



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

**GROUND WEALTH INC., MICHELLE DUNK,
ADRION SMITH, JOEL WEBSTER, DOUGLAS DEBOER,
ARMADILLO ENERGY INC., ARMADILLO ENERGY, INC.,
and ARMADILLO ENERGY, LLC (aka ARMADILLO ENERGY LLC)**

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

Staff of the Ontario Securities Commission (“Staff”) make the following allegations:

I. OVERVIEW

1. From October 2010 through April 2011 the (“Material Time”), Ground Wealth Inc. (“GWI”) and others illegally distributed securities and traded securities without registration to Ontario investors. The securities entitled investors to the proceeds of the extraction and sale of oil from oil leases located in the State of Oklahoma, USA (the “Armadillo Securities”). GWI raised approximately CDN \$5.3 million by distributing the Armadillo Securities to more than 130 Canadian investors (the “Investors”; the “Investor Funds”). Approximately CDN \$2.8 million of the Investor Funds were paid by 68 of the Investors who were Ontario residents. GWI retained at least 22% of the Investor Funds as a fee for marketing the Armadillo Securities (the “GWI Marketing Fee”).

II. THE RESPONDENTS

2. GWI, formerly J.A.M.M. Tours Inc., is a company incorporated under the laws of Ontario with its office in Cambridge, Ontario. Michelle Dunk (“Dunk”) and Adrion Smith (“Smith”) incorporated GWI and are the beneficial owners and the only officers and directors of the company. GWI has never been registered with the Ontario Securities Commission (the “Commission”) in any capacity. GWI’s sole business during the Material Time was marketing the Armadillo Securities.

3. Dunk is a resident of Ontario. During the Material Time, Dunk was registered with the Ontario Ministry of Government Services (the “OMGS”) as a Director, the Vice-President, and the Secretary of GWI. Dunk has never been registered with the Commission in any capacity.

4. Smith is a resident of Ontario. During the Material Time, Smith was registered with the OMGS as a Director and the President of GWI. Smith was registered with the Commission in various categories at different times between June 2008 and April 2010.

5. Joel Webster (“Webster”) is a resident of Ontario. Webster has never been registered with the Commission in any capacity. At GWI, Webster held the titles of Sales Manager and Inside Sales Representative.

6. Douglas DeBoer (“DeBoer”) is a resident of Ontario, and has never been registered with the Commission in any capacity. During the Material Time, marketing documents produced by Armadillo and GWI described DeBoer as the Chief Financial Officer and Financial Director of Armadillo Energy Inc. (“Armadillo Texas”).

7. Armadillo Energy, Inc. (“Armadillo Nevada”) is a company incorporated under the laws of the State of Nevada with operations in Oklahoma. Armadillo Nevada has never been registered with the Commission in any capacity.

8. Armadillo Texas is a company incorporated under the laws of the State of Texas. Armadillo Texas has never been registered with the Commission in any capacity.

9. Armadillo Energy, LLC, also known as Armadillo Energy LLC (“Armadillo Oklahoma”), is a company incorporated under the laws of the State of Oklahoma. Armadillo Oklahoma has never been registered with the Commission in any capacity.

10. The three Armadillo companies operated as a single enterprise (collectively referred to herein as “Armadillo”).

III. PARTICULARS

The Armadillo Securities

11. The Armadillo Securities constituted securities under Ontario securities law.

12. The Armadillo Securities were sold in durations of seven, ten and fifteen years in the form of a document entitled “Partnership Agreement” setting out the terms of the investment (the “Partnership Agreement”).

13. The terms of the Armadillo Securities are also described in a document entitled “Prospectus” (the “Armadillo Prospectus”) which was provided to Investors.

14. After purchasing the Armadillo Securities, Investors received a document entitled “Certificate of Ownership” memorializing their investment. The words “stock certificate” are printed in the background of the document (the “Armadillo Certificate”).

15. The Investor, GWI and Armadillo are all named as parties to the Partnership Agreement. The Armadillo Securities entitle the Investor to the right to receive the proceeds of the extraction and sale of a certain amount of oil from specified oil leases each month for the duration of the investment (the “Production Payments”).

16. The Partnership Agreement provided that Investors were to make their cheques for the purchase of the Armadillo Securities payable to GWI.

17. The Production Payments are described in the Partnership Agreement as being net of certain fees and levies, including a Landowner Royalty of 18.75%, State Production Levies of 6%, and a \$0.14 per barrel Administrative Fee.

18. Ten and fifteen year investments in the Armadillo Securities were also offered with the option of re-investing the Production Payments.

Distribution and Trading

19. During the Material Time, Dunk, Smith, Webster, DeBoer, GWI and Armadillo (the “Respondents”), as well as representatives of GWI and Armadillo, traded the Armadillo Securities to members of the public in Ontario and elsewhere in Canada (the “Investors”).

20. GWI marketed the Armadillo Securities through a network of commissioned sales representatives (the “Sales Force”).

21. Investors who purchased Armadillo Securities paid their funds to GWI. GWI then facilitated the transfer of the majority of the Investor Funds to Armadillo.

22. Cheques for monthly Production Payments were sent by Armadillo to GWI for delivery to investors. At different times, the Production Payment cheques were drawn on accounts held by each of the three Armadillo companies.

23. The Sales Force sold the Armadillo Securities to the public using marketing materials provided by GWI, including written materials and video presentation materials.

24. In addition, GWI hosted dinners at restaurants in the Guelph and Kitchener-Waterloo areas at which persons associated with GWI and Armadillo solicited members of the public to invest in the Armadillo Securities (the “GWI Marketing Dinners”).

25. Also for the purpose of marketing the Armadillo Securities, GWI flew numerous prospective investors, including Ontario residents, together with members of the Sales Force to the State of Oklahoma, where they received a tour of oil drilling operations.

26. After deducting the GWI Marketing Fee, GWI remitted the remainder of the Investor Funds to Armadillo.

27. Members of the Sales Force and GWI management who successfully solicited Investors to purchase the Armadillo Securities were paid commissions of 5-12% of the value of each sale.

28. GWI did not disclose to Investors either in the Partnership Agreement or the Armadillo Prospectus that it was paying commissions to members of the Sales Force based on a percentage of the value of the Armadillo Securities the Investors purchased.

29. The solicitations and other acts in furtherance of the sale of the Armadillo Securities were trades in securities not previously issued and were therefore distributions. None of the Respondents has ever filed a preliminary prospectus or a prospectus with the Commission, and no prospectus receipt has ever been issued by the Director as required by section 53(1) of the Act to qualify the sale of any of the Armadillo Securities.

Michelle Dunk

30. Dunk was a directing mind for all of GWI's activities.

31. Dunk is registered with the OMGS as a Director, the Vice-President and Secretary of GWI.

32. Dunk signed all completed Partnership Agreements as President and Chief Executive Officer of GWI.

33. Throughout the Material Time, Dunk was a co-signing authority with Smith on GWI's bank accounts in Ontario and exercised control over GWI's finances.

34. Dunk trained members of the Sales Force on selling the Armadillo Securities.

35. Dunk met with prospective investors who were being solicited by members of the Sales Force to purchase the Armadillo Securities.

36. Dunk also made presentations to potential investors about the Armadillo Securities at GWI Marketing Dinners.

37. As a beneficial owner of GWI, Dunk had an interest in the funds received by GWI as the GWI Marketing Fee.

Adrion Smith

38. Throughout the Material Time, Smith was a co-signing authority with Dunk on bank accounts held by GWI in Ontario and signed numerous cheques on behalf of GWI.

39. Smith attended at least one GWI Marketing Dinner and attended on a trip to Oklahoma to see the Armadillo oil operation.

40. Smith oversaw staff members at GWI and assisted with training members of the Sales Force on sales techniques.

41. As a beneficial owner of GWI, Smith had an interest in the funds received by GWI as the GWI Marketing Fee.

Joel Webster

42. Webster assisted in drafting the Partnership Agreement for the Armadillo Securities, as well as GWI's written marketing materials.

43. Within the Material Time, Webster held signing authority over bank accounts held by GWI in Ontario.

44. Webster managed the Sales Force, including training the Sales Force on the Armadillo Securities.

45. Webster spoke on behalf of GWI in a marketing video for the Armadillo Securities and regularly spoke to potential investors at GWI Marketing Dinners.

46. Webster sold the Armadillo Securities himself and also spoke to potential investors to assist members of the Sales Force with their own sales of the Armadillo Securities.

47. Webster received sales commissions for his role in marketing the Armadillo Securities, both as a manager and for sales he made directly.

48. Webster supervised the completion of the Partnership Agreements and signed on behalf of GWI when Investors purchased the Armadillo Securities.

Douglas DeBoer

49. DeBoer developed the structure for the Armadillo Securities and introduced Armadillo to the investment concept. DeBoer subsequently provided advice to Armadillo on the structure of the Armadillo Securities.

50. DeBoer also introduced Dunk to the idea for the Armadillo Securities and put her in touch with Armadillo.

51. DeBoer participated in the training of the Sales Force on the Armadillo Securities.

Misleading Staff

52. In a compelled examination in this matter on November 29, 2012, Smith was questioned about a cheque for \$20,000 he wrote to GWI in March of 2011 and a cheque he received for the same amount in April 2011 from a person named Denise Warriner (“Warriner”). The cheque was marked with the memo line “GWI repayment/investment.” Smith was questioned about his knowledge of whether Warriner had invested in the Armadillo Securities and conversations he may have had with her about whether she invested. When asked “Who is Denise Warriner?” Smith identified her only as “a friend of mine,” and failed to advise Staff that Warriner was his spouse.

53. Smith’s answer, as described above, failed to state a fact, namely that Warriner and Smith are married, that was required to be stated or that was necessary to make the statement not misleading.

IV. ALLEGATIONS

54. Staff make the following specific allegations:

- (a) Between and including October 2010 and April 2011, the Respondents traded and engaged in or held themselves out as engaging in the business of trading in securities without being registered to do so in circumstances in which no exemption was available, contrary to s. 25(1) of the *Securities Act*, R.S.O. 1990, c.S.5, as amended (the “Act”);
- (b) Between and including October 2010 and April 2011, the Respondents distributed securities without a preliminary prospectus and prospectus having been filed and receipts having been issued for them by the Director and without an exemption from the prospectus requirement, contrary to section 53(1) of the Act;
- (c) Between and including October 2010 and April 2011, Dunk and Smith, being directors and/or officers of GWI, did authorize, permit or acquiesce in the commission of the

violations of sections 25 and 53 of the Act, as set out above, by GWI or by the employees, agents or representatives of GWI, contrary to section 129.2 of the Act;

(d) Between and including October 2010 and April 2011, DeBoer, being a director or officer or *de facto* director or officer of Armadillo, did authorize, permit or acquiesce in the commission of the violations of sections 25 and 53 of the Act, as set out above, by Armadillo or by the employees, agents or representatives of Armadillo, contrary to section 129.2 of the Act; and,

(e) On November 29, 2012, Smith made statements to Staff that, in a material respect and at the time and in light of the circumstances under which they were made, were misleading or untrue or did not state facts that were required to be stated or that were necessary to make the statements not misleading, contrary to s. 122(1)(a) of the Act.

V. CONDUCT CONTRARY TO THE PUBLIC INTEREST

55. The conduct of the Respondents contravened Ontario securities law and is contrary to the public interest.

VI. ORDERS REQUESTED

56. Staff seek enforcement orders under section 127 of the Act and costs under s. 127.1 of the Act.

57. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto this 31st day of October, 2013.