



StatStatOntario  
Securities  
Commission

Commission des  
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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  
CAPITAL MARKETS TECHNOLOGIES, INC.**

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

Staff of the Ontario Securities Commission (“Staff”) allege:

**I. OVERVIEW**

1. On May 31, 2013, Capital Markets Technologies, Inc. (“CMT”) entered into a settlement agreement with the Prince Edward Island Superintendent of Securities (“PEI Superintendent”) (the “Settlement Agreement”).
2. CMT is subject to an order made by the PEI Superintendent dated June 5, 2013 (the “PEI Order”) that imposes sanctions, conditions, restrictions or requirements upon CMT.
3. Staff are seeking an inter-jurisdictional enforcement order reciprocating the PEI Order, pursuant to paragraphs 4 and 5 of subsection 127(10) of the Ontario *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “Act”).
4. The conduct for which CMT was sanctioned took place between July 2010 and December 2012 (the “Material Time”).

5. During the Material Time, CMT raised approximately \$700,000 from 36 Prince Edward Island investors without properly relying on the accredited investor exemption to the prospectus requirement under Prince Edward Island securities laws.

## II. THE PEI PROCEEDINGS

### Facts Agreed to by CMT

6. In the Settlement Agreement, CMT admitted the following:
  - a. CMT is a corporation incorporated in accordance with the laws of the State of Florida on June 29, 1995, and has an office in Chicago, Illinois and in Ottawa, Ontario;
  - b. 7645686 Canada Inc. (“7645686”) is a corporation incorporated in accordance with the laws of Canada on September 10, 2010, and has an office in Chicago, Illinois and Ottawa, Ontario;
  - c. 7645686 is, and was at all material times, wholly owned by CMT. At no time did 7645686 solicit investments from or issue its shares to any person other than its parent company, CMT;
  - d. Paul Edward Maines is, and was at all material time, an officer of CMT;
  - e. CMT has never filed, sought to file, or obtained a receipt for a prospectus with the PEI Superintendent;
  - f. Between July 1, 2010 and December 17, 2012, CMT raised \$701,030 from 36 Prince Edward Island investors through the distribution of securities by way of private placements in the form of “Convertible Loan Agreements”) (the “Investment”);
  - g. The Investment involved a loan of funds by the investors to CMT for, *inter alia*, the purpose of acquiring ownership control of the common shares of a public company shell (“TargetCo”), following which the loan

is to be converted into the common shares of TargetCo. Among the representations and warranties contained in the Convertible Loan Agreement was a representation by the investor that s/he satisfied the criteria for an “accredited investor” as defined in National Instrument 45-106;

- h. CMT initially was of the view that, since the investment described in the Convertible Loan Agreements was strictly a loan to CMT, it was not necessary to submit a Report of Exempt Distribution to the Superintendent, and that such a Report would not be required to be filed until the acquisition of the common shares of TargetCo was completed by CMT and the loans were thereby converted into shares of TargetCo;
- i. However, CMT agreed to file the Report of Exempt Distributions on March 5, 2013, which report indicated that all 36 Prince Edward Island investors were accredited investors;
- j. A subsequent review of the investors by [the PEI Superintendent] revealed that 6 of the 36 Prince Edward Island investors did not meet the definition of an “accredited investor.” In addition, [the PEI Superintendent] has been unable to obtain verification that a further 9 of the Prince Edward Island investors met the criteria of an “accredited investor”;
- k. CMT has offered a right of rescission of his or her investment to three of the investors whom [the PEI Superintendent] identified as failing to meet the criteria for an “accredited investor” in accordance with section 5 of [the Settlement Agreement]. Each of the three investors who received an offer of rescission elected to keep their investment with CMT;

**Agreement that acts constitute violations of Prince Edward Island securities law**

- l. The respondent CMT agrees that is has contravened section 94 of the [Prince Edward Island *Securities Act*, R.S.P.E.I. 1988, Cap. S-3.1] (the “PEI Act”)] by distributing a security without having obtained a receipt

for a prospectus with respect thereto or having, in all instances, properly relied on the accredited investor exemption from the prospectus requirement as set out in National Instrument 45-106; and

- m. CMT agrees that it has contravened section 6.1 of National Instrument 45-106 by failing to file a Report of Exempt Distribution on or before the 10<sup>th</sup> day after the distribution.

### **The PEI Order**

- 7. In its Order dated June 5, 2013, the PEI Superintendent imposed the following sanctions, conditions, restrictions or requirements upon CMT:
  - a. pursuant to section 60(1)(d) of the PEI Act, except for the securities to be issued on the conversion of the Convertible Loan Agreements, the exemptions set out in National Instrument 45-106 do not apply to CMT in Prince Edward Island for a period of 5 years;
  - b. pursuant to section 60(1)(m) of the PEI Act, the respondent CMT will pay an administrative penalty to the PEI Superintendent in the amount of ten thousand dollars (\$10,000.00);
  - c. the respondent CMT will offer a right of rescission and refund to investors set out at Schedule “B” [of the Settlement Agreement], being all those investors the PEI Superintendent has identified are not “accredited investors” as defined in National Instrument 45-106 and for whom CMT has provided no contrary evidence, independently of the Convertible Loan Agreements or from whom the PEI Superintendent has been unable to obtain verification that the investors meet the criteria of an “accredited investor” (save and except for the three investors to whom an Offer of Rescission and Refund has been made by CMT and declined), and CMT will comply with the investors’ wishes in response thereto, in accordance with section 5 of the Settlement Agreement;

- d. pursuant to section 63 of the PEI Act, the respondent CMT will pay to the PEI Superintendent costs of the investigation in the amount of five thousand dollars (\$5,000.00); and
- e. pursuant to sections 60(1)(e) and (f) of the PEI Act, the respondent CMT will engage an independent and duly qualified accountant to prepare audited financial statements of CMT for the fiscal years 2010, 2011 and 2012 and deliver a duly certified copy thereof to the PEI Superintendent no later than December 31, 2013.

### **III. JURISDICTION OF THE ONTARIO SECURITIES COMMISSION**

- 8. In the Settlement Agreement, CMT agreed to be made subject to an order of the PEI Superintendent imposing sanctions, conditions, restrictions or requirements upon CMT.
- 9. CMT is subject to an order of the PEI Superintendent imposing sanctions, conditions, restrictions or requirements.
- 10. Pursuant to paragraphs 4 and 5, respectively, of subsection 127(10) of the Act, an order made by a securities regulatory authority, derivatives regulatory authority or financial regulatory authority, in any jurisdiction, that imposes sanctions, conditions, restrictions or requirements on a person or company, or an agreement with a securities regulatory authority, derivatives regulatory authority or financial regulatory authority, in any jurisdiction, to be made subject to sanctions, conditions, restrictions or requirements on the person or company may form the basis for an order in the public interest made under subsection 127(1) of the Act.
- 11. Staff allege that it is in the public interest to make an order against CMT.
- 12. Staff reserve the right to amend these allegations and to make such further and other allegations as Staff deem fit and the Commission may permit.
- 13. Staff request that this application be heard by way of a written hearing pursuant to Rules 2.6 and 11 of the *Ontario Securities Commission Rules of Procedure*.

**DATED** at Toronto, this 2<sup>nd</sup> day of June, 2014.