



Ontario
Securities
Commission

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
MAJESTIC SUPPLY CO. INC.,
SUNCASTLE DEVELOPMENTS CORPORATION,
HERBERT ADAMS, STEVE BISHOP,
MARY KRICFALUSI, KEVIN LOMAN AND
CBK ENTERPRISES INC.**

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

Staff of the Ontario Securities Commission (the "Commission") make the following allegations:

THE RESPONDENTS

1. Majestic Supply Co. Inc. ("Majestic") is an Ontario company. Majestic was the result of a merger of two Ontario corporations, 1562497 Ontario Inc. ("1562497") and Decorative Impressions Inc. ("Decorative") on April 1, 2006. Majestic was marketed as a provider of environmentally friendly printing products and systems, including Souken water-based ink.
2. 1562497 was an Ontario company incorporated on May 2, 2003. 1562497 was the predecessor of Majestic and carried on business as Majestic Supply Co. prior to its merger with Decorative.

3. Herbert Adams (“Adams”) was an original officer and director of 1562497 and subsequently Majestic. Adams was also the secretary of 1562497 from May 1, 2005 until the merger to form Majestic on April 1, 2006. Adams resigned as the secretary and director of Majestic on November 16, 2006.

4. Steve Bishop (“Bishop”) began as vice-president of Corporate Finance and secretary of Majestic on September 1, 2006 and became a director of Majestic on November 16, 2006. Bishop was formerly registered as a mutual fund and limited market dealer salesperson with the Commission at various times between March 26, 1982 and March 17, 1999.

5. Suncastle Developments Corporation (“Suncastle”) is an Ontario company incorporated on February 22, 1983. Suncastle was a company incorporated and controlled by Adams. Suncastle handled research and development activities for Majestic. Adams has been a director of Suncastle since approximately October 28, 1988. Adams became the secretary of Suncastle on May 1, 2005.

6. Mary Kricfalusi (“Kricfalusi”) began as president and director of Suncastle on April 1, 2006. Kricfalusi was a vice-president with Majestic from April 1, 2006 to November 16, 2006.

7. Kevin Loman (“Loman”) is an individual who was retained by Majestic to sell Majestic shares. Loman was formerly registered as a mutual fund and limited market dealer salesperson on or between 2003 and 2005 with the Alberta Securities Commission (the “ASC”).

8. CBK Enterprises Inc. (“CBK”) is a company incorporated pursuant to the Laws of Territory of the British Virgin Islands (“BVI”) on July 20, 2007. Pursuant to two trust declarations and agreements, CBK held 850,000 shares of Majestic in trust for each of Kricfalusi and Adams.

OVERVIEW

9. The Respondents sold Majestic shares contrary to the registration and prospectus requirements of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “Act”). The Respondents raised approximately \$5.3 million from approximately 134 investors through: (i) loan agreements, loan conversion agreements and promissory notes issued by Adams, Kricfalusi,

1562497 [now Majestic] and Majestic; (ii) the issuance of Majestic shares from treasury; and (iii) the secondary sales of Majestic shares owned by Suncastle, Adams and CBK. Bishop and Loman acted as salespersons for the sale of Majestic shares and received commissions on sales of Majestic shares issued from treasury and through secondary sales.

LOAN AGREEMENTS, LOAN CONVERSION AGREEMENTS AND PROMISSORY NOTES

10. From November 30, 2005 to January 31, 2008, Adams, Kricfalusi, 1562497 [now Majestic] and Majestic borrowed at least \$750,000 directly from investors. Investors signed loan agreements, loan conversion agreements and/or promissory notes which provided the investor with the right to convert the loan amount to Majestic shares usually at a conversion rate of 1 Majestic share per \$1.00 of loan amount. Most investors were advised that the monies raised would be used for Majestic's business.

11. The loan agreements, loan conversion agreements and promissory notes were securities as defined in the *Act*.

12. Staff allege that Adams, Kricfalusi, 1562497 [now Majestic] and Majestic breached subsections 25(1) and 53(1) of the *Act* by raising monies from investors using loan agreements, loan conversion agreements in circumstances in which exemptions from the registration and prospectus requirements of the *Act* were not available for these trades.

SALES OF MAJESTIC SHARES

13. Staff allege that from November 30, 2005 to January 31, 2008 inclusive, 1562497 and Majestic issued Majestic shares from treasury to approximately 69 shareholders. Investors in Ontario and Alberta were issued shares for 1562497 and/or Majestic at prices which ranged from \$0.50 to \$1.00 per share. During this period, Majestic raised approximately \$2.2 million from the sale of Majestic shares issued from treasury.

14. In selling 1562497 and/or Majestic shares to Ontario and Alberta residents, Majestic purported to rely upon the prospectus and registration exemptions for selling securities to accredited investors contained in National Instrument 45-106 ("NI 45-106") in circumstances in which the exemption was not available.

15. The sales of Majestic shares were trades in securities not previously issued and were therefore distributions.
16. No prospectus receipt has been issued to qualify the sale of Majestic shares.
17. Staff allege that Majestic, Adams, Bishop and Loman sold Majestic shares from treasury contrary to the registration and prospectus requirements found in sections 25 and 53 of the *Act*.
18. Adams, Suncastle and CBK also subsequently raised approximately \$3.1 million from the resale of their Majestic shares to investors.
19. Majestic was not a reporting issuer and therefore the resale of Majestic shares subsequent to initial trades made in reliance on specified exemptions from the prospectus requirements in NI 45-106 were distributions as the conditions in section 2.5 of in NI 45 - 102-Resale of Securities were not met.
20. None of the Respondents are registered with the Commission.
21. Staff allege that the Respondents sold previously distributed Majestic shares contrary to subsections 25(1) and 53(1) of the *Act*.

SALES COMMISSIONS

22. Majestic hired Bishop and Loman who acted as salespersons for the sale of Majestic shares.
23. Bishop and Majestic signed a commission agreement for the sale of Majestic shares which provided that: (i) Bishop was only to solicit subscriptions for Majestic shares from buyers who were accredited investors; and (ii) Bishop was to ensure that all investors completed the Certificate of Accredited Investor attached to the Subscription Agreement prior to their investments.
24. Bishop received cash commissions of approximately 3% to 5% of the amounts raised as well as shares of Majestic as compensation. Bishop received cash commissions in the total amount of approximately \$43,000 and received approximately 600,000 Majestic shares.

25. Loman received: (i) a 10% commission from Majestic for sales of Majestic shares out of treasury; and (ii) commissions from Suncastle of 25% of the secondary sales of Majestic shares. Loman received cash commissions in the total amount of approximately \$228,000.

MAJESTIC'S FAILURE TO FILE A REPORT OF EXEMPT DISTRIBUTION

26. Section 6.1 of NI 45-106 requires an issuer distributing securities of its own issue under specified exemptions, including the accredited investor exemption, to file a report in the local jurisdiction in which the distribution takes place.

27. The distribution of Majestic shares occurred in Ontario and required Majestic to file reports of exempt distribution with the Commission.

28. Majestic failed to file a Form 45-106F1 - Report of Exempt Distribution with the Commission relating to the distribution of Majestic shares contrary to section 6.1 of NI 45-106.

PROHIBITED REPRESENTATIONS AND UNDERTAKINGS

29. Majestic, Adams, Bishop and Loman made representations to potential investors including representations regarding the future listing and future value of Majestic shares with the intention of effecting trades in Majestic shares contrary to section 38 of the *Act*.

CONDUCT IN BREACH OF THE ACT AND CONTRARY TO THE PUBLIC INTEREST

30. The Respondents have traded in securities and acted as securities salespersons contrary to subsections 25(1) and 53(1) of the *Act* and contrary to the public interest.

31. Majestic, through its agents, and Adams, Bishop and Loman have made representations regarding the future listing and future value of Majestic shares with the intention of effecting sales of Majestic shares contrary to subsections 38(2) and 38(3) of the *Act* and contrary to the public interest.

32. As officers and directors of Majestic, Adams, Kricfalusi and Bishop have authorized, permitted or acquiesced in breaches by Majestic of sections 25, 38 and 53 of the *Act* and section 6.1 of NI 45-106 contrary to section 129.2 of the *Act* and in doing so have engaged in conduct contrary to the public interest.

33. As officers and directors of Suncastle, Adams and Kricfalusi have authorized, permitted or acquiesced in breaches by Suncastle of sections 25, 38 and 53 of the *Act* contrary to section 129.2 of the *Act* and have engaged in conduct contrary to the public interest.

34. Such additional allegations as Staff may advise and the Commission may permit.

Dated: at Toronto this 20th day of October, 2010