

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

- and -

**IN THE MATTER OF
JOHN ALEXANDER CORNWALL,
KATHRYN A. COOK,
DAVID SIMPSON,
JEROME STANISLAUS XAVIER,
CGC FINANCIAL SERVICES INC.
AND
FIRST FINANCIAL SERVICES**

AMENDED STATEMENT OF ALLEGATIONS

Staff of the Ontario Securities Commission make the following allegations:

I. The Respondents

1. John Alexander Cornwall resides in the province of Ontario.
2. Cornwall was registered under the Securities Act from April 11, 2000 to October 5, 2001 as a salesperson with Global Educational Marketing Corporation, a dealer in the category of Scholarship Plan Dealer.
3. Cornwall is the sole owner and director of CGC Financial Services Inc., an Ontario Corporation, located at 1010 Polytec Street, Unit 2, Gloucester, Ontario.
4. Jerome Stanislaus Xavier, a resident of Quebec, was at all material times, registered under the Act. Xavier has been registered as a salesperson under the Act since 1992. Since September 23, 1999, Xavier has been registered as a salesperson with Keybase Investments Inc., a dealer in the category of Mutual Fund Dealer, Limited Market Dealer and Scholarship Plan Dealer.

5. Since 1992, Xavier shared office space with Cornwall at 1010 Polytec Street.
6. David Simpson is a resident of Ontario and was, at all material times, an unregistered mortgage broker. He is the owner and sole director of 567349 Ontario Ltd., operated as First Financial Services. Simpson was also the sole director and owner of Stramore Inc. Simpson has never been registered under the Act.
7. Kathryn A. Cook is a resident of Ontario and was, at all material times, a Chartered Accountant. Cook has never been registered under the Act.

The Illegal Distribution

8. From approximately April 2000 to March 2001, Cornwall participated in a scheme whereby he and others placed advertisements in newspapers throughout Ontario and other provinces, to attract clients. The advertisements advised the potential investor that they could access a portion of the value of their locked-in Registered Retirement Savings Plan (“RRSP”) by purchasing shares in private Canadian companies.
9. Shares of Canadian Controlled Private Corporations (“CCPCs”) can constitute a qualified investment for RRSPs. The qualifications of a company as a CCPC are prescribed by tax laws and regulations. Cornwall and others claimed that the four companies involved in this scheme were CCPCs, and therefore, were qualified investments for RRSPs.
10. In response to the advertisements, the clients contacted Cornwall and others. The clients purchased shares of one of the following four companies, all purporting to be CCPCs:

- i) **Themis Hospitality Inc. – April to October 2000**

An Ontario registered corporation. Sometime in 1998, Themis purchased a vacant lot in Kanata, Ontario for the purpose of constructing a retirement residence. Simpson acted as a financial advisor and mortgage broker. At some point, additional equity financing was required. As a result, Simpson organized the issuing of non-voting shares of Themis.

ii) Stramore Inc. – May 2000 to February 2001

Stramore is an Ontario corporation owned by Simpson. In May of 2000, Stramore purchased a vacant lot located in Smith Falls, Ontario for approximately \$175,000. The offering memorandum for Stramore, written by Simpson, indicates that proceeds will be used for a development. The projected cost was in excess of \$1.8 million. The mortgage on the property is now in excess of \$175,000, which represents the initial purchase price of the property and the property is still vacant.

iii) Faelen Concepts – June 2000 to March 2001

Faelen is an Ontario Corporation. In the Spring of 2000, Cornwall agreed to assist Mr. M., a trained chef, who wanted to purchase a hotel/resort. Under Cornwall's guidance, M. engaged in a scheme to raise capital selling private company shares to investors. Cornwall registered Faelen to his own office address at 1010 Polytec Street, Gloucester, naming M. as the sole director. Faelen never purchased property for this venture. Faelen's only assets were the funds generated by the sale of shares.

iv) Camcys Inc. – September 2000 to February 2001

Cornwall registered Camcys, an Ontario corporation, for his son-in-law, R., who was also named as the sole director. Cornwall assisted R. in raising capital so that R. could start a web-page design company. Cornwall rented a post office box in his own name and registered the address of Camcy's to that address. The trustee forwarded the proceeds of the sale of the shares to a joint bank account in the name of Cornwall and R. The proceeds from the sales were subsequently transferred to Cornwall's company CGC Financial. Camcys only assets were the funds generated by the sale of the shares. Camcys never had any sales or clients.

11. The clients' purchased shares of these four companies using funds located in their locked in RRSPs. Cornwall, and others, met directly with the majority of the clients. Cornwall, and others, advised these clients that the funds located in their locked-in RRSPs would be used to

purchase shares of CCPCs that were purported to be qualified investments for locked-in RRSPs. The clients who purchased shares in Camcys and Faelen then obtained a loan from CGC, a company owned by Cornwall. The clients who purchased shares in Stramore and Themis obtained a loan from First Financial, a company owned by Simpson. The loans were for an amount that represented a portion of the purchase price of the shares, varying from approximately 65% to 70%. The remaining portion, varying from approximately 30% to 35%, was charged as an “administration fee”.

12. In total, Cornwall processed over 87 transactions in excess of approximately \$1.8 million in shares. The majority of the investors were Ontario residents.

13. Xavier facilitated the purchase of shares and his name appears as the “registered representative” on all the documentation with respect to the purchase of private company shares of Themis, Camcys, Faelen and Stramore. Xavier did not process all the trades through Keybase. Xavier was registered through Keybase.

14. Cook, a chartered accountant, signed documents that confirmed that “to the best of [her] knowledge” the shares of Camcys and Stramore represented a “fair market value.” Cook did not conduct any due diligence with respect to Camcys and Stramore. To facilitate the trust company’s acceptance of the transactions as RRSP eligible investments, Cook signed a letter confirming the share purchases of Stramore, Faelen and Themis were a “qualified investment for the annuitants RRSP.”

15. Simpson, through his company First Financial, controlled the incoming investment from clients that was generated from the sale of the shares of Themis and Stramore. Cornwall, through his company CGC, controlled the incoming investment from clients that was generated from the sale of the shares of Faelen and Camcys.

16. In total, each of the respondents received the following compensation (all numbers approximate) for participating in the transactions: Cornwall - \$650,000; Simpson - \$165,000; Xavier - \$60,000 and Cook - \$14,000.

The Loans

17. Some of these investors continue to pay back the loans.

II. VIOLATIONS OF THE *SECURITIES ACT*

18. In trading shares of the private companies listed above, Cornwall, Simpson and Xavier participated in an illegal distribution of securities, contrary to section 53(1) of the *Securities Act*, by trading in these securities for which there was no exemption available.

19. By failing to ascertain the general investment needs and objectives of the investors who purchased shares of the companies listed above, and the suitability of the proposed purchases or sales of the securities for these clients, Xavier acted contrary to section 1.5 of Ontario Securities Commission Rule 31-505.

20. By failing to process trades through Keybase, Xavier acted contrary to section 25(1) of the *Securities Act*.

III. CONDUCT CONTRARY TO THE PUBLIC INTEREST

21. Cornwall's conduct, as described above, is contrary to the public interest.

22. Simpson's conduct, as described above, is contrary to the public interest.

23. Cook's conduct, as described above, is contrary to the public interest.

24. Xavier's conduct, as described above, is contrary to the public interest.

25. CGC and First Financial's conduct, as described above, is contrary to the public interest.

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

DATED at Toronto this 27th day of November, 2003.