



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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20, rue queen ouest
Toronto ON M5H 3S8

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

- AND -

IN THE MATTER OF MICHAEL A. BECKLEY

-AND-

**IN THE MATTER OF A SETTLEMENT AGREEMENT BETWEEN STAFF OF THE
ONTARIO SECURITIES COMMISSION AND MICHAEL A. BECKLEY**

SETTLEMENT AGREEMENT

PART I - INTRODUCTION

1. The Ontario Securities Commission (the "Commission") will issue a Notice of Hearing to announce that it will hold a hearing to consider whether, pursuant to section 127 of the *Securities Act*, R.S.O. 1990, c. S-5, as amended (the "Act"), it is in the public interest for the Commission to approve this settlement agreement (the "Settlement Agreement") and to make certain orders in respect of Michael A. Beckley ("Beckley" or the "Respondent").

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Staff of the Commission ("Staff") agree to recommend settlement of the proceeding commenced by Notice of Hearing dated March 12, 2015 (the "Proceeding") against the Respondent in accordance with the terms and conditions set out in Part VII of this Settlement Agreement. The Respondent consents to the making of an order in the form attached as Schedule "A", based on the facts set out below.

PART III – AGREED FACTS

3. For the purposes of this Proceeding, and any other regulatory proceeding commenced by a securities regulatory authority, the Respondent agrees with the facts as set out in Part III of this Settlement Agreement and the conclusion in Part V of this Settlement Agreement.

A. The Respondent

4. Between September 2011 and July 2013 (the "Material Time"), HydraLogic Systems Inc. ("HydraLogic" or the "Issuer") was a reporting issuer in the provinces of British Columbia, Alberta and Ontario with a head office in Ontario.

5. HydraLogic was incorporated on January 14, 2002 for the purposes of developing and manufacturing environmental technologies. On January 16, 2004, HydraLogic amalgamated with LeChamp Capital Corp., a Capital Pool Company trading on the TSX Venture Exchange.

6. HydraLogic's wholly owned subsidiaries were Ecolo Odor Control Technologies Inc. ("Ecolo") and HydraLogic Systems Corp. ("HSC") (collectively, the "Subsidiaries"). Ecolo and HSC were HydraLogic's only substantial assets.

7. During the Material Time, Beckley was a resident of Ontario and the President & Chief Executive Officer and a directing mind of HydraLogic.

B. The Cease Trade Order

8. On May 14, 2010, the Commission issued a temporary order that all trading in the securities of HydraLogic, whether direct or indirect, cease immediately for a period of 15 days (the "TCTO").

9. On May 26, 2010, the TCTO was extended by the Commission until further order of the Commission revoking it (together with the TCTO, the "CTO").

10. The CTO was made because HydraLogic failed to file its audited financial statements for the year ended December 31, 2009; the related *Management Discussion and Analysis* (the

"MD&A"); and the certification required by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*.

11. The CTO remains in effect at the time of this Settlement Agreement.

C. Breaches of the Cease Trade Order

(a) Convertible Debentures

12. In November 2011, while subject to the CTO, HydraLogic entered into convertible debenture agreements with Antevorta Capital Partners Limited, New Economy Holdings Ltd. and Stratbrand Enterprises Ltd. (collectively, the "Loans"). The lending entities had the option of converting all or any portion of the amounts outstanding to common shares of HydraLogic.

13. The Loans were signed by Beckley on behalf of HydraLogic.

(b) Letter of Intent

14. On July 18, 2013, while subject to the CTO, HydraLogic entered into a non-binding letter of intent (the "LOI") with HydraServices Inc. The purpose of the LOI was to confirm the intention of HydraLogic and HydraServices Inc. to complete negotiations and to enter into an agreement of purchase and sale providing for the purchase of two environmental technologies.

15. The purchase price of \$500,000 was to be satisfied in part by the vendor causing HydraLogic, on closing of the agreement, "to issue to the [v]endor such number of common shares in HydraLogic's capital as is equal to the quotient obtained by dividing Two Hundred and Fifty Thousand Dollars (\$250,000) by the average of the daily closing price of the common shares on the TSX Venture Exchange over the period of twenty (20) Business Days ended on the Business Day immediately prior to the Closing Date."

D. Insufficient Management Information Circular

16. Shareholders of HydraLogic received a Notice of Special Meeting of Shareholders and Management Information Circular dated September 30, 2011 (the "Notice" and the "Circular"). The Notice advised of a special meeting of shareholders to be held on November 2, 2011 at

which shareholders would be asked to approve a special resolution allowing the sale of all of the issued and outstanding shares of the Subsidiaries to HydraServices Inc., pursuant to the terms of a share purchase agreement dated September 15, 2011 (the "Sale").

17. The Notice also advised that shareholders would be asked to approve the three convertible Loans of USD \$33,333.00 each to the Issuer.

18. The Issuer had not filed audited financial statements for the year ending December 31, 2009 or interim financial reports for any subsequent period. As a result, the Circular did not comply with the requirements of Item 14.1 of Form 51-102F5.

E. Mitigating Factors

19. Beckley has no prior disciplinary record with the Commission.

20. Beckley had no previous experience running a public company and no previous experience with the compliance requirements of a reporting issuer.

21. Beckley obtained on HydraLogic's behalf legal advice regarding the Loans before they were entered into.

22. None of the Loans was ever converted into common shares of HydraLogic and Beckley took subsequent steps to have the terms of the Loans which breached the CTO retracted once he was advised of the breach by Staff of the Commission. The retracted Loans were replaced with loans that were not convertible into common shares.

23. Beckley obtained on HydraLogic's behalf legal advice in respect of the Sale and the sufficiency and compliance of the Circular prior to the finalization and distribution of the Circular to shareholders.

24. The LOI was subject to certain conditions precedent, including that HydraLogic shall have received all necessary regulatory approvals on or before closing. In particular, the transaction contemplated by the LOI was proposed as a transaction contingent upon the granting

of HydraLogic's application to have the CTO lifted, and the transaction ultimately did not proceed.

25. Beckley cooperated fully with Staff's investigation, including by providing documents to Staff in respect of HydraLogic. Beckley did not attempt to conceal the conduct at issue in this Settlement Agreement.

26. Beckley obtained no personal benefit from the breaches of the Act set out below.

PART IV – RESPONDENT'S POSITION

27. Beckley requests that the settlement hearing panel consider the following in respect of the Respondent's position as well as the mitigating factors set out above:

- a. The Sale and Loans were recommended to shareholders by HydraLogic's board of directors and, as outlined in the Circular, resulted from an extensive search for a solution to address HydraLogic's financial distress and to avoid having the corporation forced into bankruptcy;
- b. Beckley and HydraLogic relied on the legal advice obtained in respect of the Loans, the Sale and the sufficiency and compliance of the Circular; and
- c. Beckley did not understand that his or HydraLogic's conduct was contrary to Ontario Securities law and his and HydraLogic's breach of Ontario Securities law was both unintentional and inadvertent.

PART V – CONDUCT CONTRARY TO ONTARIO SECURITIES LAW AND THE PUBLIC INTEREST

28. HydraLogic breached the terms of the CTO by entering into the Loans and the LOI, which constituted an act in furtherance of trade, within the meaning of the Act.

29. HydraLogic breached subsection 9.1(2)(a) of National Instrument 51-102 *Continuous Disclosure Obligations* as the Circular did not comply with the requirements of Item 14.1 of Form 51-102F5.

30. Beckley authorized, permitted or acquiesced in the above contraventions of Ontario securities law by HydraLogic, pursuant to section 129.2 of the Act.

31. The conduct of Beckley was contrary to Ontario securities law and contrary to the public interest.

PART VI – REPRESENTATION TO STAFF

32. Beckley has represented to Staff that he no longer holds any director and/or officer positions at any reporting issuer.

PART VII – TERMS OF SETTLEMENT

33. The Respondent agrees to the terms of settlement listed below and to the Order attached hereto, made pursuant to subsection 127(1) of the Act that:

- (a) this Settlement Agreement shall be approved;
- (b) if Beckley holds any positions as an officer or director of a reporting issuer, Beckley shall resign any such positions, pursuant to paragraph 7 of subsection 127(1) of the Act;
- (c) Beckley shall be prohibited from becoming or acting as an officer or director of a reporting issuer until the later of (a) five (5) years from the date of approval of the Settlement Agreement, pursuant to paragraph 8 of subsection 127(1) of the Act and (b) the date he completes a course acceptable to Staff regarding the duties of directors and officers of reporting issuers.

34. Beckley undertakes to consent to a regulatory Order made by any provincial or territorial securities regulatory authority in Canada containing any or all of the sanctions set out in subparagraphs 33 (b) to (c) above. These prohibitions may be modified to reflect the provisions of the relevant provincial or territorial securities law.

35. Beckley will attend in person at the hearing before the Commission to consider the proposed settlement.

PART VIII – STAFF COMMITMENT

36. If the Commission approves this Settlement Agreement, Staff will not commence any proceeding under Ontario securities law in relation to the facts set out in Part III of this Settlement Agreement, subject to the provisions of paragraph 37 below.

37. If the Commission approves this Settlement Agreement and the Respondent fails to comply with any of the terms of the Settlement Agreement, Staff may bring proceedings under Ontario securities law against the Respondent. These proceedings may be based on, but are not limited to, the facts set out in Part III of this Settlement Agreement as well as the breach of the Settlement Agreement.

PART IX – PROCEDURE FOR APPROVAL OF SETTLEMENT

38. The parties will seek approval of this Settlement Agreement at a public hearing before the Commission scheduled for March 16, 2015 at 10:00 a.m., according to the procedures set out in this Settlement Agreement and the Commission's *Rules of Procedure* (2014), 37 OSCB 4168.

39. Staff and the Respondent agree that this Settlement Agreement will form all of the agreed facts that will be submitted at the settlement hearing on the Respondent's conduct, unless the parties agree that additional facts should be submitted at the settlement hearing.

40. If the Commission approves this Settlement Agreement, the Respondent agrees to waive all rights to a full hearing, judicial review or appeal of this matter under the Act.

41. If the Commission approves this Settlement Agreement, neither party will make any public statement that is inconsistent with this Settlement Agreement or with any additional agreed facts submitted at the settlement hearing.

42. Whether or not the Commission approves this Settlement Agreement, the Respondent will not use, in any proceeding, this Settlement Agreement or the negotiation or process of approval of this agreement as the basis for any attack on the Commission's jurisdiction, alleged bias, alleged unfairness, or any other remedies or challenges that may otherwise be available.

PART X – DISCLOSURE OF SETTLEMENT AGREEMENT

43. If the Commission does not approve this Settlement Agreement or does not make the order attached as Schedule "A" to this Settlement Agreement:

- (a) this Settlement Agreement and all discussions and negotiations between Staff and the Respondent before the settlement hearing takes place will be without prejudice to Staff and the Respondent; and
- (b) Staff and the Respondent will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations contained in the Statement of Allegations. Any proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this agreement.

44. Both parties will keep the terms of the Settlement Agreement confidential until the Commission approves the Settlement Agreement. Any obligations of confidentiality shall terminate upon the commencement of the public settlement hearing. If, for whatever reason, the Commission does not approve the Settlement Agreement, the terms of the Settlement Agreement remain confidential indefinitely, unless Staff and the Respondent otherwise agree or if required by law.

PART XI – EXECUTION OF SETTLEMENT AGREEMENT

45. This Settlement Agreement may be signed in one or more counterparts which, together, constitute a binding agreement.

46. A facsimile copy or other electronic copy of any signature will be as effective as an original signature.

Dated at Toronto this 10th day of March, 2015.

____“*Michael A. Beckley*”____
Michael A. Beckley

____“*Liz Beckley*”____
Witness

____“*Tom Atkinson*”____
Tom Atkinson
Director, Enforcement Branch
Ontario Securities Commission

Schedule "A"

Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**ORDER
(Subsection 127(1))**

WHEREAS on March 12, 2015, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing pursuant to subsection 127(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") to consider whether it is in the public interest to make orders, as specified therein, against and in respect of Michael A. Beckley ("Beckley" or the "Respondent"). The Notice of Hearing was issued in connection with the allegations as set out in the Statement of Allegations of Staff of the Commission ("Staff") dated March 12, 2015;

AND WHEREAS the Respondent entered into a Settlement Agreement with Staff dated March 12, 2015 (the "Settlement Agreement") in which the Respondent agreed to a proposed settlement of the proceeding commenced by the Notice of Hearing dated March 12, 2015, subject to the approval of the Commission;

AND WHEREAS the Notice of Hearing dated March 12, 2015 also announced that the Commission proposed to hold a hearing to consider whether it is in the public interest to approve the Settlement Agreement;

AND UPON reviewing the Settlement Agreement, the Notices of Hearing, and the Statement of Allegations of Staff, and upon hearing submissions from counsel for the Respondent and from Staff;

AND WHEREAS Beckley undertakes to consent to a regulatory Order made by any provincial or territorial securities regulatory authority in Canada containing any or all of the sanctions set out in sub-paragraphs 33 (b) to (c) of the Settlement Agreement. These prohibitions may be modified to reflect the provisions of the relevant provincial or territorial securities law;

AND WHEREAS the Commission is of the opinion that it is in the public interest to make this Order;

IT IS HEREBY ORDERED THAT:

1. the Settlement Agreement is hereby approved;
2. if Beckley holds any positions as an officer or director of a reporting issuer, Beckley shall resign any such positions, pursuant to paragraph 7 of subsection 127(1) of the Act; and
3. Beckley is prohibited from becoming or acting as an officer or director of a reporting issuer until the later of (a) five (5) years from the date of approval of the Settlement Agreement, pursuant to paragraph 8 of subsection 127(1) of the Act and (b) the date he completes a course acceptable to Staff regarding the duties of directors and officers of reporting issuers.

DATED at Toronto, this day of March, 2015.
