



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF
DONALD BRUCE WILSON, DAVID SCOTT WRIGHT
and PATRICK K. PRINSTER**

STATEMENT OF ALLEGATIONS

(Subsections 127(1) and 127(10) of the *Securities Act*, RSO 1990, c S.5)

1. Staff of the Enforcement Branch (**Staff**) of the Ontario Securities Commission (the **Commission**) elect to proceed using the expedited procedure for inter-jurisdictional proceedings as set out in Rule 11(3) of the Commission's *Rules of Procedure*.
- A. OVERVIEW**
2. In its findings on liability dated April 30, 2019 (the **Findings**), a panel of the British Columbia Securities Commission (**BCSC** or the **BCSC Panel**) found that Donald Bruce Wilson (**Wilson**), David Scott Wright (**Wright**) and Patrick K. Prinster (**Prinster**) (collectively, the **Respondents**) perpetrated a fraud, contrary to section 57(b) of the British Columbia *Securities Act*, RSBC 1996, c. 418 (the **BC Act**).
3. The Respondents are subject to an order made by the BCSC dated September 20, 2019 (the **BCSC Order**) that imposes sanctions, conditions, restrictions or requirements upon them.
4. Staff are seeking an inter-jurisdictional enforcement order reciprocating the BCSC Order pursuant to paragraph 4 of subsection 127(10) of the Ontario *Securities Act*, RSO 1990, c S.5 (the **Act**).

B. FACTS

Staff make the following allegations of fact:

(i) The BCSC Proceedings

Background

5. The conduct for which the Respondents were sanctioned occurred between June 2011 and August 2013 (the **Material Time**).
6. Wilson was a resident of North Vancouver, British Columbia. He was previously registered to sell mutual funds and was a licensed mortgage broker during the Material Time.
7. Wright was a resident of North Vancouver, British Columbia. He has never been registered under the BC Act.
8. Prinster was a resident of Vancouver, British Columbia. He has never been registered under the BC Act. Prinster was a lawyer called to the bar in one or more jurisdictions in the United States.
9. DominionGrand II Mortgage Investment Corporation (**MIC II**) was a British Columbia company incorporated on March 30, 2011. MIC II was dissolved for a failure to file annual reports on February 16, 2015. Wright and Wilson were directors of MIC II. The BCSC Panel found that Prinster was a *de facto* director of MIC II.
10. DominionGrand Investment Fund Inc. (**MIC III**) was a British Columbia company incorporated on August 24, 2012. MIC III was dissolved for a failure to file annual reports on July 6, 2015. Wright was a director of MIC III. Wilson did not have any role with respect to the business or affairs of MIC III. The BCSC Panel found that Prinster was a *de facto* director of MIC III.

History of the business and organizational structure

11. In 2007, Wright and Prinster formed DominionGrand Development Group (**DDG**). The business purpose of DDG was to develop, market and manage real estate-based investment

products. These investment products would ultimately include mortgage investment corporations (i.e. MIC II and MIC III).

12. DDG had a number of affiliated entities, including MIC II and MIC III. The specific business affairs and assets of DDG's affiliated entities (other than MIC II and MIC III) were not clear but appear to have included investments in hotels and other real estate assets.
13. An offering memorandum and marketing materials were prepared for the sale of shares in MIC II and at least one salesperson was retained to sell these shares to investors. It was clear that all of the Respondents had input into the creation and information contained in the offering memorandum and the marketing materials.
14. Both MIC II and MIC III had managers who were licensed mortgage brokers under the British Columbia *Mortgage Brokers Act*. DominionGrand Financial Corporation (**DFC**) was the manager of MIC II. Wilson and Wright were both directors of DFC during the Material Time, and Wilson was the registered mortgage broker for DFC. DominionGrand Asset Management Inc. (**DAM**) was the manager of MIC III, and Wright was a director of DAM during the Material Time.

Sales of shares of MIC II

15. There was uncontested evidence that, during the Material Time, there were sales of shares of MIC II which totaled \$604,530 to 18 investors.
16. MIC II had a bank account at a large Canadian financial institution. Signing authorities on that account included all of the Respondents. All cheques that were issued on that account were signed by Wilson and one of the other two Respondents.
17. All of the Respondents confirmed that MIC II did not invest any of the funds raised by the sale of shares in MIC II in any mortgages.
18. A cease trade order (**CTO**) relating to the securities of MIC II was issued on December 3, 2012. As of April 30, 2019, that CTO had not been revoked.

Sales of shares of MIC III

19. There was uncontested evidence that, during the Material Time, there were sales of shares of MIC III which totaled \$506,693 to 26 investors. Although this evidence was uncontested, BCSC investigators were only able to trace \$454,375 into the bank account of MIC III.
20. MIC III also had a bank account at a large credit union that was opened in September 2012 with Wright and Prinster listed as the authorized signing authorities. All cheques that were issued on that account were signed by Wright and Prinster.
21. Wright and Prinster confirmed that MIC III did not invest any of the funds raised by the sale of shares in MIC III in any mortgages.

Marketing Materials

22. Investors who purchased shares of MIC II and MIC III received an offering memorandum. A variety of promotional materials were also prepared in connection with the sale of these shares, including websites, term sheets, frequently asked questions and an executive summary. Investors also entered into a subscription agreement with the issuers, which included a form of risk acknowledgement (collectively, the **Marketing Materials**).
23. The primary representation in the Marketing Materials regarding use of investor funds was that MIC II and MIC III would be investing in mortgages secured by real estate. The Marketing Materials also included references as to how an investment in MIC II and MIC III would be less risky than other investments due to the security provided by mortgages.
24. There was no disclosure anywhere in the Marketing Materials to suggest that investor funds would be required to cover start-up costs of MIC II, MIC III or their manager. Similarly, there was no disclosure that funds would not be invested in mortgages until a certain amount of funds had been raised.
25. The BCSC Panel concluded that a reasonable investor would believe that MIC II and MIC III represented to them, through their Marketing Materials, that they would primarily invest funds raised from investors in mortgages secured by real estate.

26. Evidence from the BCSC's review of the bank accounts for MIC II and MIC III details that the majority of investors' funds was paid by MIC II and MIC III to related companies of the Respondents. The BCSC Panel found that the diversion of funds from investing in mortgages secured by real estate to related companies and other persons on an unsecured basis caused both the risk of loss and actual loss to investors.

(ii) BCSC Findings – Conclusions

27. The BCSC Panel found that Wright, Wilson and Prinster, as directors and officers of MIC II and MIC III, committed fraud based on the following:

- all of Wright, Wilson and Prinster, in the case of MIC II, and both Wright and Prinster, in the case of MIC III, were responsible for the preparation and contents of the Marketing Materials in respect of those entities. The Respondents would have had knowledge that investors were told that MIC II and MIC III would principally be investing in mortgages;
- the Respondents, in their respective roles, were the signing authorities for the bank accounts of MIC II and MIC III. The Respondents would have had knowledge about the use of investors' funds;
- as a consequence, the Respondents, in their respective roles, would have had knowledge of the diversion of investors' funds; and
- any business person would know that the diversion of investors' funds from their intended use into unsecured investments mainly in related companies (primarily for start-up costs) would result in deprivation (both the risk of loss and actual loss). Each Respondent was a sophisticated business person with experience in the real estate industry as they themselves admitted and reiterated throughout the proceedings.

28. The BCSC Panel concluded that:

- (a) each of Wright, Wilson and Prinster contravened section 57(b) of the BC Act with respect to 19 investors for \$610,134; and

- (b) both Wright and Prinster, contravened section 57(b) of the BC Act with respect to 21 investors for \$506,693.

(iii) The BCSC Order

29. The BCSC Order imposed the following sanctions, conditions, restrictions or requirements upon the Respondents:

1. Wilson

- (a) under section 161(1)(d)(i) of the BC Act, Wilson resign any position he holds as a director or officer of an issuer or registrant;
- (b) Wilson is permanently prohibited:
 - (i) under section 161(1)(b)(ii) of the BC Act, from trading in or purchasing any securities or exchange contracts;
 - (ii) under section 161(1)(c) of the BC Act, from relying on any of the exemptions set out in the BC Act, the regulations or a decision;
 - (iii) under section 161(1)(d)(ii) of the BC Act, from becoming or acting as a director or officer of any issuer or registrant;
 - (iv) under section 161(1)(d)(iii) of the BC Act, from becoming or acting as a registrant or promoter;
 - (v) 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
 - (vi) under section 161(1)(d)(v) of the BC Act, from engaging in investor relations activities; and
- (c) Wilson pay to the BCSC an administrative penalty of \$150,000 under section 162 of the BC Act;

2. Wright

- (a) under section 161(1)(d)(i) of the BC Act, Wright resign any position he holds as a director or officer of an issuer or registrant;
- (b) Wright is permanently prohibited:
 - (i) under section 161(1)(b)(ii) of the BC Act, from trading in or purchasing any securities or exchange contracts;
 - (ii) under section 161(1)(c) of the BC Act, from relying on any of the exemptions set out in the BC Act, the regulations or a decision;
 - (iii) under section 161(1)(d)(ii) of the BC Act, from becoming or acting as a director or officer of any issuer or registrant;
 - (iv) under section 161(1)(d)(iii) of the BC Act, from becoming or acting as a registrant or promoter;
 - (v) 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
 - (vi) under section 161(1)(d)(v) of the BC Act, from engaging in investor relations activities; and
- (c) Wright pay to the BCSC an administrative penalty of \$250,000 under section 162 of the BC Act;

3. Prinster

- (a) under section 161(1)(d)(i) of the BC Act, Prinster resign any position he holds as a director or officer of an issuer or registrant;
- (b) Prinster is permanently prohibited:
 - (i) under section 161(1)(b)(ii) of the BC Act, from trading in or purchasing any securities or exchange contracts;

- (ii) under section 161(1)(c) of the BC Act, from relying on any of the exemptions set out in the BC Act, the regulations or a decision;
 - (iii) under section 161(1)(d)(ii) of the BC Act, from becoming or acting as a director or officer of any issuer or registrant;
 - (iv) under section 161(1)(d)(iii) of the BC Act, from becoming or acting as a registrant or promoter;
 - (v) 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
 - (vi) under section 161(1)(d)(v) of the BC Act, from engaging in investor relations activities; and
- (c) Prinster pay to the BCSC an administrative penalty of \$250,000 under section 162 of the BC Act;

C. JURISDICTION OF THE ONTARIO SECURITIES COMMISSION

30. The Respondents are subject to an order of the BCSC imposing sanctions, conditions, restrictions or requirements upon them.
31. 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.
32. Staff allege that it is in the public interest to make an order against the Respondents.
33. 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.

D. ORDER SOUGHT

34. Staff request that the Commission make the following inter-jurisdictional enforcement order, pursuant to paragraph 4 of subsection 127(10) of the Act:

(a) against Wilson that:

- (i) pursuant to paragraphs 7 and 8.1 of subsection 127(1) of the Act, Wilson resign any positions that he holds as a director or officer of any issuer or registrant;
- (ii) pursuant to paragraphs 2 and 2.1 of subsection 127(1) of the Act, trading in any securities or derivatives, and acquiring any securities by Wilson cease permanently;
- (iii) pursuant to paragraph 3 of subsection 127(1) of the Act, any exemptions contained in Ontario securities law do not apply to Wilson permanently;
- (iv) pursuant to paragraphs 8 and 8.2 of subsection 127(1) of the Act, Wilson be prohibited from becoming or acting as a director or officer of any issuer or registrant;
- (v) pursuant to paragraph 8.5 of subsection 127(1) of the Act, Wilson be prohibited from becoming or acting as a registrant or promoter;

(b) against Wright that:

- (i) pursuant to paragraphs 7 and 8.1 of subsection 127(1) of the Act, Wright resign any positions that he holds as a director or officer of any issuer or registrant;
- (ii) pursuant to paragraphs 2 and 2.1 of subsection 127(1) of the Act, trading in any securities or derivatives, and acquiring any securities by Wright cease permanently;
- (iii) pursuant to paragraph 3 of subsection 127(1) of the Act, any exemptions contained in Ontario securities law do not apply to Wright permanently;

- (iv) pursuant to paragraphs 8 and 8.2 of subsection 127(1) of the Act, Wright be prohibited from becoming or acting as a director or officer of any issuer or registrant;
 - (v) pursuant to paragraph 8.5 of subsection 127(1) of the Act, Wright be prohibited from becoming or acting as a registrant or promoter;
- (c) against Prinster that:
- (i) pursuant to paragraphs 7 and 8.1 of subsection 127(1) of the Act, Prinster resign any positions that he holds as a director or officer of any issuer or registrant;
 - (ii) pursuant to paragraphs 2 and 2.1 of subsection 127(1) of the Act, trading in any securities or derivatives, and acquiring any securities by Prinster cease permanently;
 - (iii) pursuant to paragraph 3 of subsection 127(1) of the Act, any exemptions contained in Ontario securities law do not apply to Prinster permanently;
 - (iv) pursuant to paragraphs 8 and 8.2 of subsection 127(1) of the Act, Prinster be prohibited from becoming or acting as a director or officer of any issuer or registrant;
 - (v) pursuant to paragraph 8.5 of subsection 127(1) of the Act, Prinster be prohibited from becoming or acting as a registrant or promoter;
- (d) such other order or orders as the Commission considers appropriate.

DATED this 10th day of August, 2020.

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