

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

- and -

IN THE MATTER OF TARAS HUCAL

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

Staff of the Ontario Securities Commission make the following allegations against the Respondent:

PART I – OVERVIEW

1. Taras Hucal (“Hucal” or “the Respondent”), being a market participant, failed to ensure books, records and other documents as were necessary for the proper recording of the business transactions and financial affairs of an investment fund manager were kept by the investment fund manager contrary to section 19(1) of the *Securities Act* R.S.O. 1990, c. S.5, as amended (the “Act”). Hucal also failed to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances respecting the management of an investment fund contrary to section 116 of the Act.

PART II - PARTICULARS

2. Between January 2009 and January 2010 (the "Material Time"), Hucal was the President of certain investment fund managers namely, frontierAlt Funds Management Limited ("FALT Management"), the general partner of frontierAlt 2007 Energy & Precious Metals Flow-Through Limited Partnership ("FALT 2007 LP") and the general partner of frontierAlt 2008 Precious Metals & Energy Flow-Through Limited Partnership ("FALT 2008 LP"). FALT Management, FALT 2007 LP and FALT 2008 LP were part of the frontierAlt ("FALT") financial organization.

3. FALT Management was the investment fund manager for the public mutual fund frontierAlt Resource Capital Class Fund ("FALT Resource"). FALT 2007 LP and FALT 2008

LP (collectively the "FALT LPs") were limited partnerships organized as public non-redeemable investment funds. The general partners for FALT 2007 LP and FALT 2008 LP respectively served as each FALT LP's investment fund manager. FALT Management and the general partners of the FALT LPs (collectively the "FALT Investment Fund Managers") were compensated by FALT Resource and the FALT LPs respectively (collectively the "FALT Investment Funds") for the provision of investment management services.

4. During the Material Time, a third-party investment counsel and portfolio manager (the "ICPM") had been retained and was acting as the ICPM for the FALT Investment Funds pursuant to portfolio management agreements.

5. During the Material Time, the general partners of the FALT LPs retained control over the portfolio assets of the FALT LPs, which were held in custody with third-party brokers. The general partners of the FALT LPs provided the ICPM information about the portfolio assets held by the FALT LPs through a back-office service provider affiliated with the FALT financial organization.

6. During the Material Time, Hucal failed to ensure that the FALT Investment Fund Managers kept proper books and records respecting fund manager activities for their respective FALT Investment Fund. In particular, the FALT Investment Fund Managers failed to maintain adequate documentation including a complete record of subscription agreements, trade instructions and, in the case of the FALT 2008 LP, records supporting offering costs expensed to the FALT 2008 LP. Although the FALT 2008 LP did not make public offerings during the Material Time, the expensing of such offering costs were reflected in FALT 2008 LP financial statements authorised by Hucal. Hucal failed to ensure that there was adequate supporting documentation respecting such offering costs expensed and recorded in the financial statements filed with the Commission during the Material Time.

7. During the Material Time, Hucal, as President of the general partners of the FALT LPs, failed to ensure that there were adequate internal controls respecting the safeguarding of the public assets of the FALT LPs. In particular Hucal:

- (a) failed to ensure that the records with brokers were updated when his predecessor in office resigned as President of the FALT Investment Fund Managers on or about December 12, 2008. The former President retained trading authorization for the brokers' accounts into 2009;
- (b) failed to implement effective policies and procedures to oversee the trading in the FALT LPs' brokerage accounts. There were no policies and procedures in place to monitor and document the access to and trading in the brokerage accounts by individuals who were neither officers nor directors of the FALT LPs' investment fund managers, including authority to direct brokers to issue cheques from the accounts; and
- (c) failed to implement effective policies and procedures and take adequate steps to oversee the investment process. During the Material Time, the FALT LPs' investment fund managers did not receive written trade instructions from the ICPM to conduct transactions in the FALT LPs in connection with private placement purchases of securities from issuers or in connection with secondary market purchases and sales of previously acquired securities held at brokers, and the FALT LPs' investment fund managers failed to maintain records of these instructions. Although Hucal was not actively involved in this investment process as other individuals at FALT facilitated these transactions, on a few occasions, Hucal signed private placement subscription agreements for the FALT LPs at the direction of other FALT representatives.

8. Staff asserts that, commencing in or about August 2009 and continuing through to December 2009, a principal of the FALT financial organization usurped the function of the ICPM and conducted purchases and sales of securities of reporting issuers in the FALT Investment Funds without the authorization, consent, approval or knowledge of the ICPM. Hucal denies knowledge of these trades but admits that as the President of the FALT Investment Fund Managers, he failed to ensure that there were adequate policies and procedures in place that were designed to prevent and detect unauthorized transactions.

9. During the Material Time, Hucal failed to provide adequate compliance and supervisory oversight of the FALT Investment Fund portfolios to ensure that the FALT Investment Funds adhered to their investment objectives and restrictions as disclosed in their prospectuses. In

January 2009, FALT Investment Funds held over-concentrations of securities of specific issuers, exceeded early warning thresholds without reporting these to the Commission on a timely basis, and acquired a control position in the securities of a reporting issuer. Although Hucal discussed the over-concentration issue with the ICPM, Hucal failed to ensure that the FALT Investment Fund filed early warning reports as required by section 102.1 of the Act and Part 7 of Rule 62-504 Take-Over and Issuer Bids. Hucal also failed to ensure disclosure of the risks of high concentrations of specific issuers in the prospectuses for FALT Resource as required under Item 9 of Form 81-101F1 Contents of Simplified Prospectus. The FALT Investment Fund Managers filed Mutual Fund Reports on Fund Performance. Although Hucal sought approval from certain board members of the FALT Investment Fund Managers, he failed to comply with the board approval requirements respecting Mutual Fund Reports on Fund Performance for the FALT Investment Funds as required by section 4.5 of NI 81-106 Investment Funds Continuous Disclosure.

PART IV - CONDUCT CONTRARY TO ONTARIO SECURITIES LAW AND CONTRARY TO THE PUBLIC INTEREST

10. By engaging in the conduct described above, Hucal acted contrary to Ontario securities law and contrary to the public interest.

Dated the 1st day of November, 2011.