

Clausi on Giga Metals insiders riding the Reuters' Tesla story and the regulators who turned a blind eye

For background, you can't do better than read Chris Parry's excellent article here. To summarize, some insiders at Giga Metals Corporation (TSX.V: GIGA | OTCQB: HNCKF) exercised cheap derivatives (including stock warrants at \$0.08 and options at \$0.20), and a few short weeks later the stock magically sprinted to \$1.65, eventually topping \$2.00. Some insiders pounded bids and aggressively took millions of dollars out of the market into their own pockets.

Anthony Milewski, Giga's Non-Executive Chair and a board member, sucked over CAD\$6M out of the market on Giga's sprint. Giga's President Martin Vydra took close to \$2M out of the market as he sold sold sold. Chair Lyle Davis exercised his options on September 9. He then promptly traded his shares for other people's cash, to the tune of about \$124k. CFO Matt Anderson grossed 'only' \$142k out of the market. The Corporate Secretary Leslie Young got in on the exercising and the selling, taking over \$100,000 out of the market.

Pulled from Sedi.ca, here's a summary of their respective costs and the stunning profits realized:

	Milewski	Vydra	Anderson	Young	Lyle
Number of Warrants Exercised	1,500,000				
Warrant Exercise Price	\$ 0.08				
Number of Options Exercised	500,000	500,000	100,000	100,000	100,000
Option Exercise Price	\$ 0.20	\$ 0.370	\$ 0.575	\$ 0.10	\$ 0.10
Gross Proceeds on Sale	\$ 6,294,000	\$ 1,525,120	\$ 142,000	\$ 103,170	\$ 124,000
Net Proceeds	\$ 6,074,000	\$ 1,340,120	\$ 84,500	\$ 93,170	\$ 114,000

What happened to make the share price take off? An obscure journalist named Pratima Desai wrote an article, distributed with the credibility of Reuters behind her on September 10, alleging Giga was in discussions with Tesla Motors “...*about helping to develop a large mine that would give the electric carmaker access to low carbon nickel for its batteries, three sources familiar with the matter said*”. *The Globe and Mail* reprinted her story on **September 11**. *The Globe* and Reuters have a controlling shareholder in common so the reprint was normal course. Giga Metals moved up +184.48% that day.

The problem is, Desai’s story wasn’t accurate.

Does Giga have a deal with Tesla? Definitely no. How do we know? First, no deal has been announced – the absence of evidence is in itself evidence. Second, **Giga itself put out a news release on September 11th saying there isn’t a deal** (link here). Third, because any insider who exercised options while those material negotiations were underway would have been breaking insider trading rules. And lastly, from a human perspective, if negotiations with Tesla were that advanced with the future so bright they’d have to wear shades, the selling insiders would not have been bid bangers. So no Tesla deal.

There are a lot of weird parts to this story. Desai and Anthony Milewski, Giga’s Non-Executive Chair and a board member, have history involving a story she earlier wrote about his prior company, Cobalt 27 Capital Corp. Giga’s President Martin Vydra was actually quoted in Desai’s story, so he knew it was coming. Davis exercised his options on September 9, the day before Desai’s story hit the wire. And this isn’t an area Desai usually covers, so why did she write it and why did Reuters allow it to go to press? And why hasn’t Reuters withdrawn the story or apologized for shoddy reporting?

Chris Parry has been chasing Reuters for answers. In an email he shared with me, Reuters wouldn’t confirm or deny it had

verified Desai's anonymous sources prior to or since running her story. That's crummy journalism.

There are only three possible plotlines here that make any sense:

1. Insiders knew the story was coming and Desai was a willing participant in a market scam.
2. Insiders appear to have known the story was coming and Desai was duped into writing it.
3. Insiders were as surprised as everyone else by Desai's grossly inaccurate reporting, leading one to wonder why she wrote the story in the first place.

If you follow Chris Parry's Twitter feed you'll see an implied litigation threat from Milewski. Parry's response was "If you're coming, you better come strong, Anthony." Parry confirmed to me in writing on October 3 that he knows of no such litigation against him.

It's a strange mess, made worse by the fact it's not just bandits in this story. Good people work at Giga too, people with long credible histories in mining and the public markets. They are going to be tainted by this for a long time. They don't deserve it and they ought to be furious. They need justice.

Then there are the market participants who believed Desai's story and bought stock at elevated prices. **Those are real people who lost real money.** With the stock firmly on a downward trend and no Tesla deal, they need justice, too.

And 'the markets' generally deserve justice. A scam like this is so obvious it seriously undermines the public's faith in a fair and open market. **This makes Bre-X look like a George Clooney casino job.**

But from whom are they going to get justice? It's been almost a month since Desai's inaccurate story was published. We've

seen nothing from IIROC, the TSX Ventures Exchange, the British Columbia Securities Commission or any securities commission in Canada, the Ontario Provincial Police fraud squad, or the Royal Canadian Mounted Police. All have jurisdiction, no one seems to be doing anything.

Of the list, the most likely regulator to do anything is the BCSC. It has incredibly broad investigative powers given to it in sections 142 and 143 of the *British Columbia Securities Act*, powers that could be used to pitchfork through this manure pile. It can search premises, compel the production of documents, and, editing section 143(1)(e):

An investigator appointed under section 142 or 147 may, with respect to the person who is the subject of the investigation, investigate, inquire into, inspect and examine the relationship that may at any time exist or have existed between that person and any other person by reason of

- 1. investments made,*
- 2. commissions promised, secured or paid,*
- 3. interests held or acquired,*
- 4. the lending or borrowing of money, securities or other property,*
- 5. transfer, negotiation or holding of securities or the trading of or holding of derivatives,*
- 6. interlocking directorates,*
- 7. common control,*
- 8. undue influence or control, or*
- 9. any other relationship.*

Let's find out who the bad guys in this story are. Go ask some basic questions of the Giga insiders. **What was the relationship between Desai and any of the insiders at Giga?** When did the insiders find out Desai was writing the article and when did they find out it would be published? Why did all of you decide to exercise warrants and options at more or less the same time? **Was Giga ever in discussions with Tesla as**

alleged in Desai's article? Did Giga's board or governance committee have a meeting after Desai's article was published, and if so, where are the minutes? Follow the trades through IIROC and all registrants.

Ask Desai, who were your sources? (I don't expect her to answer that one.) What's your relationship with anyone at Giga? Please produce your drafts of the article. Did you contact Martin Vryda for the quote for your article, or did he contact you first? What motivated you to write this story? Were you compensated in any way for writing this article?

Have a session with Reuters. Did you verify the anonymous sources before you ran Desai's story? After? Without disclosing their identities, do you know who they are? Did you ask Desai why she decided to write a story out of her usual coverage area? When did she come to her editor / publisher with the idea for the story?

And finally, the BigFun, invite Tesla to answer whether it was in meaningful discussions with Giga at any time. Remember the BCSC has the legislated powers to make Tesla's life hell, and Tesla will want to engage rather have a repeat of its SEC battles.

Simple questions, the answers to which will show who the malfeasors are.

The BCSC has the best chance of bringing justice but the TSX-V has some authority here as well, though it (like IIROC) has to be careful not to punish the shareholders for someone else's sins. It has the authority to manage its own affairs including who is allowed to be an officer or director of a company listed on it, and it has a well-staffed compliance department. So investigate! If the bad guys are insiders, remove them and ban them from other companies on your exchange, too. Work with the OSC and the BCSC to have them permanently banned from trading in Canada's markets. Do proactive work to reach

agreements with Canada's other exchanges so that in the future in a case like this a ban from one is a ban from all. Think big and reach a similar reciprocal agreement with the *Securities and Exchange Commission*.

I don't have much faith in the other regulators. Look at the Bre-X mess that led to the creation of *National Instrument 43-101*. Even in that vast criminal enterprise, the only person ever prosecuted was John Felderhoff, and he was ultimately acquitted. The OSC put as much effort into fighting his lawyer (the bearded and wonderfully annoying advocate Joe Groia) as it did in the actual case against Felderhoff!

The exchanges and the commissions, despite having considerable power, make policy decisions not to get involved where they have to do too much work. Too great an investment of resources only to reach an uncertain conclusion and a likely appeal, they say. They would prefer law enforcement (OPP fraud squad and the RCMP) to investigate and take the perps away in cuffs, like in the United States. Jail time and massive fines are effective general deterrents.

Ultimately, I fear, the only 'justice' is going to come from class action litigation that will drag for years, cost Giga time and money, distract Giga from what it should be doing, punish the shareholders, and ultimately be settled under the company's D&O policy without any admission of liability. We may never know who the criminals are here.

Consider this a call to arms, a rallying cry, a challenge to the regulators and their own governing bodies. Don't put together yet another committee headed by a Bay Street lawyer for the sake of optics. Make real change. You know what the problems are so go fix them! Get more power and use it responsibly. Don't waste time on a broker who accidentally printed a blue ticket instead of a pink. Go elephant hunting. Work with law enforcement to coordinate investigations and share as much information as constitutionally possible.

Investigate, charge, prosecute. Repeat as needed. Nothing else will restore the public's faith in a fair marketplace.