



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF THE *SECURITIES ACT*,
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF
JEROME JOHN RAK**

**STATEMENT OF ALLEGATIONS
OF STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff of the Ontario Securities Commission (“Staff”) allege:

I. OVERVIEW

1. On December 8, 2011, Jerome John Rak (“Rak”) entered into a settlement agreement with the British Columbia Securities Commission (“BCSC”) (the “Settlement Agreement”).
2. Rak is subject to an order made by the BCSC dated December 8, 2011 (the “BCSC Order”) that imposes sanctions, conditions, restrictions or requirements upon him.
3. In the Settlement Agreement, Rak consented to any securities regulator in Canada relying on the facts admitted in his Settlement Agreement for the purpose of making a similar order.
4. Staff are seeking an inter-jurisdictional enforcement order reciprocating the BCSC Order, pursuant to paragraphs 4 and 5 of subsection 127(10) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “Act”).
5. The conduct for which Rak was sanctioned occurred in August 2009.

II. THE BCSC PROCEEDINGS

Facts Agreed to by Rak

6. In his Settlement Agreement, Rak admitted the following:
 - a. Velo Energy Inc. (“Velo”) is an Alberta company and a reporting issuer whose shares traded on the TSX Venture Exchange. At all relevant times, Velo maintained a business address in Vancouver, British Columbia. On July 22, 2010, Velo changed its name to Canadian Overseas Petroleum.
 - b. Belmont Capital Corporation (“Belmont”) is a private British Columbia holding company.
 - c. Rak is a resident of West Vancouver, British Columbia, and the sole director, officer and shareholder of Belmont. Rak utilizes Belmont for tax purposes to make investments in securities of reporting issuers. Rak has sole trading authority over Belmont’s trading accounts.
 - d. Arthur Millholland (“Millholland”) is a resident of Calgary, Alberta, and formerly the president and chief executive officer (CEO) of the now defunct Oilexco Inc., which was an oil exploration and development company with assets in the North Sea.
 - e. On August 4, 2009, Millholland came from Calgary and attended a meeting in West Vancouver with Frank Guistra, Ron Brimacombe and Rak. After that meeting, there was a verbal agreement that Millholland would become Velo’s president and CEO if the results of Millholland’s due diligence were satisfactory.
 - f. William Smith QC, a solicitor from Calgary, Alberta, and an associate of Millholland’s, was to conduct the due diligence.
 - g. On August 5, 2009, Millholland began drafting the news release that would announce he had become the new president and CEO of Velo (the

“News Release”). On August 6, 2009, Millholland sent the draft News Release to Rak.

- h. The due diligence was not completed by Smith until approximately 4:00 p.m. (EST) on August 7, 2009, at which time Smith gave final approval to issue the release.
- i. After the close of the market on Friday, August 7, 2009, Velo issued the News Release. Velo’s share price closed that day at \$0.20 per share. On August 10, 2009, Velo’s share price rose to a high of \$0.495.
- j. On August 5, 6 and 7, 2009, Rak, through Belmont, bought 172,000 shares of Velo at a cost of approximately \$32,188:

Date	Volume	Eastern Time	Price
05/08/2009	75,000	2:16:51 p.m.	\$0.17
06/08/2009	7,000	3:53:20 p.m.	\$0.17
07/08/2009	30,000	3:07:31 p.m.	\$0.19
07/08/2009	9,500	3:07:31 p.m.	\$0.195
07/08/2009	10,500	3:07:31 p.m.	\$0.195
07/08/2009	17,500	3:16:06 p.m.	\$0.195
07/08/2009	22,500	3:21:25 p.m.	\$0.195
	172,000		

- k. Prior to August 5, 2009, Rak was a significant buyer of Velo shares. Between April 1, 2009 and August 1, 2009, Rak bought 2,766,000 shares of Velo through Belmont. Rak’s Velo shares were converted to 704,625

shares of Canadian Overseas Petroleum (XOP) in August, 2010. Rak sold only 243,000 of the XOP shares in November 2010 and continues to hold 461,625 shares. With respect to the 172,000 shares referred to in paragraph (j) above, he did not sell any of them until December 1, 2009, at which time, he sold 22,000 shares. Rak sold the remainder of the 150,000 Velo shares (converted into 37,500 shares of XOP) in November 30, 2010.

1. Rak agrees that between August 5 and August 7, 2009, he was in a special relationship with Velo, and knew that there was a reasonable likelihood that Millholland would become its new president and CEO before it was generally disclosed, and purchased securities of Velo through Belmont's trading account, contrary to section 57.2 of the Act.
- m. Notwithstanding that Rak did not sell the shares on August 10, 2009, Rak agrees that if he had sold them on that date, he could have realized a profit of up to \$52,951.

The BCSC Order

7. In its Order dated December 8, 2011, the BCSC imposed the following sanctions:
 - a. pursuant to section 161(1)(b) of the *Securities Act*, RSBC 1996, c. 418 (the "BC Act"), Rak is prohibited from purchasing or trading securities or exchange contracts of any reporting issuer with whom he is in a special relationship for ten years; and
 - b. pursuant to section 161(1)(d)(ii) of the BC Act, Rak is prohibited from acting as a director or officer of any reporting issuer for five years.

III. JURISDICTION OF THE ONTARIO SECURITIES COMMISSION

8. In the Settlement Agreement, Rak agreed to be made subject to an order of the BCSC imposing sanctions, conditions, restrictions or requirements on him, and Rak consented to

any securities regulator in Canada relying on the facts admitted in the Settlement Agreement for the purpose of making an order similar to the BCSC Order.

9. Rak is subject to an order of the BCSC imposing sanctions, conditions, restrictions or requirements.
10. Pursuant to paragraphs 4 and 5, respectively, of subsection 127(10) of the Act, an order made by a securities regulatory authority, derivatives regulatory authority or financial regulatory authority, in any jurisdiction, that imposes sanctions, conditions, restrictions or requirements on a person or company, or an agreement with a securities regulatory authority, derivatives regulatory authority or financial regulatory authority, in any jurisdiction, to be made subject to sanctions, conditions, restrictions or requirements on the person or company may form the basis for an order in the public interest made under subsection 127(1) of the Act.
11. Staff allege that it is in the public interest to make an order against Rak.
12. Staff reserve the right to amend these allegations and to make such further and other allegations as Staff deem fit and the Commission may permit.
13. Staff request that this application be heard by way of a written hearing pursuant to Rules 2.6 and 11 of the Ontario Securities Commission's *Rules of Procedure*.

DATED at Toronto, this 9th day of October, 2013.