



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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Toronto ON M5H 3S8

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20, rue queen ouest
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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 PALADIN CAPITAL MARKETS INC.,
JOHN DAVID CULP, AND CLAUDIO FERNANDO MAYA**

**ORDER
(Sections 127 and 127.1)**

WHEREAS on June 9, 2010, Staff of the Ontario Securities Commission (“Staff” and the “Commission”, respectively) filed a Statement of Allegations relating to the respondents Paladin Capital Markets Inc. (“Paladin”), John David Culp (“Culp”) and Claudio Fernando Maya;

AND WHEREAS on June 10, 2009, the Commission issued a Notice of Hearing pursuant to sections 127 and 127.1 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “*Act*”) for a hearing on July 19, 2010 to consider whether it is in the public interest to approve a settlement agreement entered into by Staff and the respondents, Paladin and Culp;

AND WHEREAS Paladin and Culp entered into a Settlement Agreement with Staff (the “Settlement Agreement”) in which Paladin and Culp agreed to a settlement of the allegations against them, subject to the approval of the Commission;

AND WHEREAS Paladin and Culp acknowledged that the facts set out in Part III of the Settlement Agreement constituted conduct contrary to Ontario securities law and the public interest;

AND WHEREAS Culp died on or about July 17, 2010;

AND WHEREAS Culp was, prior to his death, the sole director, officer, and shareholder of Paladin;

AND WHEREAS on July 19, 2010, the Commission ordered that the settlement hearing with respect to Paladin be adjourned to August 5, 2010;

AND WHEREAS on August 3, 2010, Staff filed a Notice of Withdrawal with respect to all of the allegations made against Culp;

AND WHEREAS on August 5, 2010, counsel for Staff attended the hearing but no one attended for Paladin;

AND UPON reviewing the Settlement Agreement attached hereto as Schedule "A", considering the admitted fact that Paladin is insolvent and upon hearing submissions from counsel for Staff, the Commission is of the opinion that it is in the public interest to approve the settlement on the terms presented to it;

IT IS ORDERED THAT:

1. the Settlement Agreement, as it relates to Paladin, is approved;
2. Paladin's registration is terminated pursuant to s. 127(1)1 of the *Act*;
3. trading in any securities by Paladin shall cease permanently, pursuant to s. 127(1)2 of the *Act*;
4. any exemptions contained in Ontario securities law shall not apply to Paladin permanently, pursuant to s. 127(1)3 of the *Act*;
5. Paladin shall pay an administrative penalty of \$100,000, pursuant to s. 127(1)9 of the *Act*, to be allocated to or for the benefit of third parties who suffered losses as a result of the activities of Paladin described in the Settlement Agreement, pursuant to s. 3.4(2)(b) of the *Act*;
6. Paladin shall pay disgorgement in the amount of \$400,000, pursuant to s. 127(1)10 of the *Act*, to be allocated to or for the benefit of third

parties who suffered losses as a result of the activities of Paladin described in the Settlement Agreement, pursuant to s. 3.4(2)(b) of the *Act*; and

7. Paladin shall pay the Commission's costs of the investigation and hearing in the amount of \$15,000.

Dated at Toronto this 5th day of August 2010.

"James E. A. Turner"

James E. A. Turner
Vice-Chair of the Commission

Schedule “A”

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

-AND-

**IN THE MATTER OF
PALADIN CAPITAL MARKETS INC.,
JOHN DAVID CULP, AND CLAUDIO FERNANDO MAYA**

**SETTLEMENT AGREEMENT
(Paladin Capital Markets Inc. [REDACTED])**

PART I – INTRODUCTION

1. By Notice of Hearing to be issued, the Ontario Securities Commission (the “Commission”) will 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 make certain orders in respect of Paladin Capital Markets (“Paladin”) and John David Culp (“Culp”).

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Staff of the Commission (“Staff”) agree to recommend settlement of the proceeding against Paladin [REDACTED] in accordance with the terms and conditions set out below. Paladin [REDACTED] consent to the making of an order against each of them in the form attached as Schedule “A” on the basis of the facts set out below.

PART III – AGREED FACTS

3. Paladin [REDACTED] agree with the facts and conclusions set out in Parts III and IV herein.

A. BACKGROUND

i. Paladin

4. Paladin was registered with the Commission as a limited market dealer from February 27, 2007 to June 2, 2009, when a temporary order was made suspending its registration. It was not registered in any other jurisdiction. Its business location was 275 Richmond Street West, Suite 1, Toronto.
5. Paladin's primary business activity was to source capital for small-cap companies in the resources, industrial and environmental sectors. Since inception until December 31, 2008, it raised about \$640,000 for five issuers and has earned about \$40,000 in fees.
6. Culp was the President, CEO, designated compliance officer and sole director of Paladin. He was the only individual at Paladin who was registered to trade in securities. Culp is Paladin's sole shareholder.
7. Paladin hired Claudio Fernando Maya ("Maya") as a consultant and Maya engaged in the conduct detailed below. Maya was not registered in any capacity with the Commission at the material time.

II. Suspension of Registration

i. The Undertaking to the Commission

8. Paladin filed with the Commission an undertaking to the Commission dated November 24, 2006, which stated, in part, that Paladin would not engage in

activities as an adviser, dealer or underwriter in respect of securities of Paladin except in compliance with Part XIII of the General Regulation to the Act.

9. Paladin did not file with the Commission a statement of policies under s. 223(1)(a) of the General Regulation to the Act in respect of the sale of its own securities, as described below.

B. Sale of Securities of Paladin

10. Paladin issued \$400,000 in promissory notes (the “Notes”), entitled “Paladin Capital Markets Inc. Non Profit Participation Convertible Promissory Note”, to five Ontario investors (the “Investors”), between August 23, 2007 to September 12, 2007, as a means of raising working capital for Paladin.
11. Paladin did not seek from the Commission nor have a prospectus with which to distribute the Notes in compliance with s. 53 of the Act. [REDACTED]
12. Paladin sold the Notes to the following individuals:
 1. Investor 1 - \$25,000
 2. Investor 2 - \$25,000
 3. Investor 3 - \$50,000
 4. Investor 4 - \$50,000
 5. Investor 5 - \$250,000
13. The Notes were non-profit-participating, convertible-to-equity promissory notes with a rate of interest of 10% for a 12-month term. In the event that Paladin were to fail to make payment when due, interest would be payable at 15%.

14. Investors also had the right to convert the outstanding amount due into fully-paid, non-assessable Class A Voting Profit Participation Shares of Paladin and a 1/2 share purchase warrant. It appears that none of the Investors converted to equity.
15. Investors exercised their rights to repayment of principal and interest before the 12 months was up. Paladin has not made any of the required repayments to the Investors.

Paladin is Insolvent and Investor Funds Dissipated

16. Paladin is insolvent because it has insufficient funds to meet its obligations to the Investors who have requested repayment under the terms of the Notes. As at December 31, 2008, Paladin had \$2,030 in cash and current liabilities of approximately \$455,000 (including funds owed to Investors). For the year ending December 31, 2008, Paladin had an operating loss of approximately \$129,589 based on revenues of approximately \$33,447. Culp, Maya and other employees were paid with funds generated from the sale of the Notes.

[REDACTED]

17. [REDACTED]

Paladin and Culp's Cooperation with Staff's Investigation

18. Culp provided Staff with cooperation in its investigation [REDACTED] on behalf of Paladin by providing documents and testimony on a voluntary basis. Such cooperation is contemplated in Staff Notice 15-702 "Credit for Cooperation".

Temporary Order

19. Culp and Paladin consented to the periodic extensions of the temporary order made by the Commission on June 2, 2009.

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

20. By engaging in the conduct described above, Paladin [REDACTED] have breached Ontario securities law by non complying with ss. 25 and 53 of the *Act* and have acted contrary to the public interest.

PART V – RESPONDENTS’ POSITION

21. [REDACTED]
22. Culp also asserts that Paladin is insolvent and has no funds available to pay disgorgement for the benefit of the Investors.
23. [REDACTED]

PART VI – TERMS OF SETTLEMENT

24. Paladin [REDACTED] agree to the terms of settlement listed below.
25. The Commission will make an order pursuant to s. 127(1) and s. 127.1:
 - i. Approving the settlement agreement;
 - ii. that Paladin’s registration is terminated, pursuant to s. 127(1)1 of the *Act*;
 - iii. that trading in any securities by Paladin cease permanently, pursuant to s. 127(1)2 of the *Act*;

- iv. [REDACTED]
- v. that any exemptions contained in Ontario securities law do not apply to Paladin permanently, pursuant to s. 127(1)3 of the *Act*;
- vi. [REDACTED]
- vii. [REDACTED]
- viii. [REDACTED]
- ix. [REDACTED]
- x. that Paladin pay an administrative penalty of \$100,000, pursuant to s. 127(1)9 of the *Act*;
- xi. that Paladin [REDACTED] pay disgorgement in the amount of \$400,000, pursuant to s. 127(1)10 of the *Act*; and
- xii. that Paladin pay the Commission's costs of the investigation and hearing in the amount of \$15,000.

26. Culp undertakes that he will consent on behalf of Paladin [REDACTED] to an Order made by any provincial or territorial securities regulatory authority in Canada containing any or all of the prohibitions set out in paragraph 25 (iii), [REDACTED], (v), [REDACTED], [REDACTED] and [REDACTED] above. This prohibition may be modified to reflect the provisions of the relevant provincial or territorial securities law.

PART VII – STAFF COMMITMENT

27. If this agreement is approved by the Commission, Staff will not initiate any proceeding under Ontario securities law in relation to the facts set out in Part III of this agreement, subject to the provisions of paragraph 28 below.

28. If this settlement agreement is approved by the Commission and at any subsequent time Paladin [REDACTED] fail to honour any of the terms of the settlement, Staff reserve the right to bring proceedings under Ontario securities law against Paladin [REDACTED] based on, but not limited to, the facts set out in Part III of this settlement agreement, as well as the as the breach of the settlement agreement.

PART VIII – PROCEDURE FOR APPROVAL OF SETTLEMENT

29. Approval of this settlement will be sought at a public hearing before the Commission, in accordance with the procedures set out in this settlement agreement and the Commission's Rules of Procedure.
30. Staff, Paladin [REDACTED] agree that this settlement agreement will constitute the entirety of the agreed facts to be submitted at the settlement hearing regarding Paladin[REDACTED]'s conduct in this matter, unless the parties agree that further facts should be submitted at the Settlement Hearing.
31. If this settlement agreement is approved by the Commission, Paladin [REDACTED] agree to waive their rights to a full hearing, judicial review, or appeal of this matter under the *Act*.
32. If this settlement agreement is approved by the Commission, no party will make any public statement that is inconsistent with this settlement agreement.
33. Whether or not this settlement agreement is approved by the Commission, Paladin [REDACTED] agree that they will not, in any proceeding, refer to or rely upon this 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 IX – DISCLOSURE OF AGREEMENT

34. If, for any reason whatsoever, this settlement agreement is not approved by the Commission, or an order in the form attached as Schedule “A” to this settlement agreement is not made by the Commission:
- i. this settlement agreement and its terms, including all discussions and negotiations between Staff and Paladin [REDACTED] leading up to their presentation at the Settlement Hearing, shall be without prejudice to Staff and Paladin [REDACTED]; and
 - ii. each of Staff, Paladin [REDACTED] will be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations to be contained in the Statement of Allegations, unaffected by this agreement or the settlement discussions/negotiations.
35. The terms of this settlement agreement will be treated as confidential by both parties until approved by the Commission. Any obligations of confidentiality will terminate upon approval of this settlement agreement by the Commission. The terms of this settlement agreement will be treated as confidential forever if this settlement agreement is not approved for any reason whatsoever by the Commission, except with the written consent of both Paladin [REDACTED] and Staff or as may be required by law.

PART X – EXECUTION OF SETTLEMENT AGREEMENT

36. This agreement may be signed in one or more counterparts which together will constitute a binding agreement.
37. A facsimile copy of any signature will be as effective as an original signature.

Dated this 14th day of July, 2010.

STAFF OF THE ONTARIO SECURITIES COMMISSION

“Kathryn Daniels” for

Tom Atkinson
Director, Enforcement Branch

Dated this 23rd day of March, 2010.

[REDACTED]

PALADIN CAPITAL MARKETS INC

“John David Culp”

John David Culp (A.S.O.)

Witness