

**IN THE DISTRICT COURT OF OKLAHOMA COUNTY
STATE OF OKLAHOMA**

Oklahoma Department of Securities)
ex rel. Irving L. Faught,)
Administrator,)
)
Plaintiff,)
)
v.)
)
Powder River Petroleum)
International, Inc., an Oklahoma)
corporation, and)
Brian Fox, an individual,)
)
Defendants.)

CJ-2008-9048

Case No.
**FILED IN THE DISTRICT COURT
OKLAHOMA COUNTY, OKLA.**

OCT - 8 2008

PATRICIA PRESLEY, COURT CLERK
by _____
DEPUTY

**PETITION FOR PERMANENT INJUNCTION
AND OTHER RELIEF**

Plaintiff, Oklahoma Department of Securities (“Department”) *ex rel.* Irving L. Faught, for its claims against the above-named Defendants, alleges and states as follows:

OVERVIEW

1. This enforcement action involves violations of the Oklahoma Uniform Securities Act of 2004 (“Act”), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2004), by Defendants. Specifically, Defendants employed a device, scheme, or artifice to defraud; made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and engaged in an act, practice, or course of business that operated or would operate as a fraud or deceit upon another person, in connection with the offer and/or sale of securities in and/or from Oklahoma, all in violation of Section 1-501 of the Act.

DEFENDANTS

2. Defendant Powder River Petroleum International, Inc., an Oklahoma corporation, is the successor in interest, by a merger in November 2007, to Powder River Basin Gas Corporation, formerly a Colorado corporation. Defendant Powder River Petroleum International, Inc., and Powder River Basin Gas Corporation will both hereinafter be referred to as "Powder River." At all times material hereto, Powder River has maintained an office, a bank account, and a mailing address in Tulsa, Oklahoma.

3. Powder River is a public company with 148,917,566 shares of common stock outstanding as of March 31, 2008, according to filings Powder River made with the U.S. Securities and Exchange Commission ("SEC"). Powder River's common stock was quoted on the OTC Bulletin Board until recently and is now quoted on the Pink Sheets.

4. The annual report Powder River filed with the SEC for the fiscal year that ended December 31, 2007, states that Powder River is "in the business of acquiring and developing the working interest [sic] in oil and gas leases with the intent of reselling a portion of the working interests acquired to finance further development and acquire additional working interests."

5. Defendant Brian Fox is an individual resident of Alberta, Canada. Brian Fox is the President and Chief Executive Officer of Powder River. At all times material hereto, Brian Fox has maintained an apartment, bank account, and mailing address in Tulsa, Oklahoma.

JURISDICTION AND VENUE

6. Pursuant to Section 1-610 of the Act, Defendants, in connection with their activities in the offer and/or sale of securities in and/or from this state, are subject to the provisions of the Act.

7. Plaintiff brings this action pursuant to Section 1-603 of the Act. Plaintiff is the proper party to bring this action against Defendants.

8. By virtue of Powder River's incorporation in this state and Defendants' activities in this state, as described herein, Defendants are subject to the jurisdiction of this Court and to service of summons within this state and outside of this state.

9. Venue is proper in this county.

FACTUAL ALLEGATIONS

10. Plaintiff realleges and incorporates by reference each and every allegation contained in paragraphs 1 through 9 above.

Working Interests

11. OilPods Singapore Pte Ltd. (formerly known as "OL&M, Business International Pte Ltd.," and hereinafter referred to as "Oilpods") is located in Singapore.

12. Beginning in 2004, Powder River granted Oilpods the exclusive right to sell fractional working interests owned by Powder River ("Working Interests") in oil and gas leases located in Oklahoma, Texas, Louisiana, and Wyoming. From approximately February 2004 until March 2008, Powder River sold Working Interests to approximately 2,000 investors residing primarily in three Asian countries ("Working Interest Investors"). The Working Interest Investors collectively paid over \$40 million for the Working Interests. The Working Interests were sold by Powder River at substantially inflated prices.

13. At all times material hereto, Powder River guaranteed monthly payments totaling at least 9% of principal per annum to each Working Interest Investor, beginning six months from the purchase of a Working Interest ("Guarantee"). The point at which the Guarantee was to end differed from investor to investor, e.g., the time at which the Working Interest Investor was fully

repaid the principal amount of his investment; the time at which 35% of the net revenue from production equaled the portion of the 9% paid out on capital; or the time at which the revenue from production equaled the portion of 9% paid out on capital. Payments under the Guarantee did not commence until the sixth month in anticipation that it would take that long for the property to generate enough revenue to cover the payments.

14. To date, Powder River's oil and gas properties have not generated enough revenue from production to cover the payments required by the Guarantee. At almost all times material hereto, Powder River used funds received from more recent Working Interest Investors to make payments to earlier Working Interest Investors to cover the deficit.

15. Power River did not disclose the Guarantee in any filing it made with the SEC until the Form 8-K filed on or about March 21, 2008.

16. Powder River did not disclose the fact that it used funds received from more recent Working Interest Investors to make payments to earlier Working Interest Investors in any SEC filing.

17. SEC filings are of a nature that would cause reasonable investors to rely thereon in connection with the purchase of Powder River stock.

18. At times material hereto, Oklahoma residents purchased shares of common stock in Powder River.

Shareholder Meeting

19. On October 30, 2007, Powder River held its annual shareholders' meeting in Tulsa, Oklahoma ("Tulsa Meeting"). At the Tulsa Meeting, Defendant Fox made a PowerPoint presentation to the shareholders ("Presentation to Shareholders") and distributed printed copies of the presentation to those at the meeting.

20. A slide included in the Presentation to Shareholders titled, "Corporate Highlights," contained bullet points that stated the following, in part: (a) "Enterprise value over \$30,000,000"; and (b) "Current production over 1000 [barrels of oil equivalent] (4027 mcf gas per day + 344 [barrels of oil per day])."

21. The fair market value of Powder River's oil and gas properties was materially overstated in the Presentation to Shareholders.

22. The production from Powder River's oil and gas properties was materially overstated in the Presentation to Shareholders.

23. Defendants did not disclose the Guarantee in the Presentation to Shareholders.

24. Defendants did not disclose that Powder River used funds received from more recent Working Interest Investors to make payments to earlier Working Interest Investors for purposes of the Guarantee, in the Presentation to Shareholders.

25. The representations and omissions made during the Tulsa Meeting are of a nature that would cause reasonable investors to rely thereon in connection with the purchase of Powder River stock.

26. One or more shareholders, including residents of Oklahoma, purchased additional shares of common stock in Powder River based on the Presentation to Shareholders.

Canadian Order

27. On March 17, 2000, the Alberta Securities Commission issued an order against Brian Fox after he sold unregistered securities, issued by a company under his control, to approximately 39 investors ("Alberta Order"). The Alberta Order required Brian Fox to resign any position he held as a director or officer of an issuer; prohibited him "from becoming or acting as a director or officer or as both a director and an officer of any issuer for a period of

eighteen (18) months”; ordered him to “cease trading in securities for a period of six (6) months”; and required him, and others, to pay costs in the amount of \$6,000.

28. Defendants did not disclose the Alberta Order in connection with the offer and/or sale of Powder River stock.

Tulsa Lawsuit

29. On July 14, 2008, Oilpods and others (“Tulsa Lawsuit Plaintiffs”) filed a *Petition* that was amended on July 22, 2008, seeking monetary damages, a preliminary injunction, a permanent injunction, and other relief based on nine causes of action including, but not limited to, securities fraud, in the District Court of Tulsa County, State of Oklahoma (CJ-2008-04855) (“Tulsa Lawsuit”). The Tulsa Lawsuit Plaintiffs also sought emergency relief in the form of a temporary restraining order, an order appointing a receiver, and an order freezing the assets of Powder River and Brian Fox.

30. On July 14, 2008, the court in the Tulsa Lawsuit entered a temporary restraining order against Powder River and Brian Fox, appointed a receiver over Powder River, and entered an order to freeze the assets of Powder River and Brian Fox. Subsequently, a temporary injunction was entered against Powder River.

31. On August 15, 2008, Powder River and Brian Fox filed a combined motion to, *inter alia*, vacate the temporary restraining order, temporary injunction, and order appointing receiver; to discharge the receiver, or in the alternative, to modify or suspend the receiver’s powers; and to request the return of the property and records of Powder River and Brian Fox. A hearing on the combined motion is currently set for October 10, 2008.

32. The receiver retained petroleum consultants to conduct an appraisal of the interests owned by the Working Interest Investors (“Appraisal”). The Appraisal estimated the

fair market value of such interests in the producing, proved developed reserves to be \$1,609,951 and \$1,272,491 as of January 1, 2008, and August 1, 2008, respectively.

FIRST CLAIM

(Violation of Section 1-501 of the Act: Untrue Statements of Material Fact and Omissions of Material Fact in Connection With Offer, Sale or Purchase of Securities)

33. Plaintiff realleges and incorporates by reference each and every allegation contained in paragraphs 1 through 32 above.

34. In connection with the offer and/or sale of securities in the form of shares of common stock in Powder River, Defendants, directly and/or indirectly, made untrue statements of material fact as to, *inter alia*, the value of Powder River's "enterprise" and the daily volume of production from Powder River's oil and gas properties.

35. In connection with the offer and/or sale of securities in the form of shares of common stock in Powder River, Defendants, directly and/or indirectly, omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading including, but not limited to, the following matters:

- (a) Powder River sold Working Interests at substantially inflated prices;
- (b) Sales of Working Interests included a Guarantee;
- (c) Powder River's oil and gas properties have not generated enough revenue from production to cover the payments required by the Guarantee;
- (d) Powder River engaged in a "Ponzi" scheme;
- (e) Powder River materially overstated its value;
- (f) Powder River materially overstated the production from its oil and gas properties; and

(g) The Alberta Securities Commission found Brian Fox to have violated applicable securities laws and issued the Alberta Order against him.

36. By reason of the foregoing, Defendants, directly and indirectly, violated, and unless enjoined will continue to violate, Section 1-501 of the Act.

SECOND CLAIM

(Violation of Section 1-501 of the Act: Employing a Device, Scheme, or Artifice to Defraud)

37. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding claim.

38. Defendants, in connection with the offer and/or sale of stock in Powder River, directly and/or indirectly, employed, with intent to deceive, manipulate or defraud, a device, scheme, or artifice to defraud investors through the use of the untrue statements of material fact and the omissions of material fact described above in the preceding claim.

39. By reason of the foregoing, Defendant, directly and/or indirectly, violated, and unless enjoined will continue to violate, Section 1-501 of the Act.

THIRD CLAIM

(Violation of Section 1-501 of the Act: Engaging in any Act, Practice, or Course of Business Which Operates or Would Operate as a Fraud or Deceit upon any Person)

40. Plaintiff realleges and incorporates by reference each and every allegation contained in the preceding claims.

41. Defendants, in connection with the offer and/or sale of stock in Powder River, and through the use of the untrue statements of material fact and the omissions of material fact described above, have engaged in an act, practice, or course of business that has operated and would operate as a fraud or deceit upon investors.

42. By reason of the foregoing, Defendants, directly and/or indirectly, violated, and unless enjoined will continue to violate, Section 1-501 of the Act.

PRAYER FOR RELIEF

WHEREFORE, based upon the foregoing, and pursuant to the authority specifically granted by Section 1-603 of the Act, Plaintiff prays for the following relief:

1. A temporary injunction enjoining Defendants, their agents, servants, employees, assigns, and all those persons, directly or indirectly, acting on Defendants' behalf, under Defendants' direction and control, and/or in active concert or participation with Defendants, who receive actual notice of the temporary injunction, by personal service, facsimile or otherwise, from violating the Act.

2. A permanent injunction enjoining Defendants, their agents, servants, employees, assigns, and all those persons, directly or indirectly, acting on Defendants' behalf, under Defendants' direction and control, and/or in active concert or participation with Defendants, who receive actual notice of the permanent injunction, by personal service, facsimile or otherwise, from violating the Act.

3. Such other relief as the Court may deem necessary, just and proper in connection with the enforcement of the Act.

In the event the asset freeze and receivership ordered in the Tulsa Lawsuit on July 14, 2008, is partially or completely vacated, Plaintiff prays for the following additional relief:

1. An order freezing Defendants' assets and ordering that all financial or depository institutions comply with this Court's order upon notice to such financial and depository institutions by facsimile or otherwise.

2. An order appointing a receiver *pendente lite* for Powder River, empowering said receiver to marshal and take possession of the books, records, funds and other assets of Powder River; to undertake whatever manner of legal or equitable action is required to preserve or maintain the assets of Powder River; to operate or liquidate the assets of Powder River for the benefit of creditors and investors; and to file for bankruptcy, as equity may require.

Respectfully submitted,

OKLAHOMA DEPARTMENT OF SECURITIES
Irving L. Faught, Administrator

By: *Terra Shamas Bonnell*
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Telephone: (405) 280-7700
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STATE OF OKLAHOMA)
)
) SS.
COUNTY OF OKLAHOMA)

Irving L. Faught, of lawful age, being first duly sworn deposes and states: that he is the Administrator of the Oklahoma Department of Securities, that he has read the foregoing *Petition for Permanent Injunction and Other Relief* and knows the contents thereof, and that the matters and things stated therein have been provided to him by staff members of the Department under his authority and direction, and are true and correct to the best of his knowledge, information, and belief.

(SEAL)

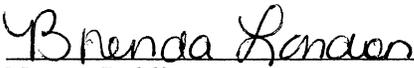


IRVING L. FAUGHT, ADMINISTRATOR OF THE
OKLAHOMA DEPARTMENT OF SECURITIES
120 North Robinson Avenue, Suite 860
Oklahoma City, Oklahoma 73102
(405) 280-7700

Subscribed and sworn to before me this 8th day of October, 2008.

(SEAL)


BRENDALONDON
Notary Public
State of Oklahoma
Commission # 05009046 Expires 06/28/09



Notary Public