



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF
KALLO INC., JOHN CECIL and SAMUEL PYO**

STATEMENT OF ALLEGATIONS
(Subsection 127(1) and Section 127.1
of the *Securities Act*, RSO 1990, c S.5)

A. OVERVIEW

1. This proceeding involves an Ontario-based corporation, Kallo Inc. (**Kallo**), that disclosed in 2020, during a global pandemic, it had entered into contracts with five African countries to provide over €5.9 billion worth of healthcare goods and services. Kallo along with its Chief Executive Officer, John Cecil (**Cecil**), and only other full-time employee, Samuel Pyo (**Pyo**) misled investors and committed fraud. They knew or reasonably ought to have known the disclosure was false, that the contracts were not real, and that the contracts could not and would not be performed.

2. Between August 10, 2020 and December 23, 2020, Kallo filed initial reports disclosing that it had entered into material definitive agreements with the governments of Kenya, Ethiopia, Eritrea, Eswatini and Mozambique to provide significant upgrades to their healthcare infrastructure, including provision of mobile clinics, emergency services, medical devices, a telehealth and electronic medical records system, and healthcare education/training (the **2020 Contracts**). The disclosure of the 2020 Contracts to investors caused Kallo's share price to skyrocket and increased the company's market capitalization from \$9 million to \$110 million.

3. The Respondents knew or reasonably ought to have known that the disclosure of the 2020 Contracts was misleading or untrue. Kallo had no finished product, a limited internal team and limited relationships with vendors. Kallo never signed any binding agreements to provide goods or services for the 2020 Contracts, never acted in a manner that indicated that it intended to begin work on any of the projects, never visited the countries in question, never communicated with their government officials and did not have any expertise in these the healthcare needs of these

countries. In addition, contract amounts for the 2020 Contracts are so exorbitant that Kallo knew or should have known they could never be performed.

4. The Respondents either knew or ignored indications that the 2020 Contracts were fabricated and did no due diligence on their agents and partners who purportedly liaised with the African governments on Kallo's behalf. They either knew that the 2020 Contracts were not authentic or took no steps to verify their authenticity, despite obvious warning signs, including when the government of Kenya in March 2021 publicly denied entering into any such agreements with Kallo.

5. Investors buy and sell securities in reliance on a company's public disclosure and it is critical to the integrity of the capital markets that this disclosure is truthful and accurate. All Kallo investors who bought shares following August 10, 2020 suffered deprivation or a risk of deprivation as a result of Kallo's materially false disclosure.

B. FACTS

Staff of the Enforcement Branch of the Ontario Securities Commission (**Enforcement Staff**) makes the following allegations of fact:

(i) Kallo's False and/or Misleading Disclosure of the 2020 Contracts

Kallo Was Selling an Incomplete Healthcare Concept

6. Kallo, a Nevada corporation with its head office, mind and management in Ontario, is a public company created through a reverse takeover. Kallo files disclosure with the Securities and Exchange Commission (**SEC**) and trades on the over-the-counter (**OTC**) markets. Kallo claims to offer a healthcare solution for developing countries called the Kallo Integrated Delivery System (**KIDS**), which consists of a plan to implement a system of mobile clinics, emergency services, digital services such as telehealth and an electronic medical records (**EMR**) system, as well as education/training for various aspects of healthcare management.

7. Kallo employees and vendors did some development work on the KIDS concept between 2014 to 2016, but the development work was abandoned in early 2017 when Kallo shut its offices, vendors terminated their relationships and repossessed equipment due to nonpayment, and all employees other than Cecil or Pyo (and Kallo's two remaining members of the Board of Directors) left the company. Kallo never produced a mobile clinic or any healthcare

clinics/hospitals, managed emergency services, developed a functional telehealth or EMR system, or employed (or entered into a binding contract with) anyone able to provide education or training for healthcare management.

8. In spite of the above, in or around 2019, Kallo engaged agents, such as Global Interest Services Inc. (**GIS**) and its principal Charles Muir (**Muir**), to negotiate agreements on its behalf in Africa. Kallo did little to no diligence on its agents or partners to ensure that they were legitimate or had the experience necessary to negotiate or work on massive healthcare infrastructure projects.

Disclosure of Contracts with Five Countries in Six Months

9. Between August and December 2020, Kallo disclosed that it had entered into the 2020 Contracts with the following countries:

- (a) Republic of Kenya on June 26, 2020 (€1,068,932,543);
- (b) Kingdom of Eswatini (formerly Swaziland) on November 19, 2020 (€549,978,787);
- (c) Federal Democratic Republic of Ethiopia on November 30, 2020 (€2,459,817,336);
- (d) Republic of Mozambique on December 18, 2020 (€1,305,256,575); and
- (e) State of Eritrea on December 18, 2020 (€521,437,477).

10. The 2020 Contracts all allegedly involved a sale of KIDS, along with certain extra goods or services for certain countries. The healthcare services included in each of the 2020 Contracts are based on the KIDS concept and include mobile clinics, emergency services, telehealth and EMR systems, medical devices and specialist hospitals.

11. The 2020 Contracts for Kenya also included the provision of a rapid response program for the COVID-19 pandemic (including COVID-19 test kits and personal protective equipment (**PPE**)). At the time of the alleged contract execution (June 2020) and disclosure of the contracts (August 2020), the COVID-19 pandemic was raging and there was a worldwide shortage of PPE. The COVID-19 tests and PPE would allegedly be provided by one of Kallo's agents, Magnitudo Africa (Pty) Ltd. (**Magnitudo**), a company that Kallo did little to no diligence on.

Kallo Claims 2020 Contracts Will Be Privately Financed

12. Despite the incomplete nature of the KIDS concept and the inability of Kallo to actually perform a project, Kallo engaged a financing partner, Techno-Investment Module Inc. (**Techno**),

a private Belarussian company, six months prior to the first 2020 Contract. Kallo claimed Techno would be able to provide financing for all of its projects despite doing little to no due diligence on Techno or its Director and Chief Executive Officer, Sergey Pokusaev (**Pokusaev**).

13. The terms of the financing contracts with Techno indicate that Techno would not make any payments to Kallo until the government in question provided collateral for the loan (also known as a bank guarantee, standby letter of credit (**SBLC**) or MT760). During the investigation, Kallo produced a letter dated March 1, 2021 allegedly from the government of Kenya stating that the issuance of an SBLC was approved and encouraged “immediate execution” of the project. There is no evidence showing how this letter was delivered to Kallo. Kallo did not take any steps after this letter to begin working on the project.

Kenya Denial of 2020 Contracts

14. Following the disclosure of Kallo’s 2020 Annual Report on March 3, 2021, which provided an overview of all the 2020 Contracts, an article in a local Kenyan newspaper alerted the government of Kenya to Kallo’s public disclosure of the 2020 Contracts. The same day, the Kenyan government publicly denied entering into any contracts with Kallo. On March 22, 2021, the government of Kenya made a complaint to the SEC about Kallo’s false disclosure and trading in Kallo shares was temporarily suspended.

15. On March 26, 2021, while its trading was suspended, Kallo disclosed to investors that it had received a letter from Kenya stating that the project was “put on hold” as a result of upcoming elections, media attention and political complications. The government of Kenya found no evidence of any letters sent by government officials to Kallo.

16. The government of Kenya maintains that the 2020 Contracts are fabrications and that these letters, purportedly from the government of Kenya, are not authentic. Kallo never disclosed to investors that the Kenyan government has publicly and repeatedly denied entering into any contracts with Kallo. Kallo never disclosed to investors that the government of Kenya made a complaint to the SEC regarding Kallo’s disclosure and instead continues to maintain in its public disclosure that all of the 2020 Contracts are legitimate and have merely been put on hold.

(ii) Kallo Could Not Have Performed the 2020 Contracts

Kallo Had No Ability to Perform the 2020 Contracts and Did Not Take Steps to Perform Them

17. Kallo, Cecil and Pyo knew or reasonably ought to have known there was no reasonable prospect that Kallo could have performed its obligations under the 2020 Contracts. At the time, Kallo was a shell company with little to no business operations, no office, no equipment and was relying on a single private investor in Ontario to continue to fund its business operations. Kallo has never made a successful sale of KIDS or any other healthcare services, never undertaken any healthcare projects in any developing countries or anywhere else, never earned any revenue, and was warning investors that the company was insolvent and may not be able to continue as a going concern.

18. Kallo did not take any steps following the signature of the 2020 Contracts that would be expected of a company that just signed five massive healthcare infrastructure deals in a matter of months. Kallo did not enter into binding agreements with vendors, hire new staff, contact anyone with the required expertise, purchase any equipment, or even visit the countries where it would be implementing these projects. Kallo did not have any real plans in place to begin work on these five simultaneous projects worth billions of euros.

Kallo Had No Vendor Agreements or Guarantees for the 2020 Contracts

19. Kallo did not have agreements in place, other than non-disclosure agreements or general non-binding collaboration agreements, with any vendors at the time the 2020 Contracts were signed or any time thereafter. However, in response to questions asked during the investigation, Kallo stated that vendors would perform the bulk of its obligations under the 2020 Contracts.

20. Kallo specifically stated that IBM Canada Ltd. (**IBM**) would have provided the majority of the staffing, organization and technology for the projects. However, IBM described its client relationship with Kallo in 2020 as “nonexistent.” Kallo still owed IBM between \$800,000 and \$1,000,000 in unpaid invoices for work done by IBM on Kallo’s KIDS framework between 2014 and 2016. In early 2017, IBM terminated its agreements and relationship with Kallo and repossessed all of the equipment that it had provided to Kallo. IBM refused to do any further work for Kallo until past invoices were paid and Kallo provided an irrevocable letter of credit (**ILOC**) from a reputable financial institution to ensure payment for future work. Kallo never paid its invoices or provided the ILOC.

21. Kallo also stated that SPEVCO, Inc. (**SPEVCO**) would be providing all of the mobile clinics for the 2020 Contracts. However, SPEVCO denied having any relationship with Kallo in 2020, as they never entered into an agreement. Kallo only contacted SPEVCO for the first time in early June 2020 (shortly before the Kenya contracts were allegedly signed on June 26, 2020) through their website. Kallo asked SPEVCO if they would be able to provide one medical trailer and one utility trailer (significantly less than the dozens of mobile clinics promised in the 2020 Contracts). SPEVCO agreed it could start work on these trailers if Kallo provided a deposit, but Kallo never provided a deposit and SPEVCO did not perform any work.

22. Kallo did not inform any vendors about the 2020 Contracts prior to entering into those contracts, provide them with copies of the contracts once they were executed, or explain the scope of Kallo's obligations under the agreements. The conversations with vendors were preliminary, infrequent and not sufficient for Kallo to conclude that it would be able to provide the products and services set out in the 2020 Contracts.

Kallo's Internal Team Could Not Perform the Contracts

23. Without the required commitment from vendors, Kallo and its employees did not have the expertise and experience necessary to perform the 2020 Contracts. The Respondents stated that the proposals for the 2020 Contracts were tailored to each African country solely based on internet searches conducted by Pyo, such as reviewing the World Health Organization website.

24. Kallo did not reach out to any of its former employees to re-hire them when the 2020 Contracts were executed nor did Kallo hire any new staff. In particular, Kallo's former Chief Medical Officer, who was still listed as an employee on Kallo's website at the time, had stated a willingness to work with Kallo in the future if they were able to secure an agreement and pay her salary. Kallo did not inform her or any of its former employees of the of the 2020 Contracts when they were executed.

(iii) The 2020 Contracts Are Not Real

25. In addition to Kallo having no reasonable prospect of fulfilling its contractual promises, there are numerous indications that the 2020 Contracts were fabricated by Kallo and/or its agents. Kallo, Cecil and Pyo either knew or deliberately ignored indications that the 2020 Contracts were not real. Even when advised through Kenya's public denials and complaint to the SEC (resulting in a trading suspension) that the contracts were fabricated, they took no steps to

independently verify the authenticity of the contracts or follow up with Kenya or other countries to ensure the validity of the agreements.

Denials by African Governments

26. As indicated above, the government of Kenya has publicly and repeatedly denied any relationship with Kallo and denied that it entered into the 2020 Contracts. The government of Kenya made a complaint to the SEC when it learned of Kallo's disclosure to investors and stated that the 2020 Contracts were forgeries. In contrast, the government of Kenya has publicly released details regarding its other legitimate healthcare projects and loans during the same time period.

27. The government of Eswatini similarly has denied any relationship with Kallo and denied that it entered into the 2020 Contracts. The Eswatini Minister of Finance maintains that the 2020 Contracts were not signed by him, the stamps of the Eswatini government on the 2020 Contracts are not the correct stamps, and the 2020 Contracts were never shared with the government.

No Evidence of Government Communications

28. Although they have not publicly denied the 2020 Contracts, there is no reliable evidence that the governments of Ethiopia, Mozambique or Eritrea have or ever had any relationship with Kallo or entered into the 2020 Contracts. There is no evidence that legislative or other government approvals were obtained by these countries. There is no evidence that these countries publicly or otherwise acknowledged entering into contracts with Kallo, loan agreements with Techno, or otherwise agreed to any healthcare projects with Kallo.

29. Kallo acknowledges that it never spoke with any government officials in Kenya, Eswatini, Ethiopia, Mozambique or Eritrea in person, by phone or by video-conference. During the investigation, Kallo stated that all communications with government officials happened through its agents, but there is no evidence that Techno, GIS, Magnitudo or any "agents" actually spoke with government officials in any of these countries. Muir, the principal of GIS and Kallo's primary agent for the alleged negotiations, admitted that he did not actually travel to Kenya, Eswatini, Mozambique or Eritrea and did not speak with government officials in those countries. Instead, Kallo and GIS stated that these negotiations were handled by unidentified "local representatives," with the exception of one individual known to the Respondents as "Patrick."

30. During the investigation, Kallo produced certain letters that it alleges were received from African government officials, but has no evidence of actual delivery or receipt. These purported letters were produced as loose documents with no evidence as to how these letters were delivered to Kallo. There is also no evidence that the executed 2020 Contracts were actually received from African government officials.

Contract Negotiations and Amounts are Not Credible

31. In addition, according to the documents, these billion-euro deals were negotiated with African governments in a few weeks. Kallo stated during the investigation that it was not required to go through any type of bidding or tender process because the 2020 Contracts were being privately financed, but did not provide any evidence for this statement other than an alleged conversation with Muir.

32. During the investigation, Kallo stated that it sent introductory letters to African governments and received signed contracts back in as little as 21 days, but there is no evidence:

- (a) of any contract negotiation taking place with any of the five countries;
- (b) that anyone from the African governments, such as healthcare experts or legal counsel, provided comments on the healthcare project or the loan terms;
- (c) that drafts of the contracts were exchanged;
- (d) that the prices in the 2020 Contracts were negotiated or had a basis in an analysis by Kallo of potential profitability; or
- (e) that anyone had any input into the 2020 Contracts other than the Respondents.

33. In addition, the total amounts of these contracts are exorbitant and, for many of these countries, are significantly greater than the entire government's annual healthcare budget. Kallo took no steps to ensure that the governments could actually afford the loan amounts.

Document Irregularities Suggest Fabrication by Kallo and/or its Agents

34. There are many document irregularities in the 2020 Contracts and alleged correspondence with African government officials that suggest that these contracts and correspondence were fabricated by Kallo and/or its agents. For example:

- (a) the signatures of government officials do not match other publicly available signatures by these individuals;

- (b) certain seals purportedly placed on the contracts by African government officials have a high school logo as their base layer;
- (c) signatures and stamps of the notaries who notarized the contracts for Cecil and Pokusaev were moved and/or altered after they notarized the contracts;
- (d) one of the notaries for the 2020 Contracts did not notarize the contract for Eritrea, despite his signature and stamp being on the documents;
- (e) letters that appear to be from different government officials share similarities and/or metadata suggesting that they were drafted by the same source; and
- (f) Pyo drafted and sent Cecil word documents of letters that appear to be from African government officials.

(iv) Kallo's Disclosure Materially Impacted Kallo's Shares and Caused Investor Harm

35. In early August 2020, prior to the disclosure of the 2020 Contracts with Kenya, Kallo's share price was publicly reported as trading for less than a penny (\$0.008). Following the disclosure of the contracts with Kenya on August 10, 2020, the volume of trading and price of Kallo shares increased significantly.

36. Following the disclosure of the Eswatini contracts on November 25, 2020 the volume of trading and the price of Kallo shares spiked again. The share price and volume of trading remained high as Kallo disclosed the other 2020 Contracts for Ethiopia, Eritrea and Mozambique in December 2020. Then, following the release of Kallo's 2020 Annual Report on March 3, 2021, Kallo's share price was publicly reported as hitting a high of \$0.1899 on March 10, 2021, representing an over twenty-fold increase in share price since August 9, 2020.

37. When the Kenyan government publicly denied entering into the contract with Kallo on March 22, 2021, and the SEC ordered a trading suspension of Kallo's shares, the share price nosedived back down to a penny stock. When the trading suspension was lifted on April 8, 2021, Kallo's share price was again publicly reported as trading under a penny (\$0.001).

38. Between August 10, 2020 to March 23, 2021, approximately 8 million shares of Kallo were sold on the secondary market for approximately US \$570,000. Kallo's market capitalization increased during this period from approximately US \$9 million to US \$ 110 million. The public disclosure of the 2020 Contracts therefore had a significant effect on the market price or value of the Kallo securities. All of the investors who purchased Kallo securities during this time either

suffered a decline in the value of their shares or had their pecuniary interests put at risk as a result of Kallo's misleading disclosure.

(v) Kallo Continues to Mislead Investors

39. Kallo has not revised or removed the misleading public disclosure regarding the 2020 Contracts. Following the trading suspension, Kallo continued to issue disclosure maintaining the existence of the 2020 Contracts and Kallo's shares continue to trade on the OTC markets with a caveat emptor warning. Any investors who purchased Kallo shares following the trading suspension also had their pecuniary interests put at risk due to Kallo's misleading disclosure.

(vi) Misleading Statements During Investigation

40. Both Cecil and Pyo made several false and/or misleading statements during the course of the investigation into the conduct of the Respondents and in their compelled interviews.

41. Cecil and Pyo maintained during the investigation that the 2020 Contracts were authentic and made misleading statements regarding the negotiations of the 2020 Contracts, including claiming that Kallo had conversations with African government officials. Both Cecil and Pyo also made misleading statements about their own and Kallo's financials, including claiming that they did not receive any payments from Kallo and that Kallo did not make payments to any of Kallo's partners or agents. Both Cecil and Pyo stated that they were not aware of any issues with the authenticity of the 2020 Contracts.

C. BREACHES OF ONTARIO SECURITIES LAW

Enforcement Staff alleges the following breaches of Ontario securities law:

(i) Fraud

42. As set out above, Kallo, Cecil and Pyo engaged in or participated in acts, practices, or a course of conduct relating to securities that they knew or reasonably ought to have known perpetrated a fraud on persons or companies contrary to subsection 126.1(1)(b) of the *Securities Act*, RSO 1990, c S.5 (the **Act**).

(ii) Misleading Disclosure

43. As set out above, Kallo and Cecil made statements which they knew or reasonably ought to have known were materially false or misleading and would reasonably be expected to have a

significant effect on the price or value of Kallo's securities, contrary to subsection 126.2(1) of the Act.

(iii) Misleading Statements

44. As set out above, Cecil and Pyo also misled the Investigation Team by making false or misleading statements on material matters and/or omitting facts required to make the statements not materially misleading contrary to subsection 122(1)(a) of the Act.

(iv) Director / Officer Liability

45. Cecil authorized, permitted or acquiesced in Kallo's non-compliance with Ontario securities law, contrary to section 129.2 of the Act.

D. ORDERS SOUGHT

46. Enforcement Staff requests that the Capital Markets Tribunal (the **Tribunal**) make the following orders:

(a) as against Kallo:

- (i) that it cease trading in any securities or derivatives permanently or for such period as is specified by the Tribunal, pursuant to paragraph 2 of subsection 127(1) of the Act;
- (ii) that it be prohibited from acquiring any securities permanently or for such period as is specified by the Tribunal, pursuant to paragraph 2.1 of subsection 127(1) of the Act;
- (iii) that any exemption contained in Ontario securities law not apply to it permanently or for such period as is specified by the Tribunal, pursuant to paragraph 3 of subsection 127(1) of the Act;
- (iv) that it be reprimanded, pursuant to paragraph 6 of subsection 127(1) of the Act;
- (v) that it be prohibited from becoming or acting as a registrant or promoter permanently or for such period as is specified by the Tribunal, pursuant to paragraph 8.5 of subsection 127(1) of the Act;
- (vi) that it pay an administrative penalty of not more than \$1 million for each failure to comply with Ontario securities law, pursuant to paragraph 9 of subsection 127(1) of the Act;
- (vii) that it disgorge any amounts obtained as a result of non-compliance with Ontario securities law, pursuant to paragraph 10 of subsection 127(1) of the Act;
- (viii) that it pay costs of the investigation and the hearing, pursuant to section 127.1 of the Act; and

- (ix) such other order as the Tribunal considers appropriate in the public interest.
- (b) as against each of Cecil and Pyo:
- (i) that he cease trading in any securities or derivatives permanently or for such period as is specified by the Tribunal, pursuant to paragraph 2 of subsection 127(1) of the Act;
 - (ii) that he be prohibited from acquiring any securities permanently or for such period as is specified by the Tribunal, pursuant to paragraph 2.1 of subsection 127(1) of the Act;
 - (iii) that any exemption contained in Ontario securities law not apply to him permanently or for such period as is specified by the Tribunal, pursuant to paragraph 3 of subsection 127(1) of the Act;
 - (iv) that he be reprimanded, pursuant to paragraph 6 of subsection 127(1) of the Act;
 - (v) that he resign any position he may hold as a director or officer of any issuer, pursuant to paragraph 7 of subsection 127(1) of the Act;
 - (vi) that he be prohibited from becoming or acting as a director or officer of any issuer permanently or for such period as is specified by the Tribunal, pursuant to paragraph 8 of subsection 127(1) of the Act;
 - (vii) that he resign any position he may hold as a director or officer of any registrant, pursuant to paragraph 8.1 of subsection 127(1) of the Act;
 - (viii) that he be prohibited from becoming or acting as a director or officer of any registrant permanently or for such period as is specified by the Tribunal, pursuant to paragraph 8.2 of subsection 127(1) of the Act;
 - (ix) that he be prohibited from becoming or acting as a registrant or promoter permanently or for such period as is specified by the Tribunal, pursuant to paragraph 8.5 of subsection 127(1) of the Act;
 - (x) that he pay an administrative penalty of not more than \$1 million for each failure to comply with Ontario securities law, pursuant to paragraph 9 of subsection 127(1) of the Act;
 - (xi) that he disgorge any amounts obtained as a result of non-compliance with Ontario securities law, pursuant to paragraph 10 of subsection 127(1) of the Act;
 - (xii) that he pay costs of the investigation and the hearing, pursuant to section 127.1 of the Act; and
 - (xiii) such other order as the Tribunal considers appropriate in the public interest.

DATED this 23rd day of May, 2023.

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