



Ontario
Securities
Commission
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Commission des
valeurs mobilières
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
MATTHEW SCOTT SINCLAIR**

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

Staff of the Ontario Securities Commission make the following allegations:

A. The Respondent

1. At all material times, Merchant Capital Group Inc. (“MCGI”) was a reporting issuer in Ontario with its head office in Toronto.
2. At all material times, Matthew Scott Sinclair (“Sinclair”) was the Chairman, President and Chief Executive Officer of MCGI.
3. At all material times, Sinclair was also registered with the Commission in the category of Chief Executive Officer (Non-trading). Sinclair’s registration was held through Merchant Capital Wealth Management Corp. (“Merchant Capital Wealth Management”), a Mutual Fund Dealer and Limited Market Dealer and a wholly owned subsidiary of MCGI.

4. In addition to Merchant Capital Wealth Management, MCGI's other subsidiaries were: Merchant Capital Securities Corporation ("MCSC"), @rgentum Management & Research Corporation and Applied Carbon Technology (America), Inc.
5. Sinclair was the directing mind of all of the subsidiaries of MCGI.

B. The Cease Trade Order

6. On July 23, 2002, the Commission issued a Temporary Cease Trade Order against MCGI for its failure to file audited financial statements (the "TCTO").
7. On August 2, 2002, the TCTO was extended by the Commission until further order of the Commission revoking it (the "CTO"). The CTO remains in effect.

C. Breach of the Cease Trade Order

8. In or around August 2002, MCGI began selling convertible debentures to Ontario residents. The convertible debentures offered by MCGI were for 3-year term with a 14% annual interest rate, payable semi-annually, and were convertible to MCGI common shares over the 3-year term at the option of the debenture holder and based on a prescribed timetable (the "Convertible Debentures").
9. No prospectus was filed by MCGI nor was a receipt issued by the Commission in respect of the Convertible Debentures.
10. MCGI's offering was intended to raise up to \$7 million, of which MCGI represented in its offering documents that \$3 million had been raised as of May 2002. The proceeds of MCGI's offering were to be used for capital expenditures for MCGI's subsidiaries and for working capital for MCGI.
11. Between August 1, 2002 and March 5, 2003, MCGI raised at least \$500,000 through the sale of the Convertible Debentures. The Convertible Debentures were signed by Sinclair on behalf of MCGI.
12. In or around August 2004, Sinclair, on behalf of MCGI made a proposal to the Convertible Debenture holders for the "effective restructuring" of the securities.

13. Under the terms of the proposal, the Convertible Debenture holders would sell their Convertible Debentures to MCSC for the original principal amount of the Convertible Debenture. In exchange, MCSC would issue a matching convertible debenture with the exception that the maturity date would be extended and the conversion feature would be amended to provide for conversion into the common shares of MCSC or a related company, if and when MCSC, or a related company, completed a public listing of its securities (the “MCSC Convertible Debentures”).
14. Upon acceptance of the terms of the proposal and upon executing a convertible debenture agreement with MCSC, holders of the Convertible Debentures became holders of MCSC Convertible Debentures.
15. The proposal and exchange of Convertible Debentures for MCSC Convertible Debentures was facilitated by MCGI at the direction of Sinclair.
16. By mid-2005, MCSC began defaulting on its obligations under the MCSC Convertible Debentures and has remained in default since that time.

D. Conduct Contrary to Ontario Securities Law and the Public Interest

17. The sales of the Convertible Debentures between August 1, 2002 and March 5, 2003 constituted trades in securities by MCGI and Sinclair, and the restructuring of the Convertible Debentures in 2004, as facilitated by MCGI and Sinclair, constituted acts in furtherance of trades by them within the meaning of the *Securities Act*.
18. The sales of the Convertible Debentures were made by MCGI and Sinclair in breach of section 53 of the *Securities Act*.
19. Furthermore, by trading in securities while it was subject to the TCTO and CTO, MCGI breached the respective cease trade orders and therefore contravened Ontario securities law. Sinclair authorized, permitted or acquiesced in the trading by MCGI and is therefore deemed to also have contravened Ontario securities law.

20. The conduct of MCGI and Sinclair was contrary to Ontario securities law and contrary to the public interest.
21. Such further and other allegations as Staff submit and the Commission may permit.

DATED AT TORONTO this 16th day of June, 2008.