

Claimant

Paul Careless

First Witness Statement

14 September 2023

Claim No. BL-2020-001343

**IN THE HIGH COURT OF JUSTICE**  
**BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES**  
**BUSINESS LIST (ChD)**

**BETWEEN:**

- (1) LONDON CAPITAL & FINANCE PLC (IN ADMINISTRATION)  
(2) MR FINBARR O'CONNELL, MR ADAM STEPHENS, MR HENRY SHINNERS, MR COLIN HARDMAN AND MR GEOFFREY ROWLEY (JOINT ADMINISTRATORS OF LONDON CAPITAL & FINANCE PLC (IN ADMINISTRATION))  
(3) LONDON OIL & GAS LIMITED (IN ADMINISTRATION)  
(4) MR FINBARR O'CONNELL, MR ADAM STEPHENS, MR COLIN HARDMAN AND MR LANE BEDNASH (JOINT ADMINISTRATORS OF LONDON OIL & GAS LIMITED (IN ADMINISTRATION))

**Claimants**

**-and-**

- (1) MICHAEL ANDREW THOMSON  
(2) SIMON HUME-KENDALL  
(3) ELTEN BARKER  
(4) SPENCER GOLDING  
(5) PAUL CARELESS  
(6) SURGE FINANCIAL LIMITED  
(7) JOHN RUSSELL-MURPHY  
(8) ROBERT SEDGWICK  
(9) GROSVENOR PARK INTELLIGEN INVESTMENT LIMITED  
(10) HELEN HUME-KENDALL

**Defendants**

---

**WITNESS STATEMENT**  
**OF PAUL JAMES CARELESS**

---

I, **PAUL JAMES CARELESS**, of [REDACTED] Coln Waters, Lechlade, [REDACTED], **WILL SAY** as follows:

**A. INTRODUCTION**

- 1 I am Paul James Careless and I am the Fifth Defendant in these proceedings. I have been a Director of the Sixth Defendant, Surge Financial Limited with

Company Number 09395654 ("**Surge**") since 7 July 2017. I make this statement in support of my and Surge's Defence of these proceedings brought by the administrators of London Capital & Finance PLC ("**LCF**") and London Oil and Gas Limited ("**LOG**").

- 2 Except where I indicate to the contrary, the facts and matters within this statement are within my knowledge and are true to the best of my knowledge and belief. Where the facts are not within my own knowledge, I identify my sources of information or belief.
- 3 Exhibited to this statement is a list of the documents I have been referred to for the purpose of providing the evidence set out in this statement. These are documents I created or saw at the time. Where I refer to documents in this statement, they are to documents in that list and will be identified by the document numbers set out in that list, which I am informed by my and Surge's solicitors, Kingsley Napley LLP, correspond to the bates numbers allocated to my and Surge's disclosed documents.

## **B. BACKGROUND AND WORK HISTORY**

- 4 I have had three separate careers throughout my life. My early career was as a soldier, joining from school, before leaving and joining the Police. Since around the age of 27 I have embarked on a range of entrepreneurial projects. In around 2004, I settled into becoming a technology entrepreneur where I specialised in building businesses online and utilising technology to build systems and processes. A big part of building a company is marketing and distribution, so I focused a lot on building technology for that.
- 5 In around 2005, I became a shareholder in trust in a company called Money Expert.com. Money Expert.com was a regulated business. I was the Chief Marketing Officer of that company and I was instrumental in taking it from around £2m turnover to £15m turnover in just two years. In 2007, the company took on an investment from Technology Crossover Ventures, a Californian venture capital fund, for \$50m and I exited that company with about a £4m pay off.
- 6 In around 2006 I also set up a mortgage brokerage business called Finance Finder UK Limited which was regulated by the FCA.
- 7 After the financial crash in 2008, I had various businesses which failed until I met and began working with Kerry Venn ("**Kerry**") in 2012.

### **B1. Meeting Kerry Venn (nee Graham)**

- 8 I first met Kerry in around 2012 through my 'Ask a Professional' business.
- 9 That company built a number of expert style websites such as 'Ask a Lawyer', 'Ask an Accountant', and 'Ask a Financial Advisor'. These became part of the 'Ask a Professional' group of companies. They were about letting people get directly in touch with professionals – the business model was to allow members of the public to ask an initial question of professionals with no upfront cost using a website platform. This allowed members of the public to get an initial steer for what they needed to do and also allowed the professional to screen potential business, some of which they would secure for their companies. I met Kerry because I was selling 'Ask an Accountant' to the company she was working for at the time. She negotiated the deal with me, then afterwards she was looking for a new opportunity. I was building out all the other 'Ask a Professional'

businesses and looking for someone to come and help me. We started working on the 'Ask a Professional' business together, and I believe that was in 2012.

- 10 'Ask a Professional' was a way for people to speak to a professional without having to book an appointment and a great way for the professional to screen work. Back then, even in 2014, an enormous number of professionals weren't online, so we built them a platform. That was our target audience. We were always looking for professionals without websites or with archaic websites.
- 11 Some of the 'Ask A...' sites did better than others. 'Ask a Financial Advisor' was sold to Shepherds Friendly Society, a Manchester based building society in around 2013. They were looking to attract business from IFAs, and it suited them perfectly. It sold for around £0.5m. It stood out as a really good model as potential customers were less interested in meeting IFAs in person, instead preferring advice remotely.
- 12 None of the 'Ask a Professional' businesses were regulated. For 'Ask a Lawyer' we could not give legal advice; it was just a platform. Someone would come onto the website and ask a question and we would send the question based on the postcode to a lawyer in the area who would answer the question. It would often lead to instructions for the law firm. Depending on the type of question, they would decide if it was personal injury or matrimonial for example. We had around 40 law firms around the country who would pay a fee to be on the platform and receive the questions. We ran the same model with Ask a Financial Advisor. We sent the questions out to IFAs, and they answered them and secured work. Ask a Doctor was another of our sites in the portfolio.
- 13 Kerry and I worked well together. We started focusing on the Ask a Doctor business as that had a lot of traction but needed to be monetised differently. Out of the three Ask a Professional businesses, Ask a Doctor was the largest by volume of questions. Back then, there wasn't a way of speaking to a doctor online and that is what led us to start Ask a Doctor and embark on the path that led to creating Surge.

## **B2. InfoConnection Limited**

- 14 When I first met Kerry she owned and ran InfoConnection.
- 15 Kerry provided technology database solutions that helped older businesses modernise. Kerry used to outsource all of her technology to coders on a job by job basis. We got on well because she was technically savvy. A lot of our early work was building technology; whether it was platforms for professionals or large comprehensive data management systems which allowed us to take money online safely.
- 16 The reason for incorporating Surge was to build a company that could encompass all aspects of the work we did i.e. creating leads, building technology solutions and doing the sales. We started with a new code base to do that which we built in house with our own engineer, Ashley Newman-Jones, who was our chief technical officer.

## **B4. The Investment Experts**

- 17 The Investment Experts was owned by InfoConnections and run by Kerry and me.

- 18 The Investment Experts was another “Ask A ...” question style site. It was an advancement on the “Ask A...” Financial Advisor business model that we had done so well.
- 19 The Investment Experts was similar to ‘Ask A Financial Advisor’, but it was intended for specific investment products. Members of the public would ask a question online such as “I want to invest £15,000 in a bond, what is available”. Investment products would buy the leads that came from the queries.

## **B5. Blackmore Bond PLC**

- 20 In around 2014, we started Pension Advice Online, as another “Ask A...” style business through InfoConnection. I was selling leads to a pension advisor who had a client called Blackmore Global, a pension fund institution. Blackmore Global identified us as the source of the leads and reached out to us. In 2014, we met with Patrick McCreesh (“**Pat**”) and Phillip Nunn, the directors of Blackmore Global. They were planning to launch a mini-bond and asked us to set up their processes as they did not have an online or tech process at all. Everything was done by brochure and nothing was online. We offered to help them set up their systems and get them online. At that time, we worked with Blackmore through Kerry’s company, InfoConnection.
- 21 We helped create a brand for Blackmore’s mini-bonds, created a website, new marketing brochures, new email signatures and other marketing paraphernalia. We built their onboarding technology so people could invest and check their investments online, but it was very rudimentary back then. This commercial relationship developed over time, and we began to transform Blackmore from a paper-based business into a digital business. We worked with Blackmore from 2014 until 2019.
- 22 There was a hiatus of working with Blackmore in 2017 when the FCA stopped investment inflows whilst it investigated the propriety of the company. We had to assist in the investigation as a third-party provider of services which included disclosing a contract to the FCA and assisting Blackmore’s s21 FSMA sign off provider, NCM Fund Services Limited (“**NCM**”), to provide the FCA with the information it required to conduct that investigation. I understand that NCM explained to the regulator what Surge did, how much we charged, and who our clients were, including LCF. It took 12 months until they said Blackmore could accept cash in-flows again.
- 23 When Blackmore received a letter of no further action from the regulator, we began raising them money again. The issue at that point was Blackmore had spent one year without funds which had set back its timings on the bond money and it struggled to return a profit on its investments. Blackmore also suffered when LCF was stopped. The bad press made everyone run for the doors on Blackmore. The stream of redemptions and the press reports around it destroyed that business. Subsequently, the business of Blackmore was looked at by the Insolvency Service. Although Blackmore went under, it was found to have provided the service that it promised in its Information Memoranda (“**IM**”) to its customers. There was no trace of fraud.
- 24 Surge’s role in Blackmore was exactly the same as what we did for LCF, namely provide a technology platform that enabled investment, a dashboard for customers to view their investment and a method by which to redeem the investment or roll it over, plus the marketing, and providing an account

management service for the bond. We were paid 20% commission on the money raised for Blackmore. That commission rate was set by Pat in or around 2014 /2015. I understood this to be a market rate at that time, derived from my understanding of the market for raising money for alternative finance products. Around the time I met Pat, I also met James Hall, an introducer for Dolphin Trust, a property bond, and Chris McRae who was an introducer for other financial products, both of whom had made me aware that the fee for introducing investment to alternative finance products was in the region of 20-25%. I did not approach fee negotiation by putting together a set of likely base costs and deciding a profit margin on top. When starting a business, you don't really know what your costs are going to be with any certainty. Instead, I knew what the market was paying, and knew Surge's service costs would have to fit within that commission scale and hopefully make profit. We had been working with Blackmore for at least 6 months prior to meeting LCF or any of the other individuals involved in LCF.

- 25 Early on, it was a fairly even split between the work Surge carried out on behalf of Blackmore and LCF. Blackmore averaged £1m a month, however LCF then began to grow from £1m a month to circa £12m a month over 4 years. The growth was down to the two audits. PricewaterhouseCoopers ("**PwC**") showed a loan book of £10m and LCF assets of £61m; and then the Ernst & Young ("**EY**") audit which showed bonds out of £60m and £280m of asset security, possibly a bit less.
- 26 Also, Blackmore Bond was unregulated whereas LCF was regulated by the FCA. Blackmore Bond wanted to become regulated and had made an application with the help of Andy Thompson ("**Andy**"), but that application subsequently failed. I believe it was that application which started the FCA investigation into Blackmore.

## **B6. Incorporation of Surge Financial Limited ("**Surge**")**

- 27 I have been building companies for over 20 years. In many of those, the original vision changes after contact with the customer, sometimes significantly. Having a fairly fixed vision but ensuring you maintain a flexible route to realising that vision is a big part of entrepreneurship and it is that uncertainty that makes it difficult to do. Surge came about from the vision to help modernise and provide technology services to providers of financial products. The plan was to take paper-based companies in the investment space and build the technology required to allow them to onboard clients properly and professionally. It was never to create our own bond or become our own bond issuer, but I am an entrepreneur and on a day-by-day basis opportunities arise and I consider them. We looked at part owning products, for example, Blackmore offered us the chance to be involved with them as we grew our relationship. Strategically it made sense for them to secure us, but we saw more benefit in not being exclusive and providing our services to other companies as there seemed to be strong demand.
- 28 Kerry set up Surge initially, I believe in around 2015. I was still dealing with Ask a Professional at that time, but had plans to exit. We had already sold two out of the five companies in the group, and we were going to try to sell two more. Kerry was the sole director and shareholder of Surge initially because she was working full time on that while I was still working on the Ask a Professional business. In 2016, after the Ask a Professional business was put to bed and finished, I was

appointed director and obtained a 90% shareholding in Surge as I had initially funded it. I don't recall the precise details of how much investment I provided to Surge or when I provided it in that start-up phase. It would have been in drips and drabs as needed, not in a single lump sum.

- 29 Before, and for a period of time after Surge was set up, there was an overlap where we used InfoConnection to undertake Surge's business. This was just how it worked while we were building Surge up. Surge then superseded InfoConnection and the business being run through InfoConnection was wound down.
- 30 Kerry and I had different roles in our businesses. As the CEO, my role was to set the strategic vision, to hire and retain the best people for the business and troubleshoot. This could be dealing with clients or could be internally. As the business grows, there are pains, often with hiring and firing of staff, that I would deal with. Kerry's role as COO was to look at the detail of what we did. This included the processes and systems we used internally; dealing with clients; looking at our contracts; dealing with our lawyers and lawyers of third parties; and understanding the products we were working with. For example, I have never read any of the information memoranda ("IMs") as that is something Kerry would have done. That's not because I didn't care, but where documents had been prepared by professionals I would assume they were correct and so did not feel the need to read them. I didn't feel I would be able to contribute anything as that was not my skill set. Kerry was analytical and had an attention to detail. I understand that Andy has said that he and I discussed LCF's IMs. We may well have discussed the IMs, but I don't recall any specifics and I wouldn't have given a view on the contents of a legal document like that.
- 31 Surge was a natural evolution of Ask a Professional which was a business that created leads for professionals. We had realised that professionals were not good at dealing with the leads. They would either respond too tardily or were disorganised in their processes. With Surge we could do two things to address this; build the technology and systems to connect the customer with the professional and then put in proper processes to allow the customer journey to be scaled using technology.
- 32 In comparison to Ask a Professional, Surge had bigger clients. For example, Blackmore was a pension fund institution, so was capitalised to be in a position to pay us properly. In contrast an IFA might be a 2- or 3-man band with a turnover of £300k - £400k. We saw an opportunity. Rather than serving a large number of small professionals, we decided to focus on a few bigger ones, who would be able to pay bigger fees for us to provide a more comprehensive service.
- 33 All businesses, no matter what they are selling have the lead, the sale and the product. From the lead you need a sales function which is a way to close the lead. In the businesses we were developing this was usually online, creating a "funnel" as it is colloquially called. The business must have a product, which is what the leads are buying into. We started off generating leads at Ask a Professional; at Surge we generated leads and then went on to make the sales as well. We saw the opportunity to offer both of these as the continuity allowed the service to be better, making it more effective. Surge's offices are based in Brighton, Portland Street. When the company was at its largest at the end of 2018, Surge employed around 120 staff and that was broken down as follows. Two account management teams, one that worked for LCF with about 20-25

members, and one for Blackmore, with about 5 or 6 members. A tech team comprised of coders and engineers who built and improved the online technology. A marketing team comprised of designers and marketeers whose job it was to market the bonds. An administrative team including an accounts team. Then myself and Kerry who ran the day-to-day business. The tech, marketing and admin teams worked for both LCF and Blackmore. We didn't measure the business's financial performance by apportioning time, profit and costs between LCF and Blackmore because of the shared teams, and also because Surge was one business and our focus was on providing a good overall service.

- 34 When we were getting started with Surge, I would have dedicated the majority of my time to it. Of that time, LCF would have been my main focus in the earlier years, as it required the most work and was the bigger business. By 2017, when LCF's systems were up and running, I had more time available to focus on other businesses because the Surge management team was well established and working well.
- 35 In terms of how I was remunerated by Surge, as an entrepreneur I get paid, not by the time I spend on a job, but by the results I achieve, i.e. the company's profit. In total, I think Kerry made about £2m, I made about £8m. This did not reflect the shareholding split, but we were a start-up without strict formality and I wanted to retain good people. I had discretion as CEO and made sure Kerry was properly rewarded.
- 36 Surge Group was a top company where I could invest funds and use that vehicle to invest in other business or start business up within it. I invested through Surge Group a further circa £10m in other business endeavours and start-ups. Surge lent Surge Group funds to allow it to invest in other business endeavours and start-ups.
- 37 For example, through Surge Group I invested in a start-up called Crucial Group Limited with some fellow veterans from the military where we trained soldiers in cyber security when they left the military and managed to get some government contract work. Again, post my arrest, that business was decimated and fell apart very quickly.
- 38 Through Surge Group, I also invested in a company called Service Box Group Limited, which is a warranty business which is still going today with a turnover of around £4m a year. This makes me a modest profit on my investment and is the only business that survived the fallout from my arrest and that has any residual value.

## C. THE INTRODUCTION TO LCF

### C1. John Russell Murphy

- 39 I first met John Russell-Murphy ("**John**") through Benjamin Beal ("**Ben**") in late 2014 / early 2015. We had probably been working with Blackmore for over half a year; it is difficult to remember exactly how long. This was when I bumped into Ben. I only met Ben half a dozen times or so. He was a local lad in Brighton and Hove, but I am not entirely sure what he did. He obviously tried to front run any business he could get in front of and I found him to be quite pushy. He said I should speak to John as John was selling products similar to Blackmore.

- 40 I reached out to John around late 2014 / early 2015. He was a qualified financial adviser, I think he had worked at Rothschilds. He purchased leads as a trial from the Investment Experts for what I now know to be Sales Aid Finance England (“**SAFE**”); the front runner for LCF.
- 41 Jo Baldock (“**Jo**”) was John’s associate. She seemed to be more of an employee than business partner. I didn’t meet her until a few months after we started working with John.

## **C2. First meeting regarding SAFE in February 2015**

- 42 In February 2015, Kerry and I attended a meeting in Crowborough and I believe it was either in Spencer Goulding’s house or office attached to his house. I think that present at the meeting were John, Ben Beal, Simon Hume-Kendall (“**Simon**”) and Spencer Goulding (“**Spencer**”). Elten Barker (“**Elten**”) might also have been there. I cannot recall with certainty exactly who was there. Elten seemed to be Spencer’s right-hand man; I usually met him when I met Spencer. I was not entirely sure of the specifics of their partnership or relationship, but I do recall meeting Elten pretty much whenever I met Spencer.
- 43 It was difficult to say early on who was who in relation to the businesses, as it was an initial meeting. The assumptions I made at that point were that Spencer and Simon were in business together in some manner, and seemed to be in charge of the businesses we were discussing, and Ben and John had been involved in raising money for them. These initial assumptions seemed to have been largely correct, but I could not at any point have been entirely specific about who owned what, and what roles were performed by Simon, Spencer and Elten in relation to the businesses. I think it was agreed at that first meeting that InfoConnection would sell some leads to John through his company, Grosvenor Park Investments, and he would see if these leads were good quality (i.e. they were likely to result in investment) for the businesses. There was a gap between the first meeting, selling John the leads, and the second meeting.
- 44 It has been alleged by LCF’s administrators that I corresponded with Elten about LCF’s business, for example about the importance of LCF being perceived to have good security and updating him about LCF’s marketing and fundraising. Similarly, that I asked Spencer to approve an LCF logo for its website. I don’t recall specifics, but it is likely I did correspond with Elten and Spencer about such things in the earlier stages of the relationship with LCF. I had inferred from the way business was discussed at meetings with Spencer and Elten that they had some sort of role with LCF and that they were appropriate people to share and discuss information with.

## **C4. Meeting Andy Thompson**

- 45 We went back for a second meeting a few months later where we were formally introduced to Andy by Spencer. I think the same people except Ben were at that meeting but cannot clearly recall. John had worked the leads InfoConnections had sold to Grosvenor Park Investments and said the quality was good. At that meeting I recall it was suggested that Andy was setting up a company, or he was the CEO of SAFE and wanted to rebrand it. They wanted us to do what we had done for Blackmore. I do not recall knowing that Andy was involved with SAFE prior to that meeting.



- 46 Regarding Andy's background I believe, after the first meeting, I asked Kerry to do some rudimentary due diligence. She sent me some information saying this is who they are and what they have done. Andy's background was banking. Kerry had also come from a background in banking. I think she might have worked for the same bank as Andy, so there was a connection through the bank, but it was not particularly detailed.
- 47 At that time, there were a lot of businesses which could not get good borrowing interest rates from banks. Savings interest rates were low however, and people were making a low yield on their money. There was a splurge of companies making money quickly in the alternative finance space through peer-to-peer lending and bonds. LCF was offering members of the public higher interest to lend to businesses as the banks were not, and that was essentially Andy's pitch, which he explained at that first meeting with him.

#### **D. AGREEMENT BETWEEN LCF AND SURGE**

##### **D1. Surge's Fee**

- 48 John originally negotiated the fee between Surge and LCF. I do not recall giving him any instructions or negotiation parameters. He was already receiving 20% from SAFE and we, Surge, were already receiving 20% from Blackmore. The negotiation was conducted at arm's length by John with Andy, without me being present. John reported back to me saying he had agreed 25% for Surge to do the same job for LCF that it was doing for Blackmore. I was happy with this.
- 49 As stated above, I understood the typical rate was 20% to introduce a client into an alternative investment. That fee of 20% was meant to be just for an introduction. A typical example of an introduction would be an IFA or wealth manager introducing their client to an investment product, which that client then invests in. The IFA or wealth manager would receive a commission for the introduction from the provider of the financial product. Surge did far more than just introduce. We built the entire online process, which enabled the business to scale, to have a process and a system to ensure it was the best in class from a technology point of view. Unlike IFAs or wealth managers, Surge didn't receive ongoing advice or management fees.
- 50 Also, if an investor rolled over their investment (i.e. they reinvested the money received back from a matured bond into a new bond), Surge would not receive any more commission. Surge only got paid on new investment (i.e. on new customers or if an existing customer put in more money over and above their existing investment) at the same rate of 25%. I did not know exactly how many LCF investors were likely to roll over, and do not recall exactly how many did, but it was expected that roll overs were going to be a significant part of the business. This is because the idea was customers would stay with LCF for years after getting their first bond and Surge was part of creating that lifetime value for LCF.
- 51 Over time, Surge spoke with several bonds including two of the largest, Wellesley and Dolphin. I can't recall exact dates, but I do recall that I spoke with James Hall at Dolphin before and after we started working with LCF, and met with Chris McCrae after we were working with LCF. They were offering the same rate, 20 to 25% commission for introductions. I also had discussions with investment brokers over the years from which I learned that other bond issuers

such as Shenton, Leander Wealth, and Broad Street Wealth were paying around 20-30% commission for introductions as well.

- 52 The technology required was expensive to build. If LCF were to pay for that separately, then pay for the marketing, then the account management, and the compliance and training, it is highly unlikely it would accomplish that without spending significantly more than 25% of funds raised. Commercially, it was also a fair deal. LCF had paid some limited upfront costs to get us up and running, but Surge had to spend a lot of money and time upfront to enable us to present LCF's bond properly to the customer. Surge then continued to carry a lot of overheads and expenses providing services to LCF, but if we didn't deliver investment, we wouldn't get paid. Surge only became very profitable when we were operating at scale, securing large amounts of investment for our customers.
- 53 Surge would have generated from LCF just under £60m in commissions. From Blackmore it would have generated around £10m. We would have had £70m in total in revenue over a 5-year period, most of which was in the last 18 months as we grew.
- 54 The percentage of net profit made was not extravagant. It was proportionate, at about a third of revenue. Surge made a modest net profit in 2015-16 and that net profit increased each year through to 2018. This was because as the scale of our clients and our business grew, we enjoyed the fact our processes and structures were more refined, and that our clients enjoyed other network effects, such as word of mouth.
- 55 I recall seeing an unsolicited email to Kerry from Thistle Initiatives ("**Thistle**") offering to introduce us to someone who would pay 25%. Thistle also knew what we were being paid by LCF. Thistle are FCA compliance experts in the UK.
- 56 Recently, I was contacted by another bond called Woodville that provides litigation funding and has raised around £200m, they sent me a contract for 23% but I declined to be involved as I am no longer in the alternative finance space.
- 57 Surge's fee was never a secret. Not only did Macfarlanes put it into our contract, but every third party associated with Surge and LCF at that time were aware of the fees that Surge charged for its services. That included Lewis Silkin, PwC, EY, Oliver Clive and Co, and various section 21 FSMA sign off partners, and of course the FCA itself as it had seen our contract with Blackmore through its investigation into Blackmore in 2017/18.
- 58 For completeness, I recall we received 22.5% for some of LCF's bonds. I think the reason for this was that these were shorter-term bonds and LCF paid us more for longer term bonds, although I can't recall exactly.

## **D2. Contract**

- 59 Surge's relationship with SAFE started by building out the rebrand to LCF. I don't recall the details of what we were paid for that. I don't recall if we had a contract. Once the relationship developed and we had agreed to provide the whole range of services to LCF (i.e. the same services we were providing for Blackmore) Kerry and Andy negotiated an initial form of contract. As mentioned, John had already agreed the 25% fee with LCF. I believe the contract was based on a copy of a contract we had in place with Blackmore. In or around August 2015, the first version of the agreement was sent from Surge to LCF for consideration. The following month, in September, I remember, Kerry was chasing for the contract.

- 60 In time as LCF grew, we decided it would be prudent to put in place a better contract which reflected more fully the services we provided, and we instructed Macfarlanes to draft this contract. It was then provided to Andy for review and then what followed was a protracted back and forth over around 18 months. Andy also had legal representatives, Lewis Silkin, and I met them on numerous occasions. I met two lawyers from Lewis Silkin. They came to meetings at my offices, on various occasions over several years. One of them, Graham Reid, held himself out as having worked for the FCA and as an expert on mini bonds and I was comforted Andy had such strong representation. I do not recall much about these meetings. I remember the last meeting with them took place after the FCA had intervened in LCF. I would not have been involved in any significant discussions about LCF's legal matters.
- 61 I was told by Kerry that we were always on the cusp of signing the contract, but it was really Kerry's role in the company, and for whatever reason, Andy never seemed to actually have signed it. But I am aware Kerry would have pushed him to execute that contract as she was always keen to ensure our paperwork was in order.

### D3. Services provided to LCF

- 62 The main categories of services that Surge provided to LCF were:
- 62.1 **Technology.** This encompassed building processes and systems. Initially Surge gave LCF a basic website and dashboard. Kerry would have led the specification and build. As we grew, we embarked on a more ambitious tech build behind the scenes. The biggest barrier to building LCF's brand was not printing brochures or building the website, it was building a "technology stack". Surge began quickly hiring coders to work alongside Ashley Newman-Jones who was Surge's Chief Technology Officer and very bright and able engineer. We built from scratch a platform that could accept money transfers online using third party companies, at scale, securely, with the ability for the customer to see their investment, redeem their investment when their bond matured, or roll over their investment. That platform began its build in the summer of 2015 and was worked on continuously until the end of 2018.
  - 62.2 We built technology that could see the website user's mouse and how they complete the forms on a website, so we could try our best to make it a clear sign-up process, improving ease of use.
  - 62.3 To build a platform to accept hundreds of millions of pounds online is technically very difficult. The security involved and the ability to connect with the programme interfaces of other products such as anti-money laundering (AML) providers is very sophisticated. A large part of Surge's team began being known as "the tech team". Eventually the tech team had around 10 people in it, half of which or more were highly experienced coders and engineers whose job it was to ensure we had a secure platform for our customers, Blackmore and LCF.
  - 62.4 The platform we built allowed the bond information to be presented to the customer online, allowed the customer to invest online having gone through a sophisticated "investor funnel" which ensured that the customer was aware of what they were investing in, and importantly

made sure the customer was within one of the permitted investor categories to invest in the product.

- 62.5 **Marketing.** In terms of work carried out by Surge on behalf of LCF in relation to adverts and Google searches, a big part of what we did was to drive traffic to our client's website. We would establish the market, negotiate the fees with feeder websites, build our own feeder websites, and build advertisements for Facebook and Google. We advertised on third party websites as well like Money.co.uk, the Times and Daily Mail, wherever there was a lot of traffic. For example, Surge helped RP Digital Services Limited set up a comparison site to allow us to market our products on in around 2016 / 2017. This is because Surge wanted comparison sites specifically to rank products by interest rate, as comparison sites tended not to rank by interest rate, but by other factors. Surge spent approximately £26m on marketing for LCF and Blackmore over the 5-year period. That was predominantly Google, but there were some other search engines and newspapers.
- 62.6 All of the LCF content would have been signed off by LCF under s.21 FSMA prior to going live, whether that was content on the website, or an IM print. I think a company called Sentient did this before LCF was FCA regulated. That was not within our remit. Our job was to try and help LCF present their product in the best way we could and often that meant making it simple, and making it easy to use and easy to understand.
- 62.7 I can recall an instance when content had been accidentally published that hadn't been approved by LCF. Surge was a large company and sometimes there were errors. We were spending £1m externally on marketing a month (i.e. that figure does not include the internal costs of Surge's marketing team salaries for example). At that scale there were inevitably odd slippages. They were not systemic. We had systems in place to ensure that all content was signed off by LCF themselves. When spotted, they were dealt with. We had checks in place to prevent anything going through without being checked.
- 62.8 In terms of Surge's involvement in the design of investment products and advice given on the marketability and potential profitability of those products, we only had sight of the marketplace online. It was our job to advise our clients of what competitors were offering and what competitors were doing well. Wellesley, Shenton, and Funding Circle are examples of who we considered online competitors at the time. We would have offered our view, but of course it was not within our remit to decide on what structure our clients decided to go with as regards the level of coupon or the length of time on a particular bond. Any suggestions made were just that. I do recall telling Andy in 2018 that 1-year products at lower rates were becoming popular and I had suggested to him he should consider a shorter bond length of 1 year and a longer bond length of 6 years. I don't know how LCF set their rates. I assume they based this on their understanding of the market.
- 62.9 In my role as CEO, I wanted to have a general overview of the market and to understand the strengths and the weaknesses of the offerings in the market. For example, I believed LCF was very strong with its level

of security and that a lot of its competitors were not using the level of auditors that LCF were using, namely PwC. I remember saying to Andy the level of parties you work with is very important, as it provides comfort to the customers and of course us (i.e. Surge) too. I was never made aware of any concern expressed by LCF's auditors about Surge's fees.

- 62.10 I believe that very early on a promotional video was created, however it was eventually scrapped. Kerry would probably have been involved with this, not me.
- 62.11 **Account management.** This was our team who answered questions on the product from the general public and customers. For LCF we had around 20 account managers on average, working 6 days a week from 8am – 7pm. They had product training internally by John and Jo and externally by Andy and Kobus. They would answer the phone as if they worked for LCF or Blackmore. This is typical of an outsourced account management model. Only the account managers did this. Nobody else working for Surge, e.g. the tech team or the marketing team, would do this. Training took around 2 weeks, then they were signed off to be competent enough to discuss the product with customers who would call up. They were trained on the relevant sign-up process, understood the bonds and were there to answer any questions the public had about the product. We would take thousands of calls each month. We never made cold marketing calls. People would call up after seeing us on a comparison site or seeing us on Google or in a newspaper ad.
- 62.12 When investing money, some people wanted to speak to someone on the phone, some people were happy to invest without speaking to anybody, just online, and some people would like to see the whites of someone's eyes. We didn't want, neither could we, provide a service where we went to meet people. Firstly, it doesn't scale and secondly it had potential to lack controls. We did embark on some visits. Out of over 11,000 investors, a very small number of them would have had visits. The only reason we agreed for John to make visits was that these people were high net worth investors looking to invest anywhere from £250k to £1m. Some of them were entities, not individuals and therefore they wanted a presentation. An entity, for example, would be the Freemasons, where John would have gone to them and given a presentation.
- 62.13 As we scaled, a lot more people invested online without speaking to the account managers. This was better economically for Surge, but also from a compliance point of view, as the technology ensured there was no ambiguity in the product information. Each investor would have been presented with all of the documents, the key facts and the detail to be able to make their decision on investing. Without this system, LCF would never have been able to scale.
- 62.14 We recorded all calls on CloudCall and all the information was collected on the customer relationship management database, Salesforce, which enabled us to monitor staff contacts for LCF.

62.15 **Design.** We had a design team who provided our clients with all their paraphernalia including day-to-day design of the website. LCF even had banners for a horse show they attended and sponsored.

62.16 **Back office.** This was Kerry's role. She ensured that we built our back office, as the clients grew, to increase the quality of our service to accompany their growth. As a start up, you don't have money to spend on professionals, but as you grow you invest more in systems and processes.

## E. WORKING FOR LCF

### E1. LCF's Business

63 The precise business model of LCF, namely lending money, at the time in 2015 was a growing marketplace. Interest rates were low and banks weren't lending to SMEs. There was a growing sector of alternative investment companies in the bond and peer to peer space that were filling a finance gap left by the banks. Not only did it seem like a sensible business model to be able to fill the gap, it also was double sided. It allowed investors who were not receiving great interest on their money, as base rate was sat at about 0.25%, to receive a higher rate of interest.

64 The key to this growing marketplace was the security. Businesses that need cash can fail and indeed do fail. My focus of LCF's business model was the security that they provided the bond holders. I had to take a view on the information I was provided by LCF on their security and my view was that, that security was strong. That information came from discussions with Andy and LCF's audits. Before LCF was audited, Kerry was provided with information on security. We'd pass this information on to Mark Partridge ("**Mark**") to check. In my experience, whenever we were looking at bonds over the years, the CEOs or the backers of that bond would always have lofty expectations of their own trajectory and profitability. All businesses have a roadmap or plan in which they grow and make profit. In reality that is not always the case and therefore the backstop for any business model that is lending out money must be the security it has in place. Therefore, professionals such as my accountant, Mark, Kerry and also my financial director, Steve Jones ("**Steve**"), took their lead from me and would either directly and independently or through me question LCF, normally through Andy, on his security arrangements.

65 As we grew the need for that information became more important as the bond debt grew and our insistence on seeing the security information increased as we were aware that audits were an annual event, and in the period of time between one audit and another, the bond debt could have grown significantly. I was not closely involved in obtaining the updates, but Kerry as COO, Steve as FD and Mark as Surge's accountant sought regular updates from Andy to track the security information from LCF. Mark was a former auditor and partner at EY and I recall asking for his view on what we were being told about the security, and him having a positive view about it. The focus on the value of security was twofold. Firstly, to ensure that we had the confidence that our client, LCF, could repay the bondholders should any of the debts they issued not be repaid. Secondly, good security is great marketing. Investors foremost care about the security, it takes precedence over the coupon rate, the business model or the people involved. If you are investing your money and you are confident you will

get it returned even if the worst happens, then it makes such investment a much easier decision to make. Surge did not undertake its own investigations of the value of LCF's security, as I understood that to be LCF's auditors' job.

- 66 I was always told by Jo and the account managers that the main question asked of account managers related to security, the number one document looked at on the website according to the tech team was also the security page. As the security grew, so did the inflows, and that is not a coincidence. The first audit by PwC showed bonds issued of £10m and a security of £60m. It was at the second audit conducted by EY where the security grew to £284m and bonds issued, the debt, was £60m.
- 67 It was this level of security that provided immense comfort to bondholders and ultimately made Surge focus on LCF as opposed to Blackmore, our other client, or indeed the other clients that were recommended to us from third parties, or who came direct to us to engage us for our services to raise them money. None of them had the level of security LCF had in place.
- 68 When we first became involved in 2015, we were told there was about £20m in security. I recall it came from the Cornwall holiday park, Waterside. I asked what security they had, and they said, "property interests". They tried to take me and Kerry there to see it. There was also I think security in Croatia, and the Dominican Republic. They said they had land which was valuable, was unencumbered and they would put it in as security for the bondholders. It was Kerry's role to understand this as we grew. I believe Kerry would have done a number of things to understand the information she had received about security, although I cannot say exactly what her processes were. She would not have formed an opinion on something unless it was based on some fact.
- 69 Wherever loans were put out and security was put in place, there clearly was a significant amount of security and it gave us more comfort to focus on LCF in comparison to our other client, Blackmore. As a property bond, their security ceiling moved up inch by inch as they bought, received planning, and then built on land, which was an incremental security growth. LCF's security was there early in the process and continued to grow in value. It is also worth noting that Blackmore's audit was done by a smaller provincial accountancy firm. Kerry and I were happy that Andy engaged high quality professional services such as Lewis Silkin for drafting the IMs and other regulatory documents, and PwC and EY to provide their audit.
- 70 We would have regularly checked on the security. Mark was my main go-to. I trusted his opinion. I think Mark was on a retainer to give advice on various things. His firm also ran payroll for us, and managed our statutory filings. We sent Mark the information we received on security and asked him to give an opinion. He was very cynical and blunt, so if I put something past him, and he thought there was a problem with it, he would pull it apart and tell me why. But the opposite happened. He thought LCF's audits were good and that it had good security. Oliver Clive and Co were LCF's accountant. As LCF needed to get an audit for a bond, they went with PwC in 2016 and later with EY. As mentioned above, we did not arrange for our own independent investigation of LCF's security. The security was not held by or for Surge. This was not Surge's role.
- 71 Often questions the bondholders had regarding anything on the website or the information we provided, we would relay to LCF at their head office, and then we

would relay the reply back to the bondholder. Our understanding of their business model was from the information they gave us.

- 72 In early 2016, I understand that Kerry had a phone call with Andy as we had wanted more understanding of LCF's business to deal with questions from the public. Kerry relayed the conversation to me and various others in Surge by email (SUR00131168). Andy gave a number of explanations which included that there were 80 loans, and not 80 borrowers, and that these loans were to Spencer related businesses. Andy explained that this was because he did not yet have a consistent flow of funds, and so was lending to people he knew until funds in were more consistent. At that time, we had been working with LCF for about 6 months and Andy's explanation made sense to me. It was more important that LCF had quality borrowers rather than lots of borrowers.
- 73 I knew in 2015 that money was being lent by LCF to a company being run by Simon, LOG. That was the main business that I was aware of that LCF had lent to. I knew Simon was the CEO or director and shareholder of that company. I assumed that Spencer and Elten were shareholders. I didn't know for sure what their connections to LOG were. Obviously, I had met Simon early on and I knew he was building a gas and oil company which was from his experience and expertise. Kerry had spent some time in their offices looking at building them their own bond as they were looking to invest in a distressed oil business in the North Sea. Due to the low gas and oil price at that time, they suggested that oil and gas businesses were desperate for funding and there was a large amount of profit to be made in funding the distressed oil businesses, which had good security. It was better in my opinion to lend money to entities where you knew the background of the people who ran them as long as it was done properly at arm's length and with the correct security in place.
- 74 I can't exactly remember when, but Kerry and I were invited by Simon and some other LOG people such as Clint Redman to attend a meeting at Goldman Sachs offices where we were to present how we were raising money for LCF and our predicted in-flows for them. At that meeting Goldman Sachs were considering setting up a line of senior debt to enable LOG to invest more money into acquiring distressed oil and gas assets in the North Sea. I knew very little about the gas extraction licenses secured to LCF. Kerry would have known all of that and looked into that.

## **E2. Compliance and Operations**

- 75 The s.21 FSMA sign off was a standard requirement. Blackmore had a s.21 FSMA sign off partner, NCM and then latterly Northern Provident investments limited, and so did LCF, Sentient Capital London Limited.
- 76 My understanding was that although the bonds themselves were not regulated, a regulated company or person would have to have reviewed, questioned and checked all claims made in bond communications before regulatory sign off would be given. Regulatory sign off was a necessity for bond promotions. So for us, that was just another layer of someone else looking at LCF properly and ensuring it was doing what it said it was doing, and the people who were running it were fit and proper to do so. This went to the heart of working with LCF. From my perspective, they were the best secured bond using the best third-party providers in the marketplace. We knew lots of people had looked at LCF, including the FCA (as LCF was regulated), the s.21 FSMA sign off partner, and



Lewis Silkin. The quality of LCF's audits could not have been better. You could not have asked back then for more comfort.

- 77 Again, being regulated by the FCA meant, as far as I understood, that the company and the individuals, in particular Andy, were fit and proper, and that they had obligations to the regulator with regards to their reporting and their compliance. Andy often mentioned that he was having conversations with the regulator (which were not negative conversations) and this gave us comfort. We of course had our contract with LCF. Although I knew this wasn't signed, I felt that both parties were acting in accordance with it. We were doing our part, and LCF were paying us.
- 78 LCF also retained a third-party compliance company, Sentient, who gave compliance advice. As Surge were marketing and communicating with the public on behalf of LCF, Sentient also monitored Surge from a compliance point of view. This included monitoring phone calls, email correspondence, signing off the website content and the advertisements. In time, that function was brought in house by LCF, led by Kobus Huisamen ("**Kobus**") who we felt at the time was very professional.
- 79 Our account management team undertook comprehensive training on LCF's products which was provided by Surge – Jo and John delivered this, having themselves undertaken comprehensive training by LCF. Surge was subject to continuous oversight by Sentient and then directly by LCF when they became regulated. Account managers also received training from LCF on compliance. They worked from scripts approved by LCF. There was a script which contained the information to be given to clients and prospective clients about security. For example, I think another common question from the public was "are LCF covered by the FSCS?" and the answer to that was "no we are not". Then there would be an explanation of what would happen in the event that a borrower defaulted, and how the security trustee would act to secure the assets that would then be liquidated to the benefit of the bondholders, and details of where they can find public source documents to show that.
- 80 Each account manager would be compliance checked after training. Account managers were paid a basic salary plus a bonus for the amount of investments they took in for whichever bond they worked for. To qualify for a bonus account managers had to maintain a good compliance record. This was policed internally by Jo or externally by Kobus for LCF. Kobus was taken very seriously by the account managers. It was possible that the account managers might lose their bonus if they failed compliance checks. Kobus would listen to recorded phone calls and read the correspondence. He could also listen in to live calls.. Kobus would conduct training in our offices, make mystery calls and give feedback on the calls. I do not know what proportion of the calls were monitored by Kobus but there were a lot of calls and only one person (Kobus) reviewing them. He would do it every week.
- 81 At times account managers did go beyond the boundaries. I am not fully up to speed with exactly the way it worked, but as I understand it, the remedies available to us were:
- 81.1 Retraining;
  - 81.2 Excluding staff from the bonus scheme for a month or more;

- 81.3 Dismissing staff, if it was a particularly bad offence or the individual was a repeat offender.
- 82 An important back stop to any account managers going beyond the boundaries was that customers had to sign up online. Our website gave comprehensive risk information about LCF's bonds and made potential investors aware that LCF was not covered by the FSCS. Investors also had to certify that they were an appropriate category of investor, such as a high-net worth individual.
- 83 Kobus played a pivotal role. He was incredibly important for us. Kobus would brief the account managers on any changes to the product such as a new series of bonds, or changes to an IM, or any other changes such as a new audit. It was Kobus's responsibility to prepare and approve the scripts for all Surge staff interactions with clients and prospective clients.
- 84 Over the 5-year period in question, Surge engaged a number of professionals to give specialist advice. I utilised local law firm Healys, and Steven Kinch, a sole practitioner, for general legal assistance for Surge. We also used Macfarlanes to do our major contractual work for the company. Macfarlanes was tasked with handling our contractual work between Surge and LCF, and also between Surge and Blackmore. Mark at Chariot House was used for Surge's accountancy needs and to provide advice on the documents supplied by Andy regarding the audits.
- 85 We also used Thistle to check our compliance status. Kerry would have dealt with engaging Thistle; I had no direct dealings with them. My understanding is that they were brought in to evaluate our operations, as we were considering seeking FCA authorised representative status for Surge. We were trying to build a best in class business that could provide outsourced services to bond issuers, and so we thought gaining authorised representative status may have been useful. We enlisted Thistle to advise us as they were a market leader in assessing FCA compliance.
- 86 Andy was my principal point of contact at LCF. The principle day-to-day contacts for Surge and LCF would have been Jo who spoke to Katie Maddock, Andy's PA, and Eloise Wade.
- 87 Steve was in charge of Surge's finances. Steve was my former bank manager when I set up a travel business called Eventa Group Limited in around 2004. When I started 'Ask a Professional' and started to generate good revenues, he joined as a financial controller and then took over running all of the finances. Steve was involved in any company that I was involved in from around 2012, including Surge. I believe Steve had a fixed wage and a discretionary bonus based on Surge's performance.
- 88 GCEN was a cash custodian. I understand that GCEN would also try to identify issues with a vulnerability and age, or other issues like if a person was investing in multiple bonds which might indicate fraud or money laundering. They did the online AML and collected the cash from the customer. GST were the security trustee. If LCF failed to pay the bondholders or went into administration, GST would be controlling the security assets and it was their role to liquidate the assets and pay the bondholders. I thought GST was independent, but I didn't know much about it other than what it was. I trusted all third parties were of a good standard as I had seen with LCF's other professional services like PwC, Lewis Silkin, EY etc. I encouraged Andy to have instructed the best third parties

he could afford as it would provide confidence for everyone involved including us.

- 89 The bonds that were issued were totalled up and an invoice was raised by our accounts department and sent to the accounts department of LCF. Payment was expected on receipt or fairly quickly. I do not remember if there were payment terms for how soon they had to pay us. They were sometimes slow to pay. At one point, Surge was spending £1m a month and had 100 staff.
- 90 Around the end of 2017, on Money Saving Expert a comment was made regarding LCF that was brought to Surge's attention by a bondholder. Surge's first step was to get LCF's take on the matter. I recall that Andy was quick in his response, categorically refuting the claims. I am aware that negative allegations do get posted online and I've learned over the years to take these allegations with some caution.

#### **E4. John Russell Murphy's Role**

- 91 Initially I thought John was 'the missing part' for Surge and that he was a good fit. He was well versed in the alternative finance space. He knew more about that sector than Kerry or I. He appeared to have good connections, and his approach to work seemed very professional; we worked well together. I was driving the business side, Kerry was doing the technical and detail work, but we were not connected into the wider world of mini bonds. I saw a synergy with John and I thought John could be a partner because I thought his expertise complimented Kerry's and mine, and complimented our existing strengths. Although initially we discussed the idea of John becoming a shareholder in Surge when the initial excitement of the relationship was there, we ultimately never formed an agreement to this end, and once the initial excitement had died down, we did not pursue this. I feel I had higher hopes for John, but my aspirations for the partnership didn't come to fruition because there ultimately didn't appear to me to be a matched commitment to Surge from John. As this became more apparent to me, the idea of John being a partner fell by the wayside.
- 92 I was a big fan of John. I understood John's prior experience in selling financial products to be extensive. He had been a financial advisor at Rothschilds. John was very good at sales. He brought about 5 or 6 of our early account managers to Surge. We had an office in Eastbourne where John lived. John ran it and Kerry and I would pop in. We didn't stay there long, we moved to a bigger place in Brighton as we outgrew it fairly quickly.
- 93 Early on John was instrumental in building and training the account managers. He also then managed the account managers with Jo. He had an enormous impact on the account managers. He led them, he helped build a really formidable, competent sales team who understood the product well.
- 94 As stated earlier, John also dealt with potential clients who wished to make high-value investments or where other sales agents had been unable to convert interest into an actual investment. This would include making home visits. We expected high standards from John as he was one of the people who set the standards for account managers.
- 95 Grosvenor Park was John's company, he was a director I think, but it had no connection to Surge. It was John's company which he utilised to bill Surge for his fees. There was no written agreement in place, it was just the vehicle he used

to invoice us. I paid him on the basis of a combination of the deals he secured and how the business was doing generally. It was an informal mechanism and at my full discretion. I felt this was an incentivisation to him to do well. I wanted to keep this flexible, like a discretionary bonus scheme, albeit it was possible for John to negotiate my decision, for example if he felt that he'd brought in a big deal in any particular month. The business was growing very quickly, and John was very important to our growth, so I wanted to make sure he was well rewarded. Sometimes he would get £20k a month and sometimes £100k, depending on how he was doing and what he had secured. During 2018, Surge was generating around £2m or £3m a month in revenue, about £30m turnover, making a profit.

- 96 John played the central role as an intermediary between Kerry and I and Andy at LCF. He had an existing relationship with Andy and LCF and therefore was well positioned to liaise between Surge and Andy. John was instrumental in the relationship at the very beginning, although as we developed our own relationship with LCF, Kerry and I did liaise directly with Andy more often. He helped not just to negotiate our deal with LCF; he helped mould the relationship to ensure we got what we needed from Andy and LCF. When we wanted something done, John was good at getting it done. Andy preferred to deal with John as well, I think. I was quite forthright, whereas John was more flexible to get things done.
- 97 As the business evolved and expanded I noticed that there was a gap between myself and John. I was actively involved in growing and driving the business forward, and committed to improving and professionalising our operations. But John's role had remained static. He continued to focus on selling to high net worths, whilst I was coming in at 7am, 5 days a week, 'leading from the front' with a clear vision for the future of the business. In contrast, John didn't have regular working hours at the office, he would come and go as he pleased and his responsibility level seemed to have hit a ceiling. I don't think as we grew John and I shared the same vision. It became increasingly apparent that I was leading the business and John's role was that of a senior manager.
- 98 John was ultimately a consultant. He had no directors' functions. He never had access to our bank accounts. He had no real involvement with Blackmore, our other major client. He wasn't in charge of remuneration. Although I may have asked him for his opinion on operations for LCF, I was the one that would make the decisions. John was a consultant, not an employee.
- 99 The relationship between Surge and John disintegrated in May 2019. There was a complaint made by a bondholder. The sales call was recorded between the bondholder and John. Kerry and I listened to it. It was not a good call. Kerry said it was gross misconduct, and we had to let him go. It was really difficult as he had been instrumental in building Surge. He came in on a Monday and I explained to John we had to let him go. He left without saying a word. I expected him to explain what had happened. I subsequently found out later down the line his mother had died on the Sunday. I regret doing that, I should have realised he wasn't himself. When I subsequently saw him, I apologised.

#### **E6. Fees paid to Andy Thompson**

- 100 LCF was doing really well and had overtaken Blackmore as its bond investment grew. This happened throughout 2016. Pat noticed that Blackmore was lagging

behind LCF in terms of investment and asked me to introduce him to Andy, thinking that Andy might help Blackmore improve. I agreed because I wanted Blackmore to do better as that would benefit Surge. If Blackmore could become a more attractive investment, then it would increase its investment from £1m a month, to where LCF was at £5-6m a month. This would have increased Surge's revenues.

- 101 At first, Andy was hesitant. He saw Blackmore as competition, even though it was in a different business area. I convinced Andy that if Blackmore improved, it could benefit Surge and it wouldn't affect LCF's investment. Blackmore didn't have the funds to pay Andy, so I decided Surge would cover his fees. The idea was simple: if Surge spent money to get Andy's expertise and Blackmore started doing as well as LCF, Surge would quickly earn back its investment. We didn't put this deal in writing as it didn't seem necessary.
- 102 Surge paid for Andy to guide Pat and help Blackmore become more professional. Pat told me that Andy did this through face-to-face meetings, calls, and emails the intention of which was to improve the quality of Blackmore and bring it up to the level that LCF was at. My part was to cover the costs, while Andy provided the expertise. The scope of the work I wanted Andy to do was wide – it was whatever could have benefitted the growth of Blackmore.
- 103 Blackmore subsequently submitted an application to the FCA which I believe led to an investigation into them by the regulator that lasted around a year. It was dealt with by NCM and their CEO, Kathleen. We assisted with the information she needed to provide the FCA during that time, including copies of our contract with Blackmore, the sign-up process and details on the type of customer Blackmore had. Blackmore wasn't allowed to accept investment during the investigation and in my mind that hiatus resulted in the eventual demise of Blackmore; stopping investment in a building company for a year was extremely detrimental.
- 104 When the application was submitted by Blackmore, Andy stopped working with Pat. When the FCA investigation into Blackmore concluded I saw the letter the FCA sent Blackmore and it said "For the avoidance of doubt, we have not determined that any rules or any other regulatory requirements or standards have been breached." We then began working with Blackmore again and they could accept investment.

#### **E7. Fees paid to Spencer Golding**

- 105 In 2017, Spencer visited our new Brighton office. It was an impressive office with space to seat over 120 people over 2 floors. It had multiple boardrooms and a café area which had a barista working for staff every morning. He was impressed with our operations. I told him of my plan for Surge to grow by providing our services to other finance companies by selling our technology platform which was by then growing into a best-in-class technology stack that could onboard financial customers securely and compliantly. Soon after that meeting, John approached me with Spencer's request for a 1% introduction fee for connecting Surge to LCF. John assured us that such a fee was standard in the industry and I was aware myself that introduction fees were customary. I said the only way I would agree to it is with a formal agreement, but in the end, one never came and I never chased it as I was too busy.

- 106 Once we had agreed the 1% fee, John mentioned that Spencer wanted to apply the fee retrospectively from the start of our engagement with LCF. I wasn't keen on it and I pushed back. I initially said no on the basis this should have been agreed at the outset, but in the end I had to take a view on the pivotal role Spencer played in establishing our relationship with LCF. Given LCF's growth and our wider ambitions to build Surge out with other clients, I decided it was a fair price for the introduction.
- 107 The fee was routed to a business connected to Spencer, which was a horse grooming outfit. I didn't find this unusual given my understanding that Spencer owned it.
- 108 From the outset, Spencer seemed to be our main point of contact with LCF. However, as the relationship progressed, Andy took on a more central role, and Spencer's involvement seemed to diminish. I do not recall if I told Andy about the 1% fee to Spencer. I think I may have told Andy, but I am unsure.
- 109 My interactions with LCF revealed the complexities of the LCF structure. While our initial impressions placed Spencer at the core of LCF, Andy's later assertions, including conversations he had had with Kerry and I, painted a different picture. He had told us that we weren't to disclose information about LCF to Spencer as it was his company and not Spencer's. At the time we were not overly concerned with the ownership dynamics, they were a client, and our priority was providing a good service and building out our own business.

#### **F1. London Oil and Gas ('LOG')**

- 110 Surge's primary relationship was with LCF. It was unclear what the financial ties with LOG were originally. I know that LOG became a borrower of LCF. Most of my understanding came from casual conversations with Andy or Kerry. Additionally, I knew Simon, Spencer, and Elten had affiliations with LOG but I was never sure in exactly what capacity. Simon clearly had deep knowledge and involvement in the oil and gas sector, which was reassuring.
- 111 In 2017, Simon approached us to design LOG an oil and gas bond from a marketing perspective. He was enthusiastic about the opportunities that were available in the North Sea oil and gas sector, especially with potential collaborations on the horizon that he said he had. When Kerry and I first looked at a gas and oil opportunity pitched by Simon in 2015, we did not feel this was right for Surge. The idea of marketing oil and gas bonds to the general public seemed too complicated. But the landscape in 2017 was different; LOG had formed promising relationships, notably with big players like BP, making their bond proposal more enticing for investors.
- 112 After several meetings, we decided to design the bond for LOG. Our fees for this project were set at £250k to set it up, paid £125k on day one and £125k on launch of the bond, and then our usual 25% commission ongoing after that to provide the technology platform, account managers etc. We came up with branding and started to work on re-skinning the technology which means repurposing our technical platform in readiness for a new product, for the onboarding and management of clients.

- 113 Kerry led our efforts on this. She would keep me updated, even if I occasionally struggled with some of the more intricate details as by then I was working on some of my other businesses such as Crucial Group where we had just secured a great contract with the Government and had taken on Johnny Mercer MP as a Non-Executive Director. That business was taking up a lot of time for me during this time. Kerry spent a lot of time working from LOG's offices in Kent, working on the new bond with the client.
- 114 Towards the end of 2017, when the bond's promised security looked like it was not sufficient, we decided that it wasn't worth progressing because our model was to be paid for onboarding new clients and new clients wouldn't be interested in it if there was inadequate security. We kept the £125k to reflect the significant work we had done to date.

## **E2. Northbridge Finance**

- 115 Northbridge Finance was another client we began working with, but which didn't actually go anywhere. We spent time in designing their marketing and preparing their technology platform and putting them on a standard 20% to 25% commission deal, but Northbridge's security wasn't as marketable as we would have liked. Although they were keen to raise funds, no significant investments flowed in and so we stopped working with them.

## **F. LCF administration and FCA investigation**


- 116 I first became aware of the FCA's concerns about LCF when the FCA went to LCF's offices in December 2018. Immediately after that happened, I also attended LCF's offices and spoke with Lewis Silkin who assured me the FCA were just concerned about LCF's ISA issue and that this was likely a 'storm in a tea cup', and LCF would be back up and running soon. I had a large number of staff working on LCF so I needed a resolution quickly. There was no resolution and I had to let all of those staff go.
- 117 LCF's administrators visited me at my offices in February 2019 and I told them that if there was anything I could do to assist to let me know. Surge assisted LCF's administrators as best it could in circumstances where there was a criminal investigation ongoing.
- 118 In May 2019 I emailed the Financial Services Compensation Scheme and asked if I could assist them, as I understood from the press that they were leading an investigation into whether or not LCF fell within their remit. They accepted my offer, and I subsequently provided them with all call recordings and copies of the CRM notes that we held for LCF.
- 119 In June 2019, I was arrested at my home by the Serious Fraud office. I spent all day and all evening at Worthing Police Station where I answered all questions put to me as best as I could.
- 120 My assets were restrained by the SFO for three years, which brought enormous financial damage to all of my businesses, and most of which folded because of it.
- 121 In June 2022, I was removed from the investigation and the restraint order was discharged in July. The SFO subsequently paid for my legal costs relating to the lifting of the restraint order.

122 In the wake of LCF's collapse four years ago and the enormous fallout it has had for so many people, especially bondholders who have lost money, I've found myself revisiting my decisions repeatedly. However, considering the information I had at hand at the time, it's hard to imagine that I, or anyone in my position, would have done anything differently. LCF had the backing of some of the market's most reputed advisors, lawyers, and accountants. Their operations seemed robust, their security was far more than the bonds they had issued and I could not have predicted the looming disaster.

### **STATEMENT OF TRUTH**

I believe that the facts stated in this witness statement are true. I understand that proceedings for contempt of Court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Signed:



Name: PAUL JAMES CARELESS

Dated: 14 September 2023

### **Confirmation of Compliance (PD 57AC, para 4.1)**

I understand that the purpose of this witness statement is to set out matters of fact of which I have personal knowledge. I understand that it is not my function to argue the case, either generally or on particular points, or to take the court through the documents in the case. This witness statement sets out only my personal knowledge and recollection, in my own words. On points that I understand to be important in the case, I have stated honestly (a) how well I recall matters and (b) whether my memory has been refreshed by considering documents, if so how and when. I have not been asked or encouraged by anyone to include in this statement anything that is not my own account, to the best of my ability and recollection, of events I witnessed or matters of which I have personal knowledge.

Signed:



Name: PAUL JAMES CARELESS

Dated: 14 September 2023




**Certificate of Compliance (PD 57AC, para 4.3)**

I hereby certify that:

1. I am the relevant legal representative within the meaning of Practice Direction 57AC.
2. I am satisfied that the purpose and proper content of trial witness statements, and proper practice in relation to their preparation, including the witness confirmation required by paragraph 4.1 of Practice Direction 57AC, have been discussed with and explained to Paul Careless.
3. I believe this trial witness statement complies with Practice Direction 57AC and paragraphs 18.1 and 18.2 of Practice Direction 32, and that it has been prepared in accordance with the Statement of Best Practice contained in the Appendix to Practice Direction 57AC.

Signed:

A black rectangular box redacting the signature of Richard Clayman.

Name: RICHARD CLAYMAN

Position: Partner, Kingsley Napley LLP

Dated: 14 September 2023

# Annex 1: List of Documents (PD 57AC, para 3.2)

Bates Document Reference	
SUR00000911	SUR00000911-0001
SUR00000912	SUR00000912-0001
SUR00001295	SUR00001295-0001
SUR00129132	SUR00129132-0001
SUR00001593	SUR00001593-0001
SUR00001607	SUR00001607-0001
SUR00002513	SUR00002513-0001
SUR00129616	SUR00129616-0001
SUR00129617	SUR00129617-0001
SUR00002675	SUR00002675-0001
SUR00002676	SUR00002676-0001
SUR00002886	SUR00002886-0001
SUR00003077	SUR00003077-0001
SUR00003158	SUR00003158-0001
SUR00129922	SUR00129922-0001
SUR00003194	SUR00003194-0001
SUR00004160	SUR00004160-0001
SUR00004894	SUR00004894-0001
SUR00130635	SUR00130635-0001
SUR00131168	SUR00131168-0001
SUR00006938	SUR00006938-0001
SUR00007117	SUR00007117-0001
SUR00007255	SUR00007255-0001
SUR00007256	SUR00007256-0001
SUR00007257	SUR00007257-0001
SUR00007259	SUR00007259-0001
SUR00007260	SUR00007260-0001
SUR00007261	SUR00007261-0001
SUR00007262	SUR00007262-0001

SUR00009047
SUR00009048
SUR00013817
SUR00013818
SUR00022431
SUR00024878
SUR00133630
SUR00133631
SUR00133632
SUR00133633
SUR00133922
SUR00036920
SUR00135646
SUR00135647
SUR00045554
SUR00135862
SUR00053735
SUR00059787
SUR00061880
SUR00137225
SUR00062433
SUR00062434
SUR00062690
SUR00063305
SUR00063311
SUR00137494
SUR00064819
SUR00072864
SUR00075879
SUR00139929
SUR00139967

SUR00079277
SUR00140467
SUR00081389
SUR00081695
SUR00084463
SUR00142801
SUR00092771
SUR00092851
SUR00092855
SUR00093001
SUR00144610
SUR00093340
SUR00093456
SUR00093526
SUR00093579
SUR00099146
SUR00100745
SUR00101544
SUR00101584
SUR00101585
SUR00101713
SUR00101714
SUR00147662
SUR00101856
SUR00147671
SUR00102519
SUR00103356
SUR00106335
SUR00149323
SUR00111020
SUR00111392

SUR00113723
SUR00116001
SUR00157693
SUR00127637
SUR00019510
SUR00023081