers and bribed stock brokers.

This deal, however, is unique. Semion Mogilevich and Sergei Mikhailov, two godfathers (or ?vor v zakone?) of the Russian mafia (or ?mafiya?), have long been linked by international news and police intelligence reports to those entities that spawned YBM Magnex. Life in the former Soviet Union has been likened to ?Chicago in the thirties? - and the region has been tagged ?The Wild East.?

Mogilevich and Mikhailov and their associates are akin to the Lucky Lucianos and Bugsy Siegels of this new organized crime order. But, unlike such mafia operations as were found in Chicago, New York, Las Vegas and other U.S. mob territories in decades past, the groups wielding corrupt power in Russia and Eastern Europe today benefit from well-established, sophisticated, financial networks. La Cosa Nostra?s Meyer Lansky had to pioneer a money-laundering trail. Today?s gangsters are able to travel comfortably over well-worn routes of commerce.

After confirming YBM?s mafiya links I contacted the police. As well, I began to prepare this series of articles as a road-map for other investigators, and the public at large, should any wish to explore it some day.

End of Part 7 - 24/06/98 -

YBM Magnex: Securities Industry Due Diligence in a post-Bre-X Market - Part 8 - Politicians, promoters and the proletariat

Nesbitt Burns? brokerage analyst, Peter Sklar, was still turning out YBM share recommendations with a positive spin -- even as the company?s stock price was showing signs of crumbling on the TSE amid questions being raised in the public sphere. If the YBM philosophy is to view challenges ?not as impediments, but as opportunities?, then Sklar?s published reports of April 29, May 8 and May 11 1998 may serve as text-book lessons in this school of thought.

Readers of the Sklar reports were instructed that ?positive earnings surprises are possible? with YBM Magnex. ?Margins (for YBM?s reported first quarter 1998 financials) were positively impacted by sales of magnetic applications such as oil filters, continued use of scrap magnets for production, and the sale of magnetic by-product powder,? advised the Nesbitt Burns analyst.

On May 11 - after YBM had announced that it was seeking a 45-day extension to file audited 1997 financial statements - Peter Sklar offered his sympathetic interpretation: ?In the context of

YBM?s recent history, we can understand that D&T (auditors Deloitte & Touche) would take a conservative approach to YBM?s audit and request that the Board conduct an independent review of certain aspects of Eastern European operations. The company experienced a long regulatory delay when it cleared a prospectus in 1997, the Ontario Securities Commission has continued to review the company subsequent to the prospectus clearance, and a recent article in a publication called ?Canada Stockwatch? raised issues regarding the company?s disclosure of Eastern European sales. The (YBM) press release (of May 8) indicates that in connection with the review no matters have arisen that would likely have a material adverse effect on the company?s financial position. We continue to believe that there are not any irregularities with YBM?s 1997 financial statements, and are continuing to rate the stock a 4 with a $24 target price.?

Also on May 11, YBM Magnex officials, favoured securities analysts and other institutional supporters chatted with each other in a private conference call. One of the enduring myths of Canada?s stock markets - in addition to an urban legend of ?full, true and plain disclosure? by market participants - is that of the existence of a ?level playing field? for investors. On this field (of organizers? dreams), the small, retail, investor is said to have a chance of experiencing fair play equal to that of the big player.

In today?s market, overwhelmingly influenced by pension and mutual funds, even the pretense of such fairness has been tossed aside like an errant base pitch. Money managers, advisors, brokerage analysts and others on the institutional side are routinely invited to the company insiders? mound and are privy to information of which the average person in the stands may have only an inkling (or no awareness at all) when making their personal investment decisions.

In the case of YBM Magnex, Stockwatch?s Brent Mudry has reported that, after the conference call, a partner with Toronto-based Marquest Investment Counsel was angry with the company?s auditors. Marquest?s Gerry Brockelsby told Stockwatch that Deloitte & Touche wanted YBM directors ?to sign off on a whole litany of issues.? Brockelsby believed: ?The company should first fire them (Deloitte & Touche), then sue them? it is absolutely outrageous.? Chanting a standard analyst?s refrain, the Marquest manager opined that YBM?s lowering stock price was ?really a buying opportunity.? Wayne Deans, a prominent YBM supporter at Vancouver?s Deans Knight Capital Management, wouldn?t discuss the public company?s confidential telephone call: ?I don?t want to comment on it? it?s a private matter.? Steve Laciak, who replaced Kaan Oran as First Marathon?s YBM analyst, exclaimed: ?Boy, you guys (Stockwatch) have been butchering it (YBM)!? Laciak eplained to Mudry, a reporter with the stock market news service: ?Why should I talk to you about when I will be covering it? It?s none of your business.?

YBM?s stock price, already softened by events reported and unreported, fell $2.40 a share on Monday May 11 to close at $14.60. (The shares had peaked at an intra-day mark of $20.15 on March 10 1998 after closing at an all-time high of $19.90 on March 9.)

On May 12, hours after an article in The Financial Post had informed the broader public for the first time that YBM?s reported sales in Russian and the Ukraine ?involved a complicated series of barters?, Nesbitt?s Peter Sklar wrote: ?The company held a conference call on May 11. Notwithstanding that YBM management indicated that they have been advised by the Board that their review to date has not uncovered any matters which would have a material adverse effect on its reported financial position, we believe that investors left the conference call without as much clarity regarding the delay as we had hoped for with respect to these concerns. Although management addressed all concerns, the discussion was complex and unfortunately, the answers did not lend themselves to simple, straightforward explanations.?

At least the institutional players who were party to the conference call with YBM could ponder the implications of the ?complex? matters discussed. The average investor owning shares of YBM Magnex directly did not even have access to those ?answers? that could not be explained in ?simple, straightforward? terms.

Another analyst, Eric Viveiros with CTI Capital Inc. in Montreal, told The Financial Post: ?I talked with management after they released the news and I was quite comfortable with their explanation. They said they don?t expect to use a lot of the 45 days and it could even be all settled before May 20.? (Viveiros had earlier touted YBM as a ?spectacular growth story.?)

Whatever was picked up by Sklar and his industry peers through the private tete-a-tete or other closed-door communications, the Nesbitt Burns analyst concluded: ?Our fundamental view of the company has not changed and we do not believe that there are any irregularities whatsoever with the company?s financial statements. However, we believe that the company has entered into a period of uncertainty until D&T provides an unqualified audit opinion. We have lowered our rating from a 4 (Nesbitt?s highest ranking) to a 3 which we consider to be a neutral rating (meaning ?hold? not ?buy?). We view this rating as prudent until the 1997 financial position of the company is supported by a signed, unqualified audit opinion. When D&T is able to provide a signed, unqualified clean audit opinion on YBM?s financial position, we would expect to resume our 4 rating on the stock, provided that no material adverse information comes to light as a result of the audit process.?

Also on May 12, YBM?s Calgary legal counsel, the firm of McLeod & Company, sent a letter to Canada Stockwatch that was indicative of a continuing concern with my published coverage of the company?s unusual affairs.

At this stage, the North American public was in the dark about YBM?s mafiya origins and links (through Arigon et al), and the average investor lacked information about the very serious concerns of auditors Deloitte & Touche. (YBM had even failed to disclose to investors the fact that its 1997 audit had been suspended). The company?s shares were still trading publicly - but without disclosure of these and other significant facts. Management of the TSE 300 star was annoyed by those questioning the company?s affairs -- principal among those targeted was myself.

The, on the morning of Wednesday May 13 1998, the cavalry appeared.

At precisely 10:30 a.m. Eastern Standard Time on May 13 YBM found itself facing a new problem - one far greater than it was encountering with independent critics in Canadian financial circles. And at 10:53 a.m., 23 minutes after U.S. criminal investigators armed with a search warrant arrived at YBM?s door, trading in YBM shares was halted on the TSE. Last trade was at $14.35.

(Ontario regulators later stated that the trading halt - which subsequently turned into a suspension - followed provincial regulators becoming aware of the serious audit concerns raised by Deloitte & Touche and related public disclosure issues. The timing of the halt in connection with these matters was coincident with the U.S. raid.)

The morning after dozens of government agents, coordinating efforts under the U.S. Attorney?s Office Organized Crime Strike, executed a raid of YBM?s Pennsylvania headquarters, The Bucks County Courier Times, (the local paper for the suburban Philadelphia community where the action occurred), recounted details of this strategic strike. Reporter Bill Yingling wrote:

?Yesterday?s operation was swift and subtle.

Sources said that plain clothes investigators gathered at the Newtown Township Municipal Complex on Route 413 at about 10 a.m.

In addition to those from the U.S. Justice Department and Customs, agents that took part in the raid were from the FBI, Immigration and Naturalization Service (INS), the State Department and the IRS.

A short time later, accompanied by uniformed Newtown Township police officers, they swept in on the YBM Magnex headquarters at 110 Terry Drive.

The team reportedly brought a white cargo van. During much of the afternoon, a white cargo van was parked outside the building, backed up to one of the loading docks.

Police cars roamed throughout the industrial park, and witnesses said they saw investigators on the roof of the building taking photographs. Agents at the front door referred all queries to the U.S. Attorney?s Office in Philadelphia and declined to allow anyone to enter the building.?

Less than 24 hours before the raid began, YBM president and CEO Jacob Bogatin had told Canada Stockwatch: ?We don?t have any issues (of concern) inside company, we have issues outside company.? Bogatin chastised a reporter over the publication?s previous critical coverage of YBM: ?I hope your company (Stockwatch) will stop to punish YBM.?

Within days of the Pennsylvania raid finishing -- it lasted, officially, from the morning of May 13 until 4:20 p.m. EST on May 14 - news of Russian mafiya figures, including godfathers Mogilevich and Mikhailov, and their association with YBM?s founding businesses, (Arigon, Arbat and Magnex Rt), appeared in journals around the world.

YBM?s own release following the raid had made no mention of any mafiya connections. On May 14 it was claimed: ?At this point in time, the company is unable to ascertain the ambit of the investigation arising from this search or its impact, if any, upon the company?s ongoing business and affairs.? But once the Russian mob links had been exposed in newspapers across Canada and the U.S., and details of a 1995 U.K. police investigation into Arigon et al (which identified Semion Mogilevich as ?one of the world?s top criminals?) had appeared in London?s venerable broadsheet, The Observer, as well as The Vancouver Sun, YBM?s brass, including the company?s chief, Jacob Bogatin, were left to try and defuse the public alarm.

Bogatin, however, stopped making public statements after The Village Voice cover story on Mogilevich, titled ?The World?s Most Dangerous Gangster?, was published on the magazine?s web-site on May 19 1998.

The Mogilevich cover feature, written by the Voice?s Israeli specialist Robert I. Friedman, contained these words about Bogatin:

?The president and CEO of YBM is Jacob Bogatin, a professor of physical metallurgy. In May 1996, he contacted the FBI in Philadelphia to find out why the INS (Immigration and Naturalization Service - one of the U.S. agencies involved in the May 1998 YBM raid) had denied visas to YBM employees arriving from Hungary and the Ukraine. When he was rebuffed, he had intermediaries step forward and pester the FBI. The State Department has banned Mogilevich himself from obtaining a U.S. visa because he's on the department's watch list of international organized-crime figures. Nevertheless, he has surreptitiously entered America under aliases and on visitor visas issued in Tel Aviv to visit Elson and Ivankov.?

(Monya Elson, currently in custody in New York facing multiple charges of murder and extortion, operated out of an apartment in Brighton Beach -- a Brooklyn neighbourhood that?s gained notoriety as a base of Russian organized crime. Vyacheslav Ivankov is a mafiya godfather currently doing time in a New York prison for the extortion of two Russian brokers on Wall Street).

According to Friedman: ?Bogatin admitted during a telephone interview that Mogilevich owns his company. When asked if he knew that numerous law enforcement agencies here and abroad considered Mogilevich to be a leader of one of the most ruthless organized-crime families in recent times, Bogatin replied, ?We have an investors relations guy. You want to talk with him about this stuff.? He added that he had read allegations in the Eastern European press that his boss was a Mafia don, but didn't believe them. YBM vehemently denies that it is connected to Russian organized crime or has engaged in any criminal activities.

Bogatin is no stranger to the mob, however. His brother, David, a top Russian crime figure who once served in North Vietnam for the Soviets in an anti-aircraft unit, is now serving an eight-year term in a New York State prison for a multimillion-dollar gasoline tax fraud scheme.?

On May 13 1992 David Bogatin, a Russian native and American citizen residing in Brooklyn, N.Y., was sentenced to two and two-thirds to eight years in state prison and ordered to pay US $3.1 million in restitution and fines for his role in one of the biggest gasoline bootlegging operations in America. The New York Times reported that Bogatin, then 46, was the first person ever returned to the U.S. under terms of a 1927 extradition treaty with Poland.

Facing up to eight years in jail, David Bogatin had jumped bail in 1987 and moved to Poland where he set up the first bank allowed to sell shares on the Warsaw Stock Exchange. It wasn?t until 1992 that Bogatin?s history was exposed by a Polish newspaper, Gazeta Wyborcza, prompting a run on his institution - the First Commercial Bank of Lublin. A classic operator, Bogatin calmed some depositors down with his personal reassurances and encouraged others by proposing to hold a lottery -- with cars and apartments offered as prizes to those who kept their money in his bank for an additional year. After publicity in the Polish media, he was extradited to the U.S. where, according to The New York Times, he appeared in court ?wearing a pin-stripe suit and handcuffs.? The Times noted: ?Prosecutors said Mr. Bogatin and others in a network of Russian and Eastern European immigrants acted with Michael Franzese, an admitted captain of the Colombo organized crime family who was given a 10-year sentence after being convicted on Federal racketeering charges for the scheme.? Prosecutors characterized Bogatin as an indefatigable businessman.

(David Bogatin?s partner-in-crime, Michael Franzese, defected from the Italian mafia while serving his prison term and provided U.S. intelligence agencies with information on how American-based mafia families were assisting Russian ?migr?s engaged in crimes that included gas tax schemes, securities fraud, money laundering, drug-smuggling, gambling, extortion and murder. A U.S. Senate Governmental Affairs committee before which Franzese testified on May 15 1996 heard from a Russian convict/informer that three NHL hockey players - Alexander Mogilny, Vladimir Malakhov and Alexei Zhitnick - had been targets of extortion and threats of violence.)

Since publication of The Village Voice article, Jacob Bogatin has made no public comment. (The duties of spokesperson for YBM, historically carried by, either, VP of Business Development and Investor Relations, Jim Held, or, CEO and president, Bogatin, have been assumed by the company?s VP of Marketing and Sales, Guy Scala of New Hope, Pa.)

Another enterprising relative of Jacob Bogatin?s, his 26-year-old nephew, Michael Kogan, has been identified by The Bucks County Courier Times as the principal of a brokerage firm that has recently run afoul of securities regulators in two U.S. states for failing to have proper registration. After working for YBM for two months, beginning in July 1996 Kogan headed a securities firm, called Jefferson, Gersch Inc., housed under the same roof as YBM?s Newtown, Pa. headquarters. Jefferson Gersch was incorporated by Jennifer L. Dombrowski, an assistant at the Philadelphia law firm of Wolf, Block, Schorr and Solis-Cohen. According to reports of the past few days, after a six month period the brokerage moved out of the YBM Magnex building (where Kogan was subletting space from his uncle?s public company). In 1998, following citations and fines levied in Pennyslvania and Maryland, Michael Kogan told the Courier Times that Jefferson Gersch was being closed in all states where it was registered (a list that stretched from California, to Washington, Texas, Delaware, Florida, Maryland, Massachusetts, New Jersey and New York.)

Roza Kogan, alongside Semion Mogilevich and others, was listed as a shareholder of the private entity, YBM Magnex, Inc., at the time that company and its assets (including Arigon, Arbat and Magnex Rt) were being vended into a public shell, Pratecs Technologies, on the Alberta Stock Exchange in 1994/95. Roza Kogan received 286,000 (pre-consolidated) shares of the public YBM/Pratecs as part of that major transaction.

Any family relationship between Roza Kogan and Michael Kogan, or Kogan?s uncle Jacob Bogatin, has yet to be determined - the existence of Kogan?s brokerage firm under YBM?s roof is only the latest in a string of unusual disclosures that adds to the questions enveloping YBM Magnex International.

To help it defend its position, and, most particularly, to make its case before the Ontario Securities Commission (a hearing into the company?s audit disclosure troubles is scheduled for August 10 1998), YBM has retained the services of Bay Street litigator, Joseph Groia. Groia, a tenacious and skilled lawyer with the firm of Heenan Blaikie in Toronto, is the OSC?s former general counsel. Since leaving his post as head of enforcement for that provincial regulatory agency in 1990, Groia has professed his kinship with non-establishment clients and expressed a driving commitment to defending the dispossessed.

Somehow, Groia has ended up acting for YBM Magnex - a strongly establishment-oriented public company listed on Canada?s most senior stock exchange, the TSE. Prior to the FBI, IRS et al raid, YBM?s shares were included in the exclusive TSE 300 index. YBM?s establishment directors include David Peterson, the former premier of the province of Ontario and Robert Owen Mitchell, vice-president of First Marathon Securities, Canada?s largest independent-owned brokerage house. The company?s stock has been benefited from the support of analysts working for Bay Street?s senior brokerage firms, including Nesbitt Burns - a subsidiary of one of Canada?s largest financial institutions, The Bank of Montreal. Almost 45% of the company?s shares are held by Canada?s established pension and mutual funds.

In any event, one does not customarily encounter the dispossessed in the senior ranks of North America?s financial markets. In the former Soviet Union and countries of Eastern Europe, a standard definition of the dispossessed would, similarly, not include high-flying stock promoters, brokerage company principals, industrialists or millionaire ex-politicians.

The 1997 book, Vodka, Tears and Lenin?s Angel, by journalist Jennifer Gould, recounts the author?s years living and working in the former Soviet Union after the collapse of communism. One chapter, entitled ?The Dispossessed?, is about: men and women imprisoned still for crimes of commerce that are now legal - prisoners like Alevtina Gulyolova, a grandmother sentenced to seven and a half years in jail for such crimes as selling ten pairs of Yugoslavian underwear for a profit of US $97; Russian children living on the streets or in train stations, stealing to survive or selling their bodies as prostitutes and being forced to give a cut to mafiya gang members; other children, orphans and the unwanted, being sent to psychiatric wards or labour camps under a system that cannot cope. Other non-establishment figures in Russia, visible in the news of this past month, would include the coal miners and their families stranded in the Arctic town of Vorkuta. Vorkuta?s miners - 200 of whom trekked 2,000 kilometres to Moscow to launch a vigil last week outside Russia?s White House - are among the country?s workers who have not been paid any wages for periods of up to one year.

It?s possible that, despite the presence of lawyer and ex-premier David Peterson on its board and a host of other establishment ties in Canada, YBM Magnex may be conferred some outsider status due to its Russian mafiya origins and links.

In Russia and other regions bound in the orbit of the former Soviet Union, at least, such a view would be illusory. For, as details contained in the final parts of this series on the YBM scandal help illustrate, in this turbulent ?Wild East?, in ways, the mafiya is the establishment.

End of Part 8 - 25/06/98 -

YBM Magnex: Securities Industry Due Diligence in a post-Bre-X Market - Part 9 - YBM Magnex takes Arigon public

?Legal counsel for Arigon has confirmed that the alleged charges are unsubstantiated and the origins of the matter are difficult to determine.? With its press release dated July 19 1995, YBM Magnex International, Inc., (then called Pratecs Technologies, Inc.), dropped the lid on a Pandora?s box of issues that today ensnare the company in controversy.

Two obliquely worded announcements issued by the Alberta Stock Exchange-listed company in mid-1995 were supposed to provide the public with ?full, true and plain? disclosure of those facts and circumstances that had precipitated a more than month-long share trading halt. The ASE shell was then in the process of acquiring the Arigon group of companies, through the takeover of a private entity, YBM Magnex, Inc.

(In February 1994, YBM Magnex was incorporated in Hatboro, Pennsylvania. In May 1994, the stockholders of YBM and Arigon executed a share exchange agreement for the merger of the two private vehicles. On December 27 1994, the less-than-year-old YBM Magnex merged with the Arigon group - comprised of Arigon, registered in the Channel Islands, Arbat International of Moscow, Russia and Magnex Rt based in Budapest, Hungary. Plans for the public company to gain an interest in the private YBM had been in varying stages of development since before Pratecs Technologies first began public trading in Canada as a ?blind pool? on August 3 1994.)

To a market-wise reader, the public vehicle?s disclosure spelled trouble - but the actual words used by YBM/Pratecs in mid-1995 failed to disclose the seriousness or nature of any allegations made in London, the identity of the party or parties making any allegations that remained unspecified by the company, or even the names of any individuals about whom unidentified parties were making unspecified allegations of an unknown nature or scope.

Ignorant of such hard details, Pratecs/YBM investors, instead, were provided with the company?s own assurances, and the comforting knowledge that unnamed counsel for Arigon had ?confirmed? the charges were ?unsubstantiated? and, further, that ?the origins of the matter are difficult to determine?. At the time, two principals of the public company, Pratecs/YBM, Jacob Bogatin and Robert Ventresca, were also directors of the private entity, YBM, which was, in effect, the Arigon group. YBM?s releases of June 22 and July 19 1995 each carried on their bottom a legal disclaimer (of the brand pioneered by the Vancouver Stock Exchange) that read: ?The Alberta Stock Exchange neither approves nor disapproves of the information contained in this news release.?

Welcome to the dangerously arcane world of Canadian penny stock practices.

In mid-1998, the company offered a more global audience a demonstration of its approach toward disclosure. YBM, then listed solely on the Toronto Exchange, failed to inform the public that its year end 1997 financial audit had been suspended by Deloitte & Touche after the auditor had noted it was ?extremely concerned? about certain of the company?s contracts, associates and affairs. Among other concerns, the accounting firm indicated that ?one or more illegal acts may have occurred which may have a material impact? on the company?s latest financials (including those first quarter 1998 results released by YBM even after its management had been made aware of audit issues). When the Ontario Securities Commission learned of the audit suspension and YBM?s disclosure failures it stopped all trading in the company?s shares -- issuing a Temporary Cease Trade Order , or TCTO, on May 13 1998.

The following day, YBM reported that there was a ?lack of any factual basis underlying the allegations made by Deloitte & Touche? and that a committee of ?independent? company directors had been ?sensitive to the potential for misleading the public marketplace as a result of the premature disclosure of these allegations.? During this period of non-disclosure, or non-premature-disclosure, while the company?s share price began to crumble on the TSE, at least one YBM director, Kenneth Davies, reaped a tremendous profit by selling his shares into the public marketplace (as has been recently revealed by The Globe and Mail newspaper). Deloitte & Touche have since resigned as auditors for YBM and a hearing before the OSC into the deep, but narrow, territory of YBM?s audit-related disclosure is scheduled for August 10 1998.

On the same day that the OSC stopped trading in the company?s shares, YBM?s Pennsylvania headquarters had been raided by dozens of U.S. federal agents executing a search warrant as part of an ongoing organized crime probe into suspected money laundering, securities fraud and customs and immigration violations. After officials with the FBI, IRS, Naturalization and Immigration, U.S. Customs and U.S. State Departments had carted away hundreds of boxes of evidence, YBM noted in its May 14 1998 release that ?the Company is unable to ascertain the ambit of the investigation arising from this search or its impact, if any, upon the Company?s ongoing business and affairs.?

YBM?s Guy Scala told The New York Times: ?I wish I had a crystal ball so I could understand what they?re all looking for and where this is going.? Scala, Vice-President of Sales and Marketing, was the third member of management in a matter of days to appear as the company?s spokesperson. YBM President and Chief Executive Officer, Jacob Bogatin, and VP of Business Development and Investor Relations, Jim Held, both stopped making public statements as the scandal blackened amid widening revelations of the suspended audit, the U.S. government raid and YBM?s Russian organized crime (ROC) links.

(The title of ?mafiya? was first popularized by journalist Stephen Handelman - author of the 1995 Yale University Press published book, ?Comrade Criminal? -- to help identify the unique characteristics of the ROC forces or mob. The Russian mafiya is less hierarchal in structure than its Italian mafia counterpart, La Cosa Nostra, and exhibits a flexible interaction between the many individual criminal gangs that wield power and control in the former Soviet Union -- or FSU, Russia, neighbouring countries in Eastern Europe, Israel and elsewhere. Some commentators prefer the more traditional term organizatsiya to ROC or the more freshly minted label of mafiya. It?s clear that parties in the west as well as the east are still grappling to establish a consistent and distinct means of describing the elements of this increasingly global and dangerous organized crime phenomenon. Regardless of coverage in North American publications, some of it helpful and some of it sensational and inaccurate, that more extensively grafts well-known Italian mafia terminology onto the Russian criminal environment, the leaders of the organizatsiya or Russian mafiya are not known as ?Dons.? The original godfathers of Russian crime are referred to as the vory v zakone (vory being the plural form of vor). This translates as ?criminals within the law? or ?thieves in the law? though some academics argue that ?thieves professing the code? is a phrase better suited to underscore the history and traditions of the vory in the changing landscape of the former Soviet underworld. Whatever one chooses to call them, it is accepted by investigators and academics alike that the godfathers, or vory v zakone, act more as organizers for crime rather than as direct participants -- making it difficult to prosecute them under existing legislation in Russia and the FSU. In countries such as Switzerland - where Sergei Mikhailov, AKA ?Mikhas?, a senior Russian mobster linked to Arigon, has been in ?preventive? custody since October 15 1996 - it is an offense to be a member of a criminal organization. But in the regions that have nurtured the explosive growth of the Russian mafiya, a lack of adequate legislation combined with massive political and judicial corruption is said to routinely protect the leaders of organized crime from facing prosecution in connection with everything from white collar crimes to murder.)

Within a month of the company?s shares being removed from TSE trading (at a last trade price of CDN $14.35 per share), and the public learning about criminal allegations - with a familiar base -- that reached from 1995 through to 1998, YBM Magnex released its own statement intended to clear itself of any criminal wrongdoing. It would have been viewed as shockingly negative disclosure only weeks earlier, but, by this date, a confession that serious problems that were not criminal in nature had been found through the company?s own review processes was interpreted by some money managers as a positive sign. Still, the few remaining cheerleaders on Bay Street were now more than counter-balanced by those casting a critical eye on the company?s machinations.

Canada Stockwatch published a concise summary of this classically-worded YBM news: ?On June 8 YBM issued an executive summary that it says is qualified in its entirety by detailed information in a full report that it will not release. The entirely qualified summary says an investigation of unspecified scope confirmed significant breaches of corporate policy it does not identify. The company says unnamed officers were involved based on the unidentified breaches of policy and have been reprimanded in unknown fashion. YBM says, in entirely qualified words, that an investigation of unspecified scope confirmed significant, unspecified, policy breaches by its unnamed chief operating officer.?

This sort of vague disclosure was consistent with the style in which YBM had entered the world of junior public companies in 1995 - obscuring the view of its core businesses and associates in the Arigon group of companies.

The origins of Arigon and its trail of founders, organizers and associates is not difficult to determine. Police intelligence, and news, reports from countries including Canada, the U.S., England, Russia, Czechoslovakia, Germany, Belgium, Switzerland, Hungary, Israel and Costa Rica - many of which can be simply located through searches on the internet -- provide a picture of those dark elements of the YBM Magnex story than can not be located in the promotional reports of Canadian brokerage house analysts, or the company?s own public files. How much YBM?s underwriters and other brokerage and mutual fund industry supporters, as well as Canada?s stock market regulators, knew of these troubling details over the years 1995 - 1998 will likely not be examined under a public light until any expected shareholder class action suits proceed. Why such information, that could impact upon a reasonable person?s investment decisions, was not made public by any of these parties is still, therefore, open to question.

On December 9 1994, the United Kingdom?s National Criminal Intelligence Service (NCIS) delivered to the Money Laundering Investigation Team (MLIT) of England?s South East Regional Crime Squad (SERCS) a package of information for investigation under the code name, Operation Sword. According to a summary report prepared on November 10 1995: ?Operation Sword concerned the activities in the United Kingdom of a Russian Organised Crime Group headed by one Semion Yudkovich Moguilevitch, Born 30.06.46.?

(As with numerous names translated from the Russian language, Mogilevich appears spelled various ways in English - principally as Mogilevich, Mogilevitch or Moguilevitch. All three spellings can be found in reports, articles and incorporation documents pertaining to the Arigon group of companies. I have adopted, in my own writings, the most commonly represented version - namely Semion Mogilevich.)

Mogilevich (nicknamed ?Seva? or ?Uncle Seva?) was identified by U.K. police as ?one of the world?s top criminals who has a personal wealth of $100 million. He is a target of Law Enforcement Agencies and Security Services in several countries and as a result of the effect of his financial impact on the City of London he clearly falls in the category of an NCIS core criminal.?

An operational order containing information about a raid to be carried out on May 16 1995 noted that Arigon Company Ltd. was formed in the tax and privacy haven of the Channel Islands in 1990. (Documents obtained from the Court of Alderney, Channel Islands, record Arigon being incorporated on May 24 1990. Mogilevich is identified by these official filings as a director of Arigon in 1995. Several Mogilevich associates also show up as Arigon directors in the Alderney records.) According to the 1995 British police report: ?The directors of this company (Arigon) are connected to Russian Organised Crime and indeed the main individual Semion Mogilevich, is considered to be the leader of R.O.C. in Hungary and the Czech Republic.?

An FBI report issued in May 1995, as Pratecs was proceeding with its takeover of the Arigon group, stated: ?Semion Mogilevich runs an extensive prostitution operation out of the Black and White Nightclubs in Prague and Budapest. Foreign law enforcement agencies have documented Mogilevitch?s prostitution operation as the centrepiece of his operations in Europe.? The FBI report identified Arigon as a central element of the Mogilevich Organization.

Between December 1994, when England?s SERCS Money Laundering Investigation Team began its probe under Operation Sword, and May 1995 ?officers from the MLIT were required to conduct extensive enquiries in a number of countries. This was in order to properly develop the investigation and these enquiries identified the world wide structure of the Moguilevitch and other Russian Organised Crime Groups.? The MLIT reported that: ?Intelligence became available from a number of Law Enforcement Agencies in Eastern Europe, the United States of America and Canada which indicated that the Moguilevitch Organisation was involved in large scale extortion, prostitution, arms dealing and drugs trafficking.?

British authorities investigating Arigon?s dealings disclosed in mid-1995 that ?in the past three years some US $80 million has passed through the account of Arigon at the Royal Bank of Scotland in London.? Investigators noted that: ?Detailed analysis of the bank records for the past year show approximately US $30 million moving through the account. Intelligence sources indicate that a large proportion of this money is the proceeds of the activities of Russian Organised Crime in Eastern Europe, specifically the Mogilevitch organisation and an organisation called Solntsevskaya whose leaders are based in Vienna, Austria.?

The Solntsevskaya is recognized as the largest criminal organization in Russia (comprising an estimated 300 individual gangs). This mafiya group is also referred to as the Sons of Solntsevo (named after the Moscow suburb from which it emerged). The most notorious leaders of the Solntsevskaya are the two Averin brothers, the elder Victor Sergeevich (nicknamed ?Avera?) and younger Aleksandr Sergeevich (?Sasha-Avera?), alongside Sergei Mikhailov (also spelled Mihailov and known as ?Mikhas?). The Averins and Mikhailov (until his arrest at Switzerland?s Geneva-Cointrin airport in 1996) operated out of home bases in Hungary and Austria. Prior to his arrest, Mikhailov was considered the godfather of the Solntsevskaya. Two days after being detained by Swiss police, ?Mikhas? was charged with several violations of Swiss law including being a member of a criminal organization and money laundering. He is currently in custody pending trial on these and other charges.

The FBI reported in 1995 that: ?The use of false documentation is a common tactic used by Eurasian OC organizations to facilitate travel or residency in furtherance of criminal activities. Many of Semion Mogilevich?s lieutenants and Mogilevich himself hold Israeli citizenship and carry Israeli passports. The source of the Israeli passports is Shabtai Kalmanovich. Kalmanovich has provided Israeli passports in short order for members of the Solntsevskaya Organization and the Mogilevich Organization. Based on the ease with which Kalmanovich apparently obtains Israeli documentation for Solntsevskaya and Mogilevich associates, Kalmanovich may have connections in the Israeli government.?

The mention of Shabtai Kalmanovich, convicted in Israel in 1988 of being a KGB spy, serves to highlight the existence of a cultural and political milieu that facilitates the expansion of Russian organized crime and provides mafiya leaders with opportunities to exercise greater influence in their regions of economic power. Kalmanovich, who had been something of a double-agent while working for the Mossad (Israel?s intelligence agency), was pardoned by the Israeli government and escorted back to Moscow in 1993 by his friend and business partner, Iosof Kobzon.

Kobzon, a biznes man and baritone, last September ended a 40 year career as one of the most popular singers in Russian history. Frank Sinatra, the great American crooner who passed away in May 1998, was known for his Las Vegas ties and being pictured with American mafioso including Sam Giancana. But Kobzon, often referred to as ?The Russian Frank Sinatra?, appears to maintain closer mafiya ties than did ?Ol? Blue Eyes.? In 1995 Kobzon was denied an entry visa to the United States. That same year he was delayed entering Israel through Ben-Gurion Airport after that country?s Interior Ministry listed him as a Russian mafia member. Kobzon was ultimately allowed into Tel Aviv. In his farewell concert tour in 1997, Kobzon played to appreciative audiences throughout the FSU but was refused entry without explanation by a former republic, Uzbekistan.

Kobzon is an acknowledged friend of Vyacheslav Kirillovich Ivankov (known as ?Yaponchik? or ?The Little Jap?). Ivankov, like the Averin brothers, is a close associate of mafiya leader Semion Mogilevich. One of the old-style vory who spent many years in prison building his own organization, ?Yaponchik? obtained an early release in 1991 and travelled to New York where he told the press: ?I have been authorized to bring order here in ?migr? circles.? Ivankov, known as the ?father of Soviet extortion?, carried on with his specialized biznes interests in America which resulted in his being arrested in 1996 and subsequently convicted in connection with a US $5.9 million extortion scheme. It was reported that, at the time of his arrest, FBI investigators found five passports at Ivankov?s Brighton Beach, Brooklyn apartment: three with Russian names, one identifying him as Polish and another saying he was a U.K. citizen. Noted one paper: ?FBI agents also found another common tool of Russian criminals - a set of papers for incorporating a business.?

Another friend of Iosof Kobzon is Yuri Luzhkov, the powerful and controversial mayor of

Moscow (and a possible contender for the job of Russian president after Boris Yeltsin). On September 14 1997, Kobzon himself became a political figure as he was elected, in a landslide, for a State Duma seat in the Agin-Buryat Autonomous Okrug (the Duma being Russia?s Lower House of Parliament.)

There has been public criticism - by commentators in Russia as well as the west -- that one of the perks of such a position is parliamentary immunity from prosecution. In the recent past, corrupt individuals have run for, or been elected to, parliament apparently to escape pursuit of their criminal activities.

?Russia has become the criminal capital of the world. In Russia today, the organized mafia and the government are one and the same thing. They?re two hands of the same ruling elite.? These words uttered in May 1996 by Yuri Maltsev, a former senior advisor to Mikhail Gorbachev, provide additional context in which to view Russian organized crime and to consider the activities of such mobsters as Semion Mogilevich, Sergei Mikhailov and those others linked by position or money to Arigon.

End of Part 9 - 15/07/98 -

YBM Magnex: Securities Industry Due Diligence in a post-Bre-X Market - Part 10 - Of money and management?

Follow the money.

This standard advice - a line popularized during the Richard Nixon/Watergate scandal era - applies well to numerous stock market cases and is particularly appropriate when considering those enterprises associated with suspected money-laundering activities.

YBM Magnex has delicately described the leaders of Russian organized crime publicly linked to the company (via Arigon et al) - referring to, both, Semion Mogilevich (AKA ?Uncle Seva?) and Sergei Mikhailov (AKA ?Mikhas?) as ?reputed? crime figures (??reputed? being the necessary, if comical, fig leaf of technical innocence? observes Albert Mobilio, in his essay on the Italian mafia, ?Made Men of Letters: Our thing about the Cosa Nostra? - published by Harper?s Magazine in October 1997).

YBM has stated that: ?Although Semeon Mogilevitch? was one of the 31 original shareholders of the company, he is not a director or officer of the Company, has never exercised control over the Company and has never had any involvement in the management of the Company.? YBM says: ?Sergei Mikhailov? was not an original shareholder and is not currently a registered shareholder of the Company. This individual has never been associated with the business affairs of YBM.?

Police and other government investigators in the United Kingdom in 1995 and in North America today may have more elemental interests than tagging who shows up on the public company?s board, or who may have registered YBM Magnex shares in their own name, or who can be shown to be involved with ?management? of the company or its ?business affairs.?

On a trail of suspected money laundering and securities fraud the objective is to follow the money.

In late 1995 U.K. authorities reported that: ?Amongst the intelligence gathered in the investigation of Operation Sword was a record of every financial transaction conducted on behalf of Moguilevitch and other Russian Organised Crime figures (by their London lawyer) in the last five years. All of the intelligence has now been passed to NCIS (National Criminal Intelligence Service) for distribution to other Law Enforcement Agencies, with the added bonus that if required the South East Regional Crime Squad are in a position to produce any part of intelligence as evidence in any Court of Law.?

Crippled by a lack of assistance from Russian agencies - notorious for their perceived failure to pursue mafiya figures - frustrated U.K. police missed the opportunity to prosecute Mogilevich, his partner Konstantin Karat (another Arigon director and original YBM shareholder) and others in the network of ?Seva.? Their extensive and detailed review of the organization?s financial activities, however, identified Arigon Co. of the Channel Islands (soon to go public in Canada following its merger with YBM Magnex) as a central conduit for the flow of money. Of the million$ moving through an Arigon account in London, England, British police reported: ?Intelligence sources indicate that a large proportion of this money is the proceeds of the activities of Russian Organised Crime in Eastern Europe, specifically the Mogilevitch organisation and an organisation called Solntsevskaya (headed by Sergei Mikhailov, the Averin brothers et al).?

(Academic and other public, as well as police, sources have linked Mikhailov?s criminal organization, the Sons of Solntsevo, and Arigon - the enterprise that spawned a TSE 300 star. ?Rossiiskaia prestupnost?, a monograph on ?Russian Criminality?, published on-line in 1997, is available in book form in the west and is of value not only to criminal investigators but also to libraries such as those at universities offering Russian studies. In a chapter on Sergei Mikhailov, the monograph?s author, Alexander Maximov, writes: "When Mikhailov and the Averin brothers made their way abroad each of the brothers immediately acquired an osobnyak - or private residence - in Prague, they also purchased, in order to launder stolen money, several foreign companies. Among the properties of the leaders of the Solntsevo gang are the firms 'Maxim', the Joint-Stock Company 'SV-Holding', the SP 'Arbat International', the Hungarian firm 'Magnex', the English company 'Arigon', and the Israeli firm 'Empirebond'. Likely this list is far from complete." Perhaps illustrative of the inter-related - and not strictly heirarchal - nature of Russian mafiya activities, a range of newspaper and magazine articles published in Western and Eastern Europe between 1995 and 1997 identify, both, Mogilevich and Mikhailov in connection with Arigon and related entities. It?s remarkable that Canadian stockbrokers, mutual fund managers, market regulators etc., either, did not search out these items - an increasingly simple task in this age of internet data-banks and multi-engine search tools like SavvySearch @ http://guaraldi.cs.colostate.edu:2000/form and Dogpile @ http://www.dogpile.com/ - or, these professionals did know of Arigon?s history - and the alarming reputation of Mogilevich and Mikhailov as mafiya godfathers - and decided this was not something that they need inform public investors.)

In mid-1995 the Mogilevich organization was being shut down in the U.K. and ?Seva? himself was being banned from entering the country. Contemporaneously, Mogilevich and such associates as Konstantin Karat were entering the Canadian public market - their passage facilitated by the province of Alberta?s Junior Capital Pool (JCP or ?blind pool?) program.

In May of this year, Michael Gillard and David Connett, a pair of investigative reporters with The Observer in London, reported that a confidential 1995 police document on Operation Sword alleged Canada was ?used purely to legitimise the criminal organisation by the floating on the stock exchange of a corporation which consists of the UK and USA companies whose existing assets and stocks have been artificially inflated by the introduction of the proceeds of crime."

It is the pattern of the vory v zakone, Russia?s godfathers of crime, to have roles as (unseen) organizers and inspiration, not as direct, or up-front, participants. There appears little or no reason to expect that ?Seva? or ?Mikhas? would appear in any management roles or official capacities with YBM Magnex or any of its subsidiaries if the money of the Mikhailov and/or Mogilevich organizations was being channeled through YBM-related entities today (something that the public will likely not learn one way or the other until U.S. federal investigators make any public declarations about their ongoing criminal probe).

Mogilevich?s documented role as a director of Arigon, the Channel Islands company that, essentially, went public with the YBM/Pratecs shell on the ASE, may be seen more as an anomaly than as a blueprint. The presence nearby of such a figure is more likely to be signified by nominees or associates aboard a company or related entities than by a personal directorship or official management position. (This is a pattern well established by some stock promoters in Canada?s junior markets - and is especially helpful when the promoter?s own notoriety would impede the progress of a stock play.)

On July 18 1994 , Pratecs Technologies Inc. (subsequently renamed YBM Magnex International) became a Junior Capital Pool company with the acceptance of its prospectus by Alberta regulators. In theory, until a JCP has completed a ?Major Transaction?, (in this instance, the takeover of YBM/Arigon), it is a shell whose most material asset upon listing on a stock exchange is the successful public company experience of its management. This is the official explanation used by exchange brass to sanctify the process. In practice, however, this relevant track record of company principals may be, either, undisclosed or ignored.

As noted in an earlier chapter of this series of articles, when Pratecs/YBM went public it listed only two directors with a track record aboard Canadian junior companies -- Kenneth Davies and Michael Schmidt -- neither of whose background with Vancouver-listed ventures was admirable. Both Davies (of White Rock, B.C., a suburb of Vancouver) and Schmidt (resident of another suburban Vancouver locale, Burnaby) continue to be directors of YBM Magnex in 1998.

The company?s prospectus, at least, detailed the various entities on the VSE with which Davies was associated - thereby providing any interested industry professional with a simple opportunity to carry out a due diligence check on these junk companies. But the Pratecs filing failed to disclose the public company background of director Michael Schmidt. The July 18 1994 prospectus listed Schmidt?s ?Principal Occupation During Past 5 Years? as ?Independent businessman since 1980; sales associate, Realty World - Intown (a real estate company) 1992 - present.? From at least 1989 to 1991 (within the five year period designated in the prospectus), Schmidt had been Manager of Investor Relations, or chief tout, for Technigen Corp., one of the most infamous scams to come out of the scandal-plagued Vancouver market. Schmidt?s official role with Technigen -- a grossly misrepresented promotion of computerized golf-driving ranges - was entirely omitted in this prospectus and other Pratecs/YBM filings.

Signing off on this prospectus as agent and certifying its contents as constituting ?full, true and plain disclosure of all material facts? was Michael Prew, a Vice-President with the Calgary, Alberta office of Yorkton Securities. For lending its imprimatur to this stock offering of 4 million shares priced at $0.10 each, Yorkton received a commission of $40,000, reimbursed expenses of about $3,000 and an option to purchase 400,000 Pratecs/YBM shares at $0.10 each for a period of 18 months following the company?s ASE listing date.

(Prew, a former Chair of the Alberta Stock Exchange, and his Yorkton associates earned some negative publicity in 1996 for having sponsored Timbuktu Gold onto the ASE. Timbuktu - a partial replay of a late 1980s VSE scam that involved arms-dealer Adnan Khashoggi, U.S. securities violator Oliver Reese and claims of discovering King Solomon?s Mines in Mali, West Africa - rocketed to $26.50 a share on the ASE in April 1996 before the media flagged the disreputable background of Reese and his Mali claims. Alberta regulators then discovered that the company?s vaunted gold assay results were bogus. Why Michael Prew and other Yorkton officials failed to uncover, or disclose, the history of Timbuktu Chair Oliver Reese in performing their due diligence on the company has never been publicly explained. Why securities regulators failed to spot this easy mark also remains a mystery.)

Such low standards of due diligence help make Canada?s stock markets a breeding ground for scandal. When routine background checks are overlooked, and questionable disclosure is not questioned, the stage is set for even greater problems. There is almost an inevitability to how many Canadian stock deals, including that of YBM Magnex, play out in the public marketplace.

Apart from Schmidt and Davies, the other Pratecs/YBM principals at the time of the company?s public launch had no established track record - good or bad - in the field of Canadian junior public companies.

Pratecs? original president, Robert Ventresca, of Doylestown, Pennsylvania, had been an investor in Technigen when Michael Schmidt was managing PR for the deal in 1990. (After becoming a financial disgrace in Canada the company moved south of the border and hooked investors.) Ventresca was described as a CPA and President of Alpha Financial Group in which he reportedly held shares (45%) alongside Jacob Bogatin (10%) and a background player, Michael Bachurski (45%). (Ed Bachurski Sr., of Melbourne, Florida appears as a stakeholder in YBM in 1994 regulatory filings.)

Jacob Bogatin, of Richboro, Pa., an initial director who later replaced Ventresca in the role of president, was represented to be a man of science - having been ?manager, Magnetic Department, SPS Technologies, Inc.? (an American public venture producing specialized steels) from 1987 - 1993 and, before that, ?Professor, Chief, Magnetics Laboratory Saratov State University, Russia, 1970 - 1986.? Bogatin was the only founding YBM director with a recognized background in magnetics and, as the company?s profile grew, he became a central spokesperson for its business.

(Since May of this year, Bogatin, who is still president, has retreated from public view following such controversial public disclosures as media reports identifying his brother, David Bogatin, as a senior Russian crime figure sentenced to a lengthy U.S. jail term, and his nephew, Michael Kogan, as having started up a brokerage firm under YBM?s roof in Newtown, Pa. - a firm that has since been tagged by securities regulators in Pennsylvania and Maryland and fined for operating without proper registration.)

While Bogatin provided the substantial link to magnetics in the Pratecs/YBM prospectus, other members of management contributed less obvious value. Guy Scala, the YBM VP who has recently taken over spokesperson duties (after Bogatin and VP Jim Held stopped making public statements in the wake of this year?s FBI raid etc.), has told The Vancouver Sun that he isn?t sure what qualified Technigen tout Michael Schmidt to be a director: ?I would say he was familiar with the market there (in Canada) and was available for the company?s guidance.? Similarly, it is not immediately clear how a penny stock promoter like Kenneth Davies and some of his management associates would benefit a company that Bay Street analysts and fund managers characterized as a solid junior industrial -- an emerging blue chip winner (with a market value eventually approaching CDN $1 billion).

Last month, when The Globe and Mail?s Karen Howlett revealed that Davies had sold most of his YBM shares after he learned, but before the public was informed, that Deloitte & Touche had suspended its audit and had serious concerns about the company?s affairs, this founding director explained: ?To me it wasn?t a big deal because I buy and sell stuff all the time. I don?t have a nine-to-five job, so to speak. I?m all over the place all the time? I?m a heavy trader. That?s what I do for a living.? (Davies explained to the Globe: ?I?ve always kept my personal holdings to zero.? The possibility that he may also trade shares not registered under his own name was left open when Davies was asked if he held stock through other companies. ?I can?t disclose that,? he replied.)

One of Pratecs/YBM?s original officers was Leonid Rabovetsky, described as a computer programmer employed by Thompson Financial Services, Memorial Sloan Kettering Cancer Center and Costar Computer Corporation. Prior to these jobs, Vice-President Rabovetksy was said to have been a computer programmer with an unidentified ?major construction company in

Russia.? (Rabovetsky?s south-Brooklyn apartment was situated not far from the Brighton Beach area apartment of another significant YBM shareholder, Mara Soloveychik. The name of another early shareholder, Naum Rabovetsky, of Feasterville, Pa., appears alongside that of Soloveychik and others disclosed in Pratecs/YBM filings with the Alberta Securities Commission.)

The company?s other Vice-President (and a large shareholder) upon public listing was Jean Lear, of Cedar Glen West, Lakehurst, New Jersey whose ?Principal Occupation During Past 5 Years? was listed, simply, as ?Retired.? Anyone looking for full, true and plain disclosure of Lear?s background - in order to assess what strength(s) she brought to the company?s management ?asset? mix - could read this expanded explanation under the ?Management and Key Personnel? heading in the company?s prospectus: ?Mrs. Lear has been retired for over 25 years and as such focuses her time and attention on her own business affairs.?

Rounding out this eclectic roster was director Elizabeth Brightman, of King of Prussia, Pa. Brightman was identified as being the director of sales and marketing for TVSM, Inc. -- ?a Private marketing consulting company? -- since 1989 and prior to that (1987-1989) as a marketing representative for Triangle Publications, also ?a Private marketing consulting company. ?. (Subsequent to YBM/Pratecs gaining a public listing, TVSM was described as a ?telemarketing company? and Jay Brightman, a CPA living in King of Prussia, was identified as the Vice-President of Finance for the private YBM Magnex, which had merged with Arigon, and as a ?financial consultant to Magnex RT since 1993.?)

So, at the time of floating its soon-to-be-titanic public venture, taken at face value, Pratecs/YBM had on board: an experienced high-tech manager and ex-professor of magnetics (Bogatin); an entrepreneurial accountant (Ventresca); a real-estate salesman and former tout of a discredited golf machine company (Schmidt); a marketer of fish oil, real estate and failed public ventures ranging from mining projects to hair care (Davies); a computer programmer (Rabovetsky); a veteran retiree minding their own business (Lear); and a marketing consultant of some sort (Brightman, of the distaff side).

End of Part 10 - 27/07/98 -

YBM Magnex: Securities Industry Due Diligence in a post-Bre-X Market - Part 11 - The case of the collective unconscious

Word that representatives of Deloitte & Touche, L.L.P., recently resigned as auditors for YBM Magnex International, are unwilling to appear at an upcoming Ontario Securities Commission hearing means that the field of public vision offered by such a process, already narrow, has shrunk some more.

The Financial Post?s Sandra Rubin has revealed in two recent articles that Deloitte & Touche is concerned that its testimony before the OSC might be used in lawsuits by investors holding devalued YBM shares -- halted since May 13 1998. Consequently, the hearing, adjourned several times already, is now scheduled to commence on August 19 and run for only three days - well short of the originally anticipated two week session.

Counsel for YBM, Joe Groia, a former senior OSC official, told the Post that ?it would be extremely difficult for either side to prove its case without Deloitte.? Indeed, while there remain a myriad of unanswered questions about the company?s affairs, the notice of hearing originally issued by the OSC on May 13 restricts itself to those issues related to D&T?s 1997 year-end audit of YBM.

On March 19 1998, YBM Vice-President Jim Held told the news-service Canada Stockwatch that Deloitte & Touche was ?finished with the 1997 audit and I don?t know what really more to say about it.? Despite Held?s assurance that YBM?s ?big six public accounting firm? had ?finished? its 1997 review, there was really much more to say - and days later, on March 23, Deloitte & Touche raised its serious concerns before YBM?s audit committee.

Why did it take YBM until mid-May to disclose to the public that the 1997 year end audit had been suspended? Why did YBM release its first quarter 1998 results to investors during this period of audit suspension -- even though Deloitte and Touche was concerned that ?one or more illegal acts may have occurred? which may have a material impact upon such financial statements? What did YBM management tell various fund managers and securities analysts privately (in conference calls and meetings) about the Deloitte & Touche review? These are among the questions that might be answered in detail at a regulatory hearing limited to audit-related issues.

Deloitte?s re-audit of YBM?s 1996 year-end financials, prior to the OSC?s acceptance of a prospectus that cleared the way for the issuance of more than CDN $100 million in shares, raised enough red flags to alarm a market-wise observer. (It was this re-audit that prompted my first YBM article in Canada Stockwatch, entitled ?Unusual corporate affairs leave YBM Magnex analysts and investors happy.?) But evidence that the company had been misleading in its public disclosure about sales growth in North America, and that the company was engaged in questionable oil dealings did not, apparently, trouble those professionals in position to direct other peoples? money into YBM stock. (Nor did these players, some of whom publicly praised the quality of YBM?s management without providing any basis for their viewpoint, express any discomfort with the dubious Canadian public company track record of long-time directors Michael Schmidt and Kenneth Davies.)

Following publicity of the U.S. federal government?s ?Organized Crime Strike Force? raid of YBM headquarters and its criminal probe into suspected money laundering, securities fraud and customs and immigration violations, however, numerous Canadian fund managers and securities analysts have broken with tradition. Instead of climbing on each others backs to shout, ?Give me a Y, give me B, give me an M, give me a Y-B-M!!!?, members of the Bay Street cheerleading squad can now rarely be heard talking about YBM for the record.

A few have put down their pom-poms to adopt more dignified poses. ScotiaMcleod ?special situations? analyst, Rob McConnachie, (formerly with Canaccord Capital and Marleau Lemire Securities), has been admiringly referred to in print as a securities ?super sleuth? - ?sort of like a Columbo.? The Columbo character, played so well by actor Peter Falk, always managed to help people and solve the mystery - discerning the truth after following an often confounding trail of clues. Yet McConnachie?s reports saluting YBM Magnex and an earlier, scandal-plagued, company, Cycomm International, fail to note tell-tale signs of trouble with the background of these companies and their management. These cases of curiously lacking due diligence make it look more like Hollywood script-writers mixed up Peter Falk?s lines with those of another fictional role model - like, say, Alicia Silverstone?s character in ?Clueless.? Michael Soni (michael_soni@scotia-mcleod.com) is on a team of money managers and makes stock recommendations through an internet site known as TheStreet.com (@ http://www.thestreet.com). Soni and his partner, Greg Guichon, had pitched YBM to investors on-line earlier this year (but without using the megaphone tactics favoured by some of their peers). After the U.S. feds? raid they remarked of their YBM pick: ?It looks like we got sandbagged on it.?

The reportedly ?wily? and ?savvy? Vancouver-based money manager Wayne Deans (an enthusiastic booster of Bre-X Minerals when it was trading over $170 per share), has been less direct, or consistent, with post-raid self-appraisal. Deans, of Deans Knight Capital and portfolio manager with the Navigator Value Investment Retirement Fund and other mutuals that bought into YBM stock based upon somebody?s definition of due diligence, appears to have so often, or expediently, changed his story on YBM matters, it?s not clear what he may really believe. If Rob McConnachie?s output finds him compared to television or movie actors, Deans? method may be better likened to that of a politician who?s stumping with his wet finger in the wind.

Still other YBM fans (all-stars like Steve Misener from BPI and Allan Jacobs of Sceptre funds, alongside analysts at Griffiths McBurney & Partners and elsewhere) have become quieter than a razorback clam (known in Vancouver marker circles, unscientifically, as Harry Mollusc little rascalus). Peter Sklar, the Toronto brokerage analyst who was stoutly recommending YBM stock until hours before dozens of U.S. government agents swarmed through the company?s offices, has now placed himself under a dome of silence at Nesbitt Burns. (Another still-employed-but-not-talking Nesbitt analyst, Egizio Bianchini, so impressed the principals of the TSE?s biggest 1997 gold fraud, Bre-X Minerals, that they proposed to name a non-existent ore zone on their Indonesian property after him.) Former First Marathon Securities YBM-hypester, Kaan Oran, is now more quietly working for Vancouver money-managers Connor, Clark & Lunn Investment Mgmt. - who saw upwards of CDN $48 million of their clients? money flow into YBM Magnex securities last year.

(Wayne Deans and representatives of Connor, Clark and Lunn are among those identified as ?Mentors? to the members of the University of British Columbia?s Portfolio Management Society. Someone is guiding the students into interesting stock-picking territory - the UBCPMS fund found its way to YBM Magnex.)

Those questions surrounding YBM Magnex that could most acutely, and potentially, embarrassingly, reveal the level of due diligence and extent of knowledge of Canadian stock brokers, analysts, fund managers and even securities regulators will not receive a full airing in any hearing that remains narrowly focussed on YBM?s audit, and related disclosure, problems.

In a pair of articles published in June 1998, journalist Ted Alden revealed in The Financial Times of London that world experts in rare earth materials applications say there is no known commercial use for an oil desulphurisation process which YBM claims generated sales of more than US $20 million in fiscal 1996.

How almost one-quarter of the public, former TSE-300-listed, company?s revenues could be accounted for by a phantom process is one question that may not be answered publicly outside of a courtroom. Deloitte & Touche, (which audited the 1996 statements reporting the million$ in oil-related revenues), Ontario securities officials (who were warned by industry experts before approving YBM?s 1997 prospectus that the oil desulphurisation claims could not be substantiated), and YBM Magnex (the primary publisher of the questionable claims and sales figures) would each be obvious parties to examine with respect to this significant issue.

The Financial Times? Alden has reported that the experts who dispute YBM?s multimillion dollar claims to be desulphurising Ukrainian oil with a neodymium powder byproduct include: ?Fred Jones, a 35-year consultant to the permanent magnet industry; John Creighton, development specialist with Grace-Davidson, a large commercial supplier of rare earth materials to the oil industry; Tom Halford, director of process and technology for Petro-Canada?s refining division; John Giesman, gas project manager for Universal Oil Products, the world?s largest seller of licensed technology to oil refineries; and Barry Kilborn, formerly of the rare earth producer Molycorp, who is regarded as the world?s foremost expert on uses for rare earth materials.?

As well, the Times reported: ?A comprehensive literature search by the centre for rare earths and magnetics at Iowa State University, the major clearing house for information on rare earth applications, turned up no reference to the procedure. YBM has not provided evidence to substantiate its claims.?

Of course, Ontario regulators have placed themselves in a very awkward position to openly pursue such a potentially devastating aspect of YBM?s public disclosure. It?s already been publicly disclosed in The Financial Times that Canadian market officials knew YBM?s oil-related claims contrasted with the scientific record - and, still, they went ahead and approved YBM?s 1997 prospectus financing (for a CDN $52.8 million share offering plus a CDN $48 million debenture conversion).

It?s possible that the regulators themselves could be held legally responsible for failures in connection with their review of YBM Magnex. The Financial Post has reported that Ontario regulators knew about the investigation by U.K authorities into the Russian organized crime links to YBM Magnex - before they allowed the company?s shares to be listed on the Toronto Stock Exchange. The Post?s Sandra Rubin has quoted statements of Michael Walsh, a Vice-President of First Marathon Securities, that suggest his firm and other Bay Street brokerages were also aware of the British police investigation that resulted in Russian mafia godfather Semion Mogilevich being barred from the U.K. and his organization, and all bank accounts under U.K. jurisdiction, being shut down in mid-1995.

At the same time that Mogilevich, AKA ?Uncle Seva?, and his associates were being run out of England, a central vehicle for their operations, Arigon Co. of the Channel Islands, was in the process of gaining a public listing in Canada on the Alberta Stock Exchange. A series of inter-locking corporate moves resulted in Arigon and its subsidiaries, Arbat International of Moscow, and Magnex Rt of Budapest, Hungary, being absorbed, together with a newly created private U.S. company, YBM Magnex of Pennsylvania, into an ASE ?blind pool?, Pratecs Technologies. Like so many parts of a matrioshka, (the Russian dolls that stack cleverly one inside each other), this multi-layering effect encased these core entities within a shell that was then renamed YBM Magnex International.

The public record indicates that regulatory officials in, both, Alberta and Ontario knew of police investigative work and international intelligence reports linking the Russian mafiya to Arigon/Magnex/Arbat/YBM prior to them allowing the company to gain a public listing on stock exchanges in their respective provinces.

When, in May 1998, Special Agents for the FBI and U.S. Customs Service obtained a warrant to search YBM?s Newtown, Pa. headquarters, the items they were authorized by the courts to seize included those records and documents relating to YBM Magnex International, Magnex Rt, United Trade Limited (YBM?s Cayman Islands subsidiary - under Mogilevich?s Arigon co-directors Igor Fisherman and Sandorne Bodonyi -- to which the assets of Arigon had been transferred before Arigon was dissolved voluntarily on April 10 1997), YBM Magnetics, Inc., YBM Technologies, Crumax Magnetics, Arbat International (sold to an unidentified purchaser by YBM in the first quarter of 1996) and Arigon Co. from January 1993 to the present.

By at least mid-1995, (the period during which Pratecs/YBM issued press releases that failed to provide full, true and plain disclosure of the U.K. investigation into Arigon, Mogilevich et al), Canadian authorities were in possession of information that provided a reasonable basis for them to consider how the public interest would be served if Arigon was allowed to be floated here. And beginning in 1995, public record documents -- including incorporation files, court records, regulatory filings, and news reports - have been available that would enable any stock broker, securities analyst or fund manager to piece together the history of YBM Magnex and its notorious connections.

With a particularity and clarity distinct to the Bre-X affair, the YBM scandal also points to the insidious nature of Canada?s stock markets today.

Bre-X was a hoax - a classic, and unoriginal, gold mining ?salt job? that made it into the stratosphere of TSE stocks fuelled by Bay Street?s promotional network of brokers, analysts and fund managers. It may be inexcusable that those in the profession, and profiting from Bre-X, neglected or failed to properly inform investors of Bre-X founder David Walsh?s history of public misrepresentations and failed ventures, or of regulatory violations by his close associates, or of the lack-lustre drilling history of Bre-X?s Busang property, or of the company?s unusual practices of not saving drill core etc. etc. But, Bre-X boosters could argue, even a disreputable, or controversial, penny stock promoter like Robert Friedland succeeded in locating a ?world class? major metals deposit. (Though, as Inco is now demonstrating with the Voisey?s Bay nickel deposit -- bought at top dollar from Friedland?s Diamond Fields Resources -- there can be a big difference between an ore body and a mine.) The gold was there at Busang (at least in the eyes of Nesbitt?s Egizio Bianchini and other Bay Street pros), and, hey, why couldn?t Walsh and his circle of rounders transcend their pasts as nickel-and-dime losers and cheats and beat the odds to discover the biggest gold deposit in the history of mankind?

And, as it turns out, the wizards now claim to have been fooled by the criminal genius of the Bre-X fraudsters. (If Columbo had to face such brilliance in one of his tv episodes, it?d have been over before the first commercial break.) Anyway, don?t?cha know, it was that geologist who fell out of a helicopter and his Filipino pals who plotted it all out in secret. Yeah, that was it. Who could know?

History means nothing.

The masters of the Bay Street universe chose to collectively ignore the past and pretended to repeal the stock market?s natural laws of gravity, suspending common sense along with Bre-X?s ever-inflating stock price and boasts. Their position may not be supportable under the weight of scrutiny, but some caught up in the Bre-X scandal, the smoke-and-mirrors product of a beer-bellied stock promoter and his cronies, claim that it was an impenetrable, ?inside job,? that duped them.

There appears no such handy rationale that would easily explain similar financial industry behaviour in the YBM scenario. No one has suggested that YBM is a complete hoax a la Bre-X, but nor can industry professionals snared in this latest TSE scandal successfully argue that critical issues which mire the company in controversy today were unknowable. On the track of YBM-related matters the public record was littered with yellow and red flags.

If one chooses to believe international police intelligence - in place of what passes for intelligence in the brokerage community - YBM, a company dealing in magnets, bicycles, oil and more, is a manifestation of organized crime.

By 1995, British investigators had concluded that Arigon director and YBM vendor/shareholder, Semion Mogilevich, ?is one of the world?s top criminals.? Mogilevich?s associate and sometimes partner, Russian mob boss Sergei Mikhailov, AKA ?Mikhas?, was, effectively, put on ice the following year by Swiss police. Mikhas, a leader of the Solntsevskaya, Russia?s most notorious mafiya group, (and also linked to Arigon by international police and news reports), is currently in custody on charges of being a member of a criminal organization and money laundering.

(Mikhas was collared at the Geneva-Cointrin airport on October 15 1996. Shortly afterward, Ogonek, a major Russian weekly news magazine, published a lengthy feature on the mafiya and Mikhailov, noting: ?The current arrest of Mikhailov in Geneva after two years of quiet and measured existence in a little Swiss village, in the opinion of some officials of the Russian Ministry of Internal Affairs, means only one thing: the special services of the whole world have decided that Russia cannot cope with its own organized crime, and have begun to pick off its leaders beyond Russia?s borders.?)

Mogilevich, according to police reports, is considered to the leader of Russian organized crime in Hungary and the Czech Republic. Mikhailov?s organization, AKA the Sons of Solntsevo, has main bases in Austria and Antwerp, Belgium. Reports in Europe have, for years, linked both men, and their associates to Arigon and related entities Arbat International and Magnex Rt. (Published newspaper and magazine etc. reports about the Russian mafiya would be accessible to Canadian brokers and analysts et al, while certain police intelligence reports would, under standard circumstances, be provided only to regulatory officials. It can reasonably be expected that, in the normal course of due diligence discussions between regulators and brokers, troubling matters raised in certain confidential documents would be canvassed.)

Veteran investigative reporter Michael Gillard and David Connett of The Observer have reported that a confidential 1995 British police report, (available to Canadian authorities), alleged, at the time Arigon was going public on the ASE through Pratecs/YBM, that Canada was ?used purely to legitimise the criminal organisation by the floating on the stock exchange of a corporation which consists of the UK and USA companies whose existing assets and stocks have been artificially inflated by the introduction of the proceeds of crime.?

So, what happened?

The brokerage establishment was, or could easily have made itself, explicitly aware of YBM?s dangerous elements. (Even if these professionals, somehow, convinced themselves that recurring European reports of organized crime and money laundering activities were not to be believed, then, logically, the existence of such public records surely still posed an investment hazard in the eventuality that they?d be discovered by persons on this side of the Atlantic.) Yet, each cell of the organism - regulators, brokers et al -- failed to fully inform the public as to the investment risks. Instead, each worked, in its own way, to facilitate and nurture the growth of a stock deal that has now blown up into an international scandal and - like a trick cigar - blackened Canada?s face.

There are various dishonest features common to the securities markets in Canada. But the level of systemic corruption in the ?Wild East? is unparalleled.

?Russia has become what President Yeltsin termed a ?superpower of crime? not merely because of the absence of adequate laws or the supposed robber baron period through which some apologists say is a natural stage of economic development, but because of the inherently corrupt nature of its law enforcement, security organs, and intelligence services. Paradoxically, it is those very organizations upon which the Russian government, the Russian people, and the West are relying to fight corruption and organized crime. The mafiya is flourishing on the vast resources of the former KGB. There are indeed capable and honest professionals in those services, as shown by those whose careers and even lives have been sacrificed. These individuals, however, do not control the services today, and without political will at home and pressure from abroad, they are unlikely to for the foreseeable future.?

This synopsis is excerpted from an essay, ?Russia?s Great Criminal Revolution: The Role of the Security Services?, by J. Michael Waller and Victor J. Yasmann, published in The Journal of Contemporary Criminal Justice (Vol. 11, No. 4, December 1995). Yasmann later commented: ?In the West, the mafia operates at the margins of public life, but in Russia, organized crime includes a significant portion of the Russian political elite and of the very people who are supposed to be fighting the criminals.?

In Canada, the people who, in terms of the financial markets, are supposed to be safeguarding the public interest may be more negligent or na?ve than corrupt. Perhaps, once a regulatory agency or brokerage, money management etc., syndicate has inured itself to the prospect of Russian organized crime elements being associated with a public company in which they maintain a stake (as overseers, underwriters etc.), then the possibility that the same company may be misrepresenting its technology and/or multimillion dollar sales figures can be deemed to hold little down-side.

Whatever be the explanations (recorded in public or private) for how, or why, securities professionals have handled YBM Magnex up until May 13 1998, they?re not likely to be explored with vigor by those who represent the establishment of Canada?s senior stock market.

In any event, historically, it?s rare for substantial results to emerge from investigations conducted by the nation?s passive and reactive provincial agencies. No matter how dedicated or intelligent may be some individuals within such organizations, political dynamics and bureaucratic inertia stifle initiative and blunt the regulatory sword.

Once more, it will, primarily, be up to class action lawyers, journalists or other investigators to illuminate the mechanics and context of this affair for the average member of the public. (It?s expected it may be some time before the FBI or other U.S. agencies issue any public statements with regard to their criminal investigation.) A probe that cuts to the essence of regulatory and brokerage industry standards in this country could be more damaging to the reputation of Bay Street than it is to YBM Magnex.

Questions have already been raised by this continuing series of articles entitled ?Securities Industry Due Diligence in a post-Bre-X Market? and by the solid work of numerous journalists covering the YBM story. And there are still many questions that need be asked - or repeated.

The building blocks of a scandal can be traced from the earliest days of public filings made by Pratecs/YBM with the Alberta Securities Commission and ASE in 1994 and 1995 - when

Semion Mogilevich and associates planted their corporate flag on North American soil.

Why did Yorkton Securities vice-president, and former ASE Chair, Michael Prew certify as representing ?full, true and plain disclosure? a Pratecs/YBM prospectus that omitted disclosing the role of Michael Schmidt with the golf machine stock scam, Technigen Corp.? (As well as being an original, and present, director of the public YBM, Schmidt held trading authority over the account of a major YBM shareholder, Anix Investment Club - a partnership of Vladimir Guberman and Mogilevich associates Konstantin Karat and Igor Fisherman.)

What was Jean Lear of Cedar Glen West, Lakehurst, N.J., an elderly retiree who?d spent years minding her own business, doing as Vice-President of a Canadian-listed public company?

Who was ?William Feldstein, B.Sc., M.B.A.?, (author of a ?project analysis? used by YBM in going public on the ASE), and how could he claim (as the company reported he did on May 4 1994) that YBM?s ?precursor corporations? Magnex Rt, YBM Technologies Inc., and Arigon Company Limited were all ?large, Eastern-European-based companies complete with their own significant histories, proven product lines, and market niches??

Why did Pratecs/YBM, in an information circular issued in late 1994 while approval was being sought for the takeover of the Arigon/YBM group, state that ?YBM?s Canadian sales were roughly US $1,500,000 and US $2,000,000 in 1992 and 1993, respectively? - when financial statements released after Arigon et al had gone public revealed that Canadian sales for 1992 and 1993 were exactly US $0 and US $0, respectively?

And why didn?t market regulators, stock brokers or money managers raise public questions about these or other curiosities, inconsistencies, discrepancies, omissions, and misrepresentations found in the public disclosure record?

In a feature news article published in May 1998, Gyorgi Kocsis, an editor with HVG, Hungary?s leading political and economic weekly, has pointed out that YBM?s locally-based subsidiaries, Magnex Rt (magnets) and Schwinn-Csepel Rt (bicycles), are marginal operations in Budapest based upon the companies? financials published in Hungary. How, HVG asks, do these enterprises form part of such a profitable money-machine once the marketing and sales arms of Arigon/Arbat (and, since 1997, United Trade Limited of the Cayman Islands in place of Arigon) are factored into the equation?

On May 8 1998, YBM Magnex, listing as its contact VP Jim Held, issued a press release that reflected, with perhaps unintentional irony, some of the complications facing the company. In reference to delays with the Deloitte & Touche 1997 year-end audit, the company stated: ?Management attributes the extensiveness of the audit and the requirement for this review to the fact that business practices in the company's major market, Eastern Europe, differ from those in North America due to the relatively early stage of development of the Eastern European market economies. Management believes that as the company's business becomes further diversified, as it has with the acquisition of Crumax Magnetics in the United States and Philips

Rare Earth Permanent Magnets in the United Kingdom, and as the economic and social climates in Central and Eastern Europe are better understood, such scrutiny will dissipate.? Five days later, plainclothes agents for the FBI, IRS, Customs, Immigration and Naturalization Service and the U.S. State Department raided YBM?s headquarters and seized records for scrutiny.

Shortly before the raid, while he was still talking to the press, YBM?s Jim Held provided the first public record explanation of some of the different business practices encountered in Eastern Europe -- offering some insight into dealings that had never been described in the Bay Street analysts? share recommendation reports, or in YBM?s own literature. On May 12 1998, The Financial Post quoted Held saying of Russia and the Ukraine: ?These are cashless societies, nobody gets paid in cash - not the army, not anyone. You barter or you use a trader or middleman who gets you cash through a series of product exchanges, and you pay him a percentage like an outside salesman.? In a subsequent article the Post outlined one recent bartering transaction, as presented by Held, in which a broker swapped magnets for small motors, which were then traded for food processors, which, it turn, were replaced with canned meat, which was then sold for cash to a car manufacturer that used the tinned meat to feed and pay its staff.

(This and other Post coverage of the YBM story has been greeted by libel notices from Cassels Brock & Blackwell, the law firm of just-resigned YBM director, David Peterson - a former Ontario politician of mixed repute. However, unlike other stock market-related entities upset by media coverage in Canada, the company has not filed a statement of claim so the seriousness, or intent, of YBM to follow through with any legal action is uncertain. Shareholder legal actions against YBM are anticipated, but, as yet, none has been filed. Bizarrely, the fact that some 40 percent of YBM?s shares are held by Canadian mutual funds - and an untold percentage rest in the hands of U.S. and international funds - appears to be limiting the outcry over the YBM scandal. Fund managers, who may have their own reasons to fear lawsuits, are not anxious to pursue legal remedies on behalf of those investors whose million$ they?ve put at stake.)

However different business practices may be in Eastern Europe or the former Soviet Union, there has not been a shortage of quizzical YBM-related activities uncovered in North America in the three months that have elapsed since the U.S. government raid and the company?s shares stopped trading.

The Globe and Mail?s Karen Howlett, proving herself much more of a sleuth than ScotiaMcLeod?s ?Columbo?, Rob McConnachie, or his peers in the stock-picking racket, has disclosed that Ken Davies, another of YBM?s long-time directors, realized a profit of CDN $245,700 when he dumped out most of the YBM shares held in his name before the public learned that Deloitte & Touche had suspended its audit amid serious concerns about the company?s affairs. (There is no indication, as yet, whether or not the OSC plans to pursue this as an insider trading case.) When Davies was asked if he held stock through other companies (i.e. nominee accounts), he told the Globe: ?I can?t disclose that.?

The Vancouver Sun?s stock market reporter, David Baines, has revealed that, over the prior 18 month period, YBM?s President Jacob Bogatin transferred shares, with an aggregate gross value of CDN $6.8 million at the May 13 closing price, to G. Bogatin, ?presumably a relative?, and persons unknown. ?The effect of these dispositions was to remove 473,184 free-trading shares, or 48 percent of his holdings, from his name to third parties who did not report their acquisition of those shares or any subsequent disposal,? said the Sun. Bogatin and YBM?s latest spokesperson, Guy Scala, did not return the newspaper?s telephone calls to explain the purpose or nature of these unusual, off-market, transactions.

Bill Yingling, situated near ground zero for the U.S. Organized Crime Strike Force?s raid on YBM, writing for The Bucks County Courier Times, broke the news that Jacob Bogatin?s 26-year-old nephew, Michael Kogan, is President of an obscure brokerage firm, Jefferson Gersch Inc., that?s recently run afoul of securities regulators in Pennsylvania and Maryland and is being wound down by Kogan in all states where it?s registered. Stranger still, for six months, (beginning in mid-1996), Kogan?s short-lived stock-shop was housed under the roof of YBM?s Newtown, Pa. headquarters. (ASC-filed documents identify Roza Kogan, relationship unknown, as one of YBM?s original shareholders along with Bogatin, Mogilevich and others.)

Questions about these matters, and other non-audit-related issues that shroud the YBM affair, await public answers.

On August 10 1995, Britain?s Home Secretary signed an order excluding Russian organized crime leader Semion Mogilevich from the United Kingdom.

On this date, August 10 1998, the OSC was to begin a regulatory hearing into YBM Magnex International, the public company spawned by Mogilevich and associates through the Arigon group of companies.

In the ?Keystone state? of Pennsylvania, where YBM/Arigon came to land, there?s a saying that?s promoted: ?Memories last a lifetime.?

In the dysfunctional state of Canada?s securities markets, where YBM stock came to be promoted, memories are much shorter.

End of Series - 10/08/98 -

VSE brass magnetized by ASE shell success

Not too many years ago the shell business on Howe Street enjoyed a negative reputation. It wasn't just the media, most infamously Forbes magazine which crowned the Vancouver Stock Exchange "Scam Capital of the World" in 1989, but even local market supporters such as ex-Superintendent of Brokers Rupert Bullock were highly critical of the "flood of paper" swamping the VSE.

From the mid-1980s to the early 1990s, numerous observers pointed out that by allowing a preponderance of shells, companies with no significant assets or business operations, to remain on its board, the VSE was open to continuing abuses. To raise standards and restore some of its lustre as the world's "venture capital capital" the VSE proposed a crack down on the trade in shells - promotional vehicles that have no real value apart from their listing status on a public exchange - and to focus on listing genuine junior companies with assets.

But the VSE has lost much of its Canadian market share since the golden days of Hemlo and other mining successes. Long before Michael Johnson became president and brought his talk of "zero tolerance" to the exchange, the VSE's importance, relative to the country's other exchanges, had dwindled. In the early 1980s, the VSE captured 40 to 50 percent of Canada's overall share trading volume and between six and 11 percent of total value. By 1995 these numbers had shrunk to less than half, as the VSE accounted for 20 to 25 percent of overall volumes and only three to four percent of aggregate value. Even in the boom times of recent years, while markets worldwide have hit successive record highs, the VSE index has only managed to reach a level 35 percent below its previous peak of more than 2000 points. Today the index sits at only 621 points.

Johnson has said that his exchange is not in competition with other markets such as the similarly speculative Alberta Stock Exchange, and that each has their own special niche. Still, the tremendous loss of business suffered by the VSE as new companies choose the ASE, TSE, Nasdaq and other forums over it, has not been welcomed by VSE brass and member brokers.

In an effort to win back some of the business that now flows steadily elsewhere, especially over the Rocky Mountains to the ASE, the VSE now proposes to return to the shell game in a big, and better, way. Although some Vancouver Exchange officials have been told not to speak about it, a major initiative has been underway for some time to adopt Alberta's Junior Capital Pool program locally.

The Alberta experiment with JCPs, or "blind pools", began auspiciously in 1986 with Audit Resources. Audit was a shell company that shared brokers and promoters with VSE-listed Hi Peg Resources. Both companies were fraudulent vehicles that met sorry ends, bringing down with them an Alberta brokerage firm, First Commonwealth Securities, and a good old boy from Arkansas, Floyd Leland Ogle, who did jail-time for his part in manipulating Audit shares on the ASE.

But since the days of Audit the JCP program has brought the Alberta exchange and its members more dollars than dishonour. With a trend of Canada's western markets toward viewing with pride their roles as "stepping stone" exchanges - leaving stars such as Bre-X Minerals to graduate to the TSE and Bay Street once they've found their legs as juniors - the Junior Capital Pool concept is especially appealing.

By giving entrepreneurs a chance to launch blind pools in BC, the VSE hopes to attract many new companies that would not satisfy its present listing standards. A JCP is a legally incorporated entity that has no significant assets or business and no agreement in place to acquire any such assets or business. Such a structure, in the view of VSE brass today, provides entrepreneurs with unique opportunities to enter the marketplace. This is the same characteristic that used to worry market officials and observers.

But the lure of Junior Capital Pool monies is a powerful magnet. Eyeing the success of their counterparts at the ASE, the VSE takes the position that shell quality can be maintained by ensuring that management has a successful history of involvement with public companies. In essence, the VSE believes, the successful track records of JCP directors will be the only assets upon their listing of these good-for-business shells. A look at how this formula has succeeded with Alberta JCPs is a mighty powerful argument in their favour for some.

One of the latest stock market winners to swim out of the ASE's shell-cluttered pool is YBM Magnex International, originally incorporated as Pratecs Technologies. On July 18, 1994 Pratecs became a Junior Capital Pool corporation under the regulations of the Alberta Securities Commission. On July 27, just nine days later, Pratecs entered into a letter of intent to merge with YBM Magnex and its subsidiaries. Under Alberta rules a JCP has up to 18 months to complete its "Major Transaction" and gain assets but the quick-out-of-blocks team at Pratecs/YBM were on course before their shares began public trading on the ASE on August 3, 1994.

YBM's history exemplifies the benefits of having directors on board with a background in junior public companies. While most of the original Pratecs directors were initiates to the world of penny stock promotions, the company started out with two directors that boasted a public company track record and remain with YBM today as the magnet/bicycle/diesel oil and more venture climbs to the $1 billion market cap level on the TSE.

YBM director Michael Schmidt is described in the company's literature and on its web-site as an "independent businessman." An original director of Pratecs, Schmidt, a resident of Burnaby, BC, honed his public company skills through handling investor relations for a Saskatchewan-rooted VSE promotion, Technigen Corp. Technigen was a VSE high-flier that reached $16 a share in 1987 based upon the company's false claims to have sold more than $100 million in computerized golf-driving ranges to a Swiss entity, Corporacion Relacio S.A. It turned out that the Swiss company was really the front for a Panamanian-registered shell whose only known representative was an ex-convict stock swindler from Maple, Ontario, named David Charles Stuart. Schmidt appeared at Technigen's 1997 AGM at a Vancouver hotel most upset with press reports questioning the company's legitimacy. At that time he presented himself as an independent shareholder. Technigen's president, Larry Nesis, was subsequently banned from the BC market by securities regulators over his golf machine lies. Mike Schmidt became Technigen's investor relations representative after the stock promotion was exposed publicly as a fraud. By the time he joined Pratecs board years later, Technigen stock was trading OTC in the US for pennies a share.

YBM's other director with a track record upon the JCP being listed is Kenneth Davies, a citizen of the world identified by the company as "Principal Montello Resources Ltd." In 1993 Kenneth Davies and his wife, Ann, were the original shareholders of something called the International Diamond Syndicate which failed to sparkle in efforts to locate or develop diamond prospects in the Northwest Territories through arrangements with various VSE listings. Also in the early 1990s, Davies, along with his daughter Jeannine, was aboard VSE-listed Golden Rainbow Resources which failed in ugly fashion to become a producer and marketer of "quality hair care and beauty aid products." During this time, the entrepreneurial Kenneth Davies billed himself as the representative of Pacific Coast Fish Oil, Processing and Sales Inc. of Blaine, Washington and a specialist in "Real Estate Acquisition, Financing & Development."

YBM Magnex specializes in sales of products to unidentified end-users in Eastern Europe (and, in particular, Russia and the Ukraine). Perhaps the experience most relevant to Kenneth Davies' YBM post, and certainly the only one mentioned by YBM on its web-site, is his years acting as a consultant to controversial Montello Resources. Davies was involved with ASE-listed Montello in the early 1990s when the company was hyping plans to acquire an interest in an airplane manufacturing entity in Europe identified as Promovia SA. Financing for Promovia, described as a maker of trainer jets and other aircraft, was to be helped along by Salim Rana, an associate of Kenneth Davies who was also involved with Golden Rainbow's botched hair care enterprise. (At last public report, Rana was under R.C.M.P investigation in connection with an alleged theft and fraud involving GHK Resources Ltd. - see Canada Stockwatch dated April 12 1996). The Promovia affair (with a daisy-chain of links stretching from Tortola, BVI to Dublin, Ireland and beyond, including Swiss nominees Incagest and Univalor S.A.) proved to be extraordinarily messy and required lengthy public explanations by the company when it became grounded. By 1993 Montello stock was trading down to $0.02. The company was suspended by the ASE and trading was not allowed to resume for a full year. The dubious aircraft interests were sold to a former Montello principal "for nominal consideration" and the company took up mineral prospecting. Since returning to public trading in 1994, Montello has kept a lower profile and stock price and Kenneth Davies has added YBM to his resume.

Whatever quality directors a JCP can initially attract, a successful shell like Pratecs/YBM can entice even more high profile figures to its board once the promotion is up and running. In the tradition of past juniors such as Harvard International, the french fry finagle that had Canada's ex-Prime Minister John Turner on board when it fried investors, the magnet merchants have attracted ex-Ontario Premier David Peterson to their stable. In April of 1996, Peterson was granted options on 50,000 YBM shares exercisable at a price of $3.23 each. At todays closing price for YBM, David Peterson is enjoying a paper profit of more than $800,000.

When such rich rewards can be possible from a JCP, it is small wonder that VSE members would be anxious to get with the program. Whether Vancouver-spawned JCPs will more closely resemble Audits or YBMs only time will tell. - 16/03/98 -

Unusual corporate affairs leave YBM Magnex analysts and investors happy

YBM Magnex is the sort of success story that makes legends of shell creators on the Vancouver and Alberta stock exchanges. YBM's journey from Junior Capital Pool to today's $20 share price level has been a fascinating trip.

For over a year, the company and a supporting cast of Canadian brokerage analysts have been commenting upon YBM's rapid penetration of the North American permanent magnet market. A recent audit, however, has shown this penetration to be non-existent. Apparently, neither, this awkward fact, nor other curious elements of the successful promotion, has tempered anyone's enthusiasm. On Monday March 9 the company's shares closed at an all-time high of $19.90 on the Toronto Stock Exchange - giving YBM a market capitalization of close to $900 million.

In August 1996, YBM's vice president of business development, James Held, told Dow Jones News Service that U.S. revenue totalled U.S. $5 million for the first six months of the year alone. This was up sharply from U.S. $2.9 million for all of 1995. Held added that YBM was working on "several significant contracts" in the U.S. and Mexico and was close to securing a U.S. $2 million deal in Canada although he declined to provide specifics. Held pointed out that YBM does not provide earnings forecasts but the spokesman said he had no trouble with the numbers being churned out by brokerage industry analysts. Kaan Oran of First Marathon Securities gushed to Dow Jones: "The company has beat my estimates for the last three quarters."

Then, in October 1996, James Held reported that "YBM's strong results are due to a number of factors, including the continued penetration of the North American permanent magnet market which contributed approximately 15% of total sales through nine months, compared to 5% for the year 1995." YBM's 1996 annual report, (dated March 4 1997), again highlighted this significant growth in the North American market. The company's Philadelphia accountants, Parente, Randolph, Orlando, Carey and Associates, certified statements showing that YBM's N.A. sales had more than doubled between 1994 and 1995, from U.S. $1.4 million to U.S. $2.9 million, and then jumped to U.S. $13.6 million by year end 1996. According to these figures, since 1994, (when YBM began public life through an Alberta Junior Capital Pool RTO), and 1996, operating profit for North America had increased from just U.S. $7,000 to over U.S. $3 million. The only other region to experience such exponential growth in sales was the Middle East, where YBM reported 1996 sales of U.S. $3.3 million and operating profit of U.S. $1.2 million. Unfortunately, many of the figures were bogus.

Last fall, in order to satisfy Canadian securities regulators and clear the path for a large YBM prospectus financing, Deloitte & Touche LLP was called in for an audit. The company and its analyst promoters have been quick to point out that the review by Deloitte & Touche resulted in no adjustments to overall sales numbers, which is true. The rest of the truth, so far, is the explanation for "certain adjustments" that resulted from the audit.

Perhaps most significant among the unusual notes to the Deloitte & Touche audit has been the "reclassification" of the company's vaunted North American sales. Instead of U.S. $13.6 million sales in this market as originally reported by the company, YBM actually sold just $1.8 million in 1996 - a drop from the 1995 numbers. Similarly, N.A. operating profit has devolved - shrinking from a reported U.S. $3 million down to $600,000. Contrasting with previously published reports, the company's growing Middle Eastern sales and operating profit has been identified as U.S. $0.

Where did the sales go?

According to YBM management, this bizarre circumstance is the result of "certain geographic sales information previously reported based upon the location of the company's distributors" being restated "to reflect the "ultimate end user." When YBM executive James Held was touting major developments in North American sales deals to the press, apparently, he should actually have been talking about more sales in two of the world's most inhospitable business climates: the notoriously murky arenas of Russia and the Ukraine where the company concentrates the bulk of its activities.

Instead of showing an accelerating trend toward sales in U.S., Canada and Mexico, YBM's audited results show how the company remains dependent upon unstable and inflationary regions. For year end 1996 net sales were reported as being U.S. $90.3 million. YBM previously stated that European markets accounted for 81%, North America was at 14%, and the Middle East accounted for 4% of this total. In truth, North America accounted for just 2%, and Europe represented 98%. The Middle East figure was zero. Of the European amount claimed, 79% of sales were centred in the wild-west financial environment that exists in Russia and the Ukraine today.

How the company managed to mistake U.S. $15 million in Russian and Ukrainian sales is anything but clear. Nor is it evident what may be driving a tremendously multiplying demand for the company's magnets in Eastern Europe. Regardless, YBM management and Canada's financial analysts covering the high-flying stock, are confident that the North American thrust will be successful in future.

Likewise, some of the other jarring notes from the Deloitte & Touche report are billed as signs of past problems. The audit uncovered a "weakness in inventory controls" that YBM says can be avoided in future by "the implementation of a corporate wide information system" to "assist management in centralizing accounting controls." Triggering this recognition was a "non-cash adjustment to inventory and cost of sales of U.S. $5.2 million." The magnet company explains this circumstance came about after it provided US$5.2 million in diesel oil inventory to an unidentified distributor. "The contract called for payments to be made to the Company as such time as the diesel was consumed by end users and profits were realized." Company management blames its credit-good-to-the-last-drop of oil on the decentralized nature of its international operations and on its rapid growth.

As at December 31, 1996, YBM "had $3,000,000 of uninsured deposits in a Russian financial institution." But if this or any other financial notes should give pause to the casual reader of corporate statements, there's a stack of enthusiastic brokerage research reports that tell investors why YBM stock is about to break the $1 billion market cap level.

In a February 3 1998 buy recommendation, First Marathon Securities analyst Kaan Oran described how YBM had come "out of the forensic study by Deloitte and Touche with flying colours." That's a perspective likely shared by others. Vice president and director of First Marathon, Robert Owen Mitchell, also sits on the board of YBM Magnex.

As the company continues to report ever-increasing sales and earnings, the YBM bandwagon has become increasingly crowded of late. Early boosters included Rob McConnachie of Canaccord Capital (now with Scotia Capital Markets), Peter Sklar of Nesbitt Burns and Mike Middleton of Griffiths McBurney Partners. But in today's over-heated mutual fund driven market, there's always room for one more voice telling people what stock to buy. - 10/03/98 -

Contact:

Adrian du Plessis, Investigative Research Analyst