



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF
LANCE SANDFORD COOK and
CBM CANADA'S BEST MORTGAGE CORP.**

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

Staff of the Ontario Securities Commission (**Staff**) allege:

I. OVERVIEW

1. Lance Sandford Cook (**Cook**) and CBM Canada's Best Mortgage Corp. (**CBM**) (together, the Respondents) are subject to an order made by the British Columbia Securities Commission (the **BCSC**) dated August 8, 2017 (the **BCSC Order**) that imposes sanctions, conditions, restrictions or requirements upon them.
2. In its findings on liability dated April 19, 2017 (the **Findings**), a panel of the BCSC (the **BCSC Panel**) found that Cook and CBM engaged in illegal distributions of securities, contrary to section 61 of the British Columbia *Securities Act*, RSBC 1996, c 418 (the **BC Act**), and that Cook was liable for CBM's contraventions of BC securities law under section 168.2 of the BC Act.
3. Staff are seeking an inter-jurisdictional enforcement order, pursuant to paragraph 4 of subsection 127(10) of the Ontario *Securities Act*, R.S.O. 1990, c. S.5 (the **Act**).

II. THE BCSC PROCEEDINGS

The BCSC Findings

4. The conduct for which the Respondents were sanctioned took place between June and December 2010 (the **Material Time**).

5. As of the date of the Findings, Cook was a resident of British Columbia. During the Material Time, Cook was registered as a mortgage broker in British Columbia, but has never been registered, nor filed a prospectus, under the BC Act.
6. CBM was a federally registered Canadian corporation, and was extra-provincially registered in British Columbia. Cook was its President and sole director. During the Material Time, CBM was registered as a mortgage broker company in British Columbia, but has never been registered, nor filed a prospectus, under the BC Act. CBM was dissolved for failure to file annual reports on June 28, 2014.

Investor A

7. Investor A and her husband were clients of the Respondents' mortgage broker business. On September 19, 2007, Investor A provided Cook, personally, with a bank draft for \$80,000, and in return received a promissory note issued by Cook for the same amount, with a one year term and bearing 15% annual interest. Investor A was under the impression the funds she invested with Cook were to be invested in a technology company.
8. Investor A received interest as promised on this note. The investment was subsequently renewed on three occasions between September 19, 2008 and June 19, 2010. Upon each renewal, Investor A and/or Investor A and her husband, entered into new interest-bearing promissory notes with Cook for \$80,000. Interest payments on these subsequent notes were made by Cook until May 2011.
9. In May 2011, Investor A learned that the technology company she had discussed with Cook had gone into bankruptcy. Cook advised Investor A and her husband that he was in financial difficulty and could not repay or continue making interest payments on the June 19, 2010 promissory note. On Cook's proposing, Investor A and her husband entered into a new, non-interest bearing promissory note for \$40,000, issued by Cook on June 10, 2011. In June 2012, Cook proposed restructuring that note by reducing it further. Investor A and her husband did not agree to the reduction, and have not received any further payments from Cook since June 10, 2011.

Investor B

10. Investor B met Cook at a real estate investment club. On October 26, 2007, Investor B provided Cook with \$70,000, and in return received a promissory note for \$70,000 issued by Cook, with a one-year term and bearing 15% annual interest. Investor B received interest as promised on this note. Investor B and Cook subsequently renewed the investment on three occasions between October 26, 2008 and October 14, 2010. On each occasion, Investor B and Cook entered into new interest-bearing promissory notes for \$70,000, issued by Cook.
11. In June 2011, Cook advised Investor B that he was unable to continue making interest payments on the October 14, 2010 note. Cook proposed issuing Investor B a further, non-interest bearing promissory note for \$42,750. Investor B refused Cook's offer, and has not received any further payments from him since May 2011.

Investor C

12. Investor C met Cook through a mutual acquaintance, and ultimately made three overlapping investments with the Respondents.

First Investment

13. On December 27, 2007, Investor C provided Cook with \$100,000, and in return, received a promissory note, in the names of Cook personally and another individual whom Investor C had never met. The promissory note offered a one-year term and 15% annual interest. Investor C received interest payments on this note from CBM. Between December 21, 2008 and October 14, 2010, Investor C agreed to three renewals of the investment. Upon each renewal, Investor C entered into new interest-bearing promissory notes with CBM, each for \$100,000. Interest payments on these subsequent notes were made by CBM until May 2011.
14. At that time, Cook proposed issuing Investor C a further, non-interest bearing promissory note for \$50,000. Investor C agreed, and on June 10, 2011, was issued such a note by CBM. In September 2012, Cook proposed restructuring that note by reducing it further. Investor C agreed and was issued a further promissory note for \$9,854 by Cook. Investor

C received no further payments on her first investment from CBM or Cook following May 2011.

Second Investment

15. On May 21, 2008, Investor C entered into a promissory note with the Respondents for \$50,000, with a one-year term and 15% annual interest. CBM made interest payments as promised on this note. The promissory note was subsequently renewed on three occasions, in each instance for \$50,000 and bearing interest payable to Investor C, between May 21, 2009 and March 31, 2011. Investor C received interest on these subsequent notes from CBM until May 2011.
16. At that time, Cook proposed issuing Investor C a further, non-interest bearing promissory note for \$28,125. Investor C agreed, and on June 10, 2011, was issued such a note by CBM. In September 2012, Cook proposed restructuring that note by reducing it further. Investor C agreed and was issued a further promissory note for \$5,391 by Cook. Investor C received no further payments on her second investment from CBM or Cook after May 2011.

Third Investment

17. On September 30, 2009, Investor C provided Cook with \$50,000 and in return, received a promissory note issued by Cook, with a one-year term and bearing 15% annual interest. Interest payments on this note were made by a numbered company controlled by Cook. On September 9, 2010, Investor C and Cook agreed to renew the investment and entered into a new interest-bearing promissory note. Interest payments on the new note were made by the numbered company until May 2011.
18. At that time, Cook proposed issuing to Investor C a further, non-interest bearing promissory note for \$37,500. On June 10, 2011, Investor C received such a note, issued by Cook. In September, 2012, Cook again proposed restructuring that note by reducing it further. Investor C agreed and was issued a further promissory note by Cook in the amount of \$7,188. Investor C has not received any further payments on her third investment from the numbered company or Cook since May 2011.

Investor D

19. Investor D met Cook when the Respondents assisted her with obtaining a mortgage on her home. On December 1, 2008, Investor D provided Cook with \$30,000, and in return, received a promissory note for the same amount issued by Cook, with a one-year term and bearing 15% annual interest. Investor D received interest payments on this note from CBM. Investor D and Cook subsequently renewed the investment on December 1, 2009 and December 1, 2010. On both occasions, Investor D and CBM entered into new interest-bearing promissory notes for \$30,000. Investor D received interest payments from CBM on these notes until May 2011.
20. In May 2011, Cook proposed issuing Investor D a further, non-interest bearing, promissory note for \$19,125. Investor D agreed, and on June 10, 2011, was issued such a note by CBM. Investor D has not received any further payments from Cook nor CBM since June 2011.

Limitation Period

21. The BCSC Panel found that a new security was issued to Investors A, B, C and D, respectively, every time an interest bearing promissory note was renewed. In each case, the new interest bearing promissory note was issued in satisfaction of repayment of its predecessor interest bearing promissory note.
22. The BCSC panel found that the following distributions by the Respondents occurred after April 25, 2010 (being the date that was six years prior to the date of BCSC Staff's notice of hearing):
 - Investor A - \$80,000 promissory note on June 19, 2010
 - Investor B - \$70,000 promissory note on October 14, 2010
 - Investor C - \$100,000 promissory note on October 14, 2010; \$50,000 promissory note on March 31, 2011; and \$50,000 promissory note on September 9, 2010
 - Investor D - \$30,000 promissory note on December 1, 2010

23. The BCSC Panel determined that the above six distributions of securities by the Respondents, for an aggregate total of \$380,000, occurred within the limitation period under section 159 of the BC Act.
24. The BCSC Panel found that neither of the Respondents filed a prospectus with respect to any of the promissory notes, and that CBM's contraventions of the BC Act involved a subset of the same distributions in which Cook also took part.
25. In its Findings, the BCSC Panel concluded that:
 - a. Cook contravened section 61 of the BC Act with respect to six distributions of securities to four investors for total proceeds of \$380,000;
 - b. CBM contravened section 61 of the BC Act with respect to three distributions of securities to two investors for total proceeds of \$180,000; and
 - c. Cook was liable under section 168.2 of the BC Act for CBM's contraventions of section 61 of the BC Act.

The BCSC Order

26. The BCSC Order imposed the following sanctions, conditions, restrictions or requirements:
 - a. upon Cook:
 - i. under section 161(1)(d)(i) of the BC Act, that Cook resign any position he holds as a director or officer of an issuer or registrant;
 - ii. Cook be prohibited, for the later of five years or until such time as the amounts referred to in subparagraphs (iii) and (iv) below have been paid:
 1. under section 161(1)(b)(ii) of the BC Act, from trading in or purchasing any securities or exchange contracts, except that he may trade and purchase securities or exchange contracts for his own

account through a registered dealer, if he gives the registered dealer a copy of the BCSC Order;

2. under section 161(1)(d)(ii) of the BC Act, from becoming or acting as a director or officer of any issuer or registrant;
 3. under section 161(1)(d)(iii) of the BC Act, from becoming or acting as a registrant or promoter;
 4. under section 161(1)(d)(iv) of the BC Act, from acting in a management or consultative capacity in connection with activities in the securities market; and
 5. under section 161(1)(d)(v) of the BC Act, from engaging in investor relations activities;
- iii. under section 161(1)(g) of the BC Act that Cook pay to the BCSC \$218,500, being the total amount of \$380,000 he avoided paying as a result of his contraventions of the BC Act, less total interest payments returned to investors of \$161,500; and
- iv. under section 162 of the BC Act, Cook pay to the BCSC an administrative penalty of \$25,000;
- b. upon CBM:
- CBM be prohibited for five years:
- i. under section 161(1)(b)(ii) of the BC Act, from trading in or purchasing securities;
 - ii. under section 161(1)(d)(iii) of the BC Act, from becoming or acting as a promoter;

- iii. under section 161(1)(d)(iv) of the BC Act, from acting in a management or consultative capacity in connection with activities in the securities market; and
- iv. under section 161(1)(d)(v) of the BC Act, from engaging in investor relations activities.

III. JURISDICTION OF THE ONTARIO SECURITIES COMMISSION

- 27. The Respondents are subject to an order of the BCSC imposing sanctions, conditions, restrictions or requirements upon them.
- 28. Pursuant to paragraph 4 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 may form the basis for an order in the public interest made under subsection 127(1) of the Act.
- 29. Staff allege that it is in the public interest to make an order against the Respondents.
- 30. 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.
- 31. 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 24th day of October, 2017.