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MARKETS

Canada Regulator Accuses Silvercorp Short Seller of Fraud

Regulator Alleges Jon Carnes Sought to Profit From Negative Reports About Silvercorp

By **KAREN JOHNSON**

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TORONTO—British Columbia's provincial securities regulator accused hedge fund manager Jon Richard Carnes of fraud when he wrote negative reports about Silvercorp Metals Inc. to profit from its falling share price.

In a statement Thursday, the British Columbia Securities Commission said starting in 2010, Mr. Carnes, who operates the "Alfred Little" financial blog, wrote negative reports about companies that traded on a North American exchange and operated in China. It alleges he sought to profit from his negative reports by shorting—or betting against—the issuer's securities before publishing the reports, and then covering his short position after the share price dropped in response.

The regulator alleges that around June 2011, Mr. Carnes, who lived in Vancouver and ran a hedge fund called EOS Holdings LLC, targeted Vancouver-based Silvercorp, which had silver mines in China's Henan province. One report, dated Sept. 13, 2011, and posted on his blog, suggested that Silvercorp had overstated the production, quality and resource estimates at one of its mines.

Reached late Thursday, Mr. Carnes said he denies the allegations and is working with an attorney to prepare "a point-by-point rebuttal."

"I am completely confident in the outcome and that my name will be cleared," he said.

The regulator said it plans to set a date for a hearing into the matter at a preliminary hearing on Feb. 4, 2014. The allegations against Mr. Carnes haven't been proven.

The regulator alleges that Mr. Carnes began building a short position in Silvercorp's shares by purchasing put options that expired on Sept. 17, 2011. It said it believes Mr. Carnes attempted but failed to find a mining expert to support his theory that Silvercorp's Chinese filings contradicted its North American regulatory filings for the company's SGX mine.

"With his put options about to expire," the regulator said, "staff maintains that Carnes wrote a false negative report about Silvercorp and published it anonymously on September 13, 2011 on Alfredlittle.com, a financial blog controlled by Carnes."

Silvercorp's share price fell 20% the day the posting appeared, wiping out millions in shareholder value. Mr. Carnes closed his short position in Silvercorp's shares by the next day, the regulator said, for a gross profit of almost \$2.8 million.

On the Toronto Stock Exchange, Silvercorp was trading at 12.44 Canadian dollars (\$11.64 currently) at the start of 2011, and closed at C\$6.20 on the day the Alfredlittle.com report was published. It recently traded at C\$2.42, close to its 52-week low.

"From the very outset, the company has always maintained that it was subject to a short-and-distort scheme and we are happy to see that the regulators seem to be taking action on this," said Lorne Waldman, senior vice president at Silvercorp.

In an interview, Mr. Waldman said the damage "to Silvercorp, Silvercorp's employees, Silvercorp's shareholders, Silvercorp's suppliers has been enormous."

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