



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

P.O. Box 55, 19<sup>th</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

CP 55, 19<sup>e</sup> étage  
20, rue queen ouest  
Toronto ON M5H 3S8

---

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

**-AND-**

**IN THE MATTER OF AURELIO BAGLIONE, WINCHESTER FINANCIAL CORPORATION, RALEIGH MANAGEMENT AND LEASING CORPORATION, RUNDLE PROPERTIES CORPORATION, DUNDAS & WELLINGTON INVESTMENT CORPORATION, PARRY SOUND MALL INVESTMENT CORPORATION, KIRKLAND LAKE MALL INVESTMENT CORPORATION, CHAMBERLAND STREET INVESTMENT CORPORATION, GATEWAY RETAIL CENTER LIMITED PARTNERSHIP, GATEWAY CENTER GENERAL PARTNER INC., 18<sup>TH</sup>-PAULINA LIMITED PARTNERSHIP, 18<sup>TH</sup>-PAULINA GENERAL PARTNER INC., MHG HOLDINGS LIMITED, CHELMSFORD/DUNNVILLE INVESTMENT CORPORATION, ESPANOLA MALL INC., 1096966 ONTARIO LTD., 56-62 POND STREET INC., 169 DUFFERIN STREET INC., 1426430 ONTARIO INC., 274 DUNDAS STREET INC., 833 UPPER JAMES STREET INC., 1855 LASALLE BOULEVARD INC., PARRY SOUND MALL INC., KIRKLAND LAKE MALL INC., 2620 CHAMBERLAND STREET INC., 1732577 ONTARIO INC., HURON AND SUNCOAST PLAZA INC., 80 COURTHOUSE SQUARE INC., 1729319 ONTARIO LTD., CHESTNUT MANOR INC., THE WINCHESTER LEASING TRUST, THE WINCHESTER LEASING GROUP INC., THE WINCHESTER CAPITAL TRUST, WINCHESTER CAPITAL CORPORATION, WINCHESTER SECURITIES CORPORATION AND THE WINCHESTER REAL ESTATE INVESTMENT TRUST LTD.**

**SETTLEMENT AGREEMENT  
BETWEEN STAFF OF THE ONTARIO SECURITIES COMMISSION, AURELIO BAGLIONE AND THE WINCHESTER FINANCIAL GROUP**

**PART I – INTRODUCTION**

1. The Ontario Securities Commission (the “Commission”) will issue a Notice of Hearing to announce that it will hold a hearing to consider whether, pursuant to

sections 127 and 127.1 of the *Securities Act*, R.S.O. 1990, c. S-5, as amended (the “Act”), it is in the public interest for the Commission to make certain orders in respect of Aurelio Baglione (“Baglione”) and Winchester Financial Corporation (“WFC”), Raleigh Management and Leasing Corporation (“Raleigh”), Rundle Properties Corporation (“Rundle Properties”), Dundas & Wellington Investment Corporation (“Dundas & Wellington IC”), Parry Sound Mall Investment Corporation (“Parry Sound IC”), Kirkland Lake Mall Investment Corporation (“Kirkland Lake IC”), Chamberland Street Investment Corporation (“Chamberland Street IC”), Gateway Retail Center Limited Partnership (“Gateway LP”), Gateway Center General Partner Inc. (“Gateway GP”), 18<sup>th</sup>-Paulina Limited Partnership (“18<sup>th</sup>-Paulina LP”), 18<sup>th</sup>-Paulina General Partner Inc. (“18<sup>th</sup> Paulina GP”), MHG Holdings Limited (“MHG Holdings”), Chelmsford/Dunnville Investment Corporation (“Chelmsford IC”), Espanola Mall Inc. (“Espanola”), 1096966 Ontario Ltd. (“1096966 Ontario”), 56-62 Pond Street Inc. (“56-62 Pond Street”), 169 Dufferin Street Inc. (“169 Dufferin”), 1426430 Ontario Inc. (“1426430 Ontario”), 274 Dundas Street Inc. (“274 Dundas”), 833 Upper James Street Inc. (“833 Upper James”), 1855 LaSalle Boulevard Inc. (“1855 LaSalle”), Parry Sound Mall Inc. (“Parry Sound”), Kirkland Lake Mall Inc. (“Kirkland Lake”), 2620 Chamberland Street Inc. (“2620 Chamberland”), 1732577 Ontario Inc. (“1732577 Ontario”), Huron and Suncoast Plaza Inc. (“Huron and Suncoast”), 80 Courthouse Square Inc. (“80 Courthouse”), 1729319 Ontario Ltd. (“1729319 Ontario”), Chestnut Manor Inc. (“Chestnut Manor”), The Winchester Leasing Trust, The Winchester Leasing Group Inc. (“The Winchester Leasing Group”), The Winchester Capital Trust, Winchester Capital Corporation, Winchester Securities Corporation and The Winchester Real Estate Investment Trust Ltd. (collectively, the “Winchester Financial Group”).

## **PART II – JOINT SETTLEMENT RECOMMENDATION**

2. Staff of the Commission (“Staff”) agree to recommend settlement of the proceeding commenced by Notice of Hearing dated March 27, 2013 (the “Proceeding”) against

Baglione and the Winchester Financial Group (collectively, the “Respondents”) in accordance with the terms and conditions set out in Part VI of this Settlement Agreement. The Respondents consent to the making of an order in the form attached as Schedule “A”, based on the facts set out below.

### **PART III – AGREED FACTS**

3. For this proceeding, and any other regulatory proceeding commenced by a securities regulatory authority, the Respondents agree with the facts as set out in Part III of this Settlement Agreement.

#### **Background**

4. The Winchester Financial Group is a group of corporate entities and unincorporated trusts operated and controlled by Baglione.
5. The Winchester Financial Group’s principal office is located in Vaughan, Ontario.
6. The Winchester Financial Group’s activities are primarily focussed on acquiring commercial and multi-unit residential properties, offering “units” in those properties to investors, providing financial services and loans to investors, and managing the properties. The Winchester Financial Group has also offered bonds and other investments to investors.
7. Since 1999, the Winchester Financial Group has offered 14 separate property investments, comprising a total of 18 real properties. The total book value of these offerings was approximately \$70 million. The Winchester Financial Group has also made three separate bond and trust unit offerings, with a total book value of approximately \$2.3 million.
8. Baglione has never been registered in accordance with Ontario securities law.
9. None of the entities in the Winchester Financial Group has ever been registered in accordance with Ontario securities law, nor have they been reporting issuers in

Ontario. None of the entities in the Winchester Financial Group has ever filed a preliminary or final prospectus with the Commission, nor have receipts been issued for them by the Director.

10. Winchester Securities Corporation (“Winchester Securities”), one of the entities in the Winchester Financial Group, applied for registration as an Exempt Market Dealer (“EMD”) on May 3, 2011.

### **Property Investments**

11. The Winchester Financial Group has offered a total of 14 property investments, comprising a total of 18 underlying real properties (the “Syndicated Properties”). These investments provided investors with an ownership interest in one or more of the Syndicated Properties and a share of the profits flowing from those properties.
12. Each of the 14 property investments is structured as a separate offering with a separate issuer. Two of the offerings, Gateway LP and 18<sup>th</sup>-Paulina LP, were structured as limited partnerships, with Gateway GP and 18<sup>th</sup>-Paulina GP, acting as the general partner, respectively.
13. The remaining 12 property investments were structured as trust arrangements in which investors acquired a “unit” representing a 1/100<sup>th</sup> beneficial interest in one or more of the Syndicated Properties. Legal title to each of the Syndicated Properties is held by a corporation acting as bare trustee. The offerings for each property investment were made using single-purpose issuer corporations, some of which were dissolved or amalgamated into other Winchester Financial Group entities after the completion of the offering. The offering corporations within the Winchester Financial Group consist of Rundle Properties, Dundas & Wellington IC, Parry Sound IC, Kirkland Lake IC, Chamberland Street IC, MHG Holdings, and Chelmsford IC. The trustee corporations within the Winchester Group consist of Espanola, 1096966 Ontario, 56-62 Pond Street, 169 Dufferin, 1426430 Ontario, 274 Dundas, 833 Upper James, 1855 LaSalle, Parry Sound, Kirkland Lake, 2620 Chamberland, 1732577

Ontario, Huron and Suncoast, 80 Courthouse Square, 1729319 Ontario, and Chestnut Manor (collectively, “the Property Trustee Entities”).

14. As part of their purchase of limited partnership interests or property units (collectively, the “Units”), investors also acquired certain financial services provided by WFC and Raleigh. These services include guarantees with respect to the mortgage rate and minimum annual gross revenue of the Syndicated Properties, and interest-free cash flow loans made to the Syndicated Properties (the “Financial Services”). The charge to investors for the Financial Services typically comprises approximately one-third of the total cost of the Units, while the value of the underlying Syndicated Properties comprises the other two-thirds of the cost of the Units.
15. The Winchester Financial Group provides financing to investors to purchase the Units. Investors typically pay only a small initial deposit at the time they acquire the Units. WFC or Raleigh receives a promissory note and/or provides an equity loan for the remainder of the purchase price, which investors repay through monthly payments and/or the application of their proportionate share of the profits generated by the underlying Syndicated Properties. Investors also typically agree to assume a proportionate share of the outstanding mortgage(s) on the Syndicated Properties, which are repaid through the properties’ operating revenues.
16. Investors received offering memoranda (the “OMs”) and term sheets (the “Term Sheets”) and entered into agreements with entities in the Winchester Financial Group in order to purchase their Units. These agreements included a subscription agreement or unit purchase agreement (collectively, the “Subscription Agreements”), a trust agreement, a rental revenue and guarantees agreement, a financial services agreement, and a co-owners agreement. Investors who entered into financing arrangements also executed additional agreements with entities in the Winchester Financial Group.

17. The Winchester Financial Group manages the Syndicated Properties through The Winchester Real Estate Investment Trust Ltd. (“WREIT”). WREIT charges property management fees which are payable from the operating revenues of each of the Syndicated Properties. This fee structure is incorporated into the OMs, Term Sheets, Subscription Agreements and other related agreements.
18. Between January 1999 and June 22, 2011 (the “Material Time”), the Respondents engaged in an ongoing course of conduct by selling Units valued at approximately \$70 million to approximately 190 investors, most of whom were Ontario residents.

### **Bond Investments**

19. In addition to the property investments, the Winchester Financial Group has also offered three other investments, consisting of bond or trust units (collectively, the “Bonds”). These investments were carried on through four separate entities, The Winchester Leasing Trust, The Winchester Leasing Group, The Winchester Capital Trust and Winchester Capital Corporation (collectively, the “Bond Entities”).
20. The proceeds of the Bonds were used by the Winchester Financial Group to create liquidity and to fund the cash requirements of its businesses, including the Syndicated Properties.
21. Investors who purchased Bonds received offering documents and executed subscription agreements with one of the Bond Entities.
22. During the Material Time, the Respondents engaged in an ongoing course of conduct by selling Bonds valued at approximately \$2.3 million to approximately 28 investors, most of whom were Ontario residents.

### **Grant Thornton Report**

23. The Respondents retained Grant Thornton to conduct an independent review of the business and operations of certain entities in the Winchester Financial Group. This

review was conducted at the request of Staff and at significant cost to the Respondents.

24. In the final report of its review dated February 25, 2013 (the “Report”), Grant Thornton concluded that 5 of the 7 Syndicated Properties it reviewed were self-sustaining, while the remaining 2 were able to continue operating with financial support from other entities in the Winchester Financial Group. That financial support is provided either as part of the Winchester Financial Group’s obligation to provide the Financial Services to investors, or voluntarily after its obligations for the Financial Services have expired. The Report concluded that these entities are able to meet the investor obligations and funding requirements of the Winchester Financial Group for the foreseeable future.
25. The Report also made certain recommendations with respect to the ongoing operation of the Winchester Financial Group. Those recommendations are incorporated in the terms and conditions set out at paragraph 31 below.
26. But for the significant costs incurred by the Respondents in obtaining the Report and in meeting their ongoing compliance obligations, Staff would be seeking greater financial penalties.

#### **Acts in Furtherance of Trades**

27. During the Material Time, the Respondents carried out the following acts in furtherance of a trade to the public:
  - (a) Baglione and other employees and agents of the Winchester Financial Group met with individual investors and provided them with promotional materials, OMs, Term Sheets, Subscription Agreements and other offering documents for both the Units and the Bonds.

- (b) The Respondents entered into a number of third party referral arrangements. The Respondents provided promotional materials to the referral agents and paid them referral fees, which were characterized as “administration fees”.
  - (c) The Respondents accepted funds from investors for the purchase of Units and Bonds.
28. The Respondents purported to rely on the accredited investor exemption, private issuer exemption, minimum amount exemption or one of the other exemptions from prospectus and registration requirements contained in Ontario securities law for the relevant period, including National Instrument 45-106 (for the period from September 14, 2005 to September 28, 2009) or National Instrument 31-103 (for the period after September 28, 2009), in circumstances where the exemptions were not always available. The Respondents failed to ensure that the requirements for the exemptions were always met. The Respondents also failed to file Notices of Exempt Distributions on the appropriate forms with the Commission where required.

**PART IV – CONDUCT CONTRARY TO ONTARIO SECURITIES LAW  
AND THE PUBLIC INTEREST**

29. By engaging in the conduct described above, the Respondents admit and acknowledge that they contravened Ontario securities law and acted contrary to the public interest in that:
- (a) The Respondents traded and engaged in or held themselves out as engaging in the business of trading in securities without being registered to do so and without always ensuring there was an exemption from the dealer registration requirement, contrary to section 25(1)(a) of the Act as that section existed at the time the conduct at issue commenced, and contrary to section 25(1) of the Act as subsequently amended on September 28, 2009; and

- (b) The Respondents' activities in respect of the Winchester Investments constituted trades in securities which were distributions, for which no preliminary prospectus or prospectus was filed or received by the Director, contrary to s. 53(1) of the Act.

#### **PART V – RESPONDENTS' POSITION**

- 30. The Respondents request that the settlement hearing panel consider the following mitigating circumstances:
  - (a) The Respondents have cooperated with Staff during the investigation, and have expressed remorse for their conduct. The Respondents voluntarily agreed to cease all trading, and to confirm the status of all investors in the Winchester Financial Group to confirm whether they qualify for an exemption from the requirements contained in Ontario securities law.
  - (b) The Respondents took steps to bring themselves into compliance. In particular, Winchester Securities has applied for registration as an EMD. This application for registration is currently pending before the Compliance and Registrant Regulation Branch of the Commission.

#### **PART VI – TERMS OF SETTLEMENT**

- 31. The Respondent agrees to the following terms and conditions of settlement:
  - (a) The Respondents shall pay \$50,000 on a joint and several basis, representing a portion of Staff's costs in this matter;
  - (b) Until Winchester Securities is registered with the Commission or the Respondents retain another entity registered with the Commission, the Respondents and their related entities or affiliates shall cease all trading activity;

- (c) Winchester Securities shall collect “know your client” information (the “KYC Information”) within the meaning of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”);
- (d) Based on the KYC Information, Winchester Securities shall identify whether each investment for each unit-holder qualifies under an exemption from the prospectus requirement contained in Ontario securities law (the “Exemption Analysis”);
- (e) Where an investment qualifies for an exemption following the Exemption Analysis, Winchester Securities shall, with reference to the KYC Information, undertake a suitability assessment for each unit-holder within the meaning of NI 31-103 (the “Suitability Assessment”);
- (f) Where an investment qualifies for an exemption following the Exemption Analysis, the Respondents shall file a corresponding Form 45-106F1 *Report of Exempt Distribution*, with the Commission to the extent required by section 6.1 of National Instrument 45-106 *Prospectus and Registration Exemptions*;
- (g) Where an investment does not qualify for an exemption contained in Ontario securities law following the Exemption Analysis, or is not suitable for the investor following the Suitability Assessment, the Respondents shall, within 90 days of the completion of the Suitability Assessment and Exemption Analysis, cause the relevant unit-holder to be divested of its interest in the Units or the Bonds by having the Winchester Financial Group purchase or otherwise redeem the investment. The Respondents shall retain an independent third party acceptable to Staff to determine the purchase amount and/or redemption value owing to the unit-holders;
- (h) The Respondents shall, within 90 days of the completion of the Suitability Assessment and Exemption Analysis, certify in writing to Staff that the divestitures referred to in sub-paragraph (g) above are complete;

- (i) The Respondents acknowledge and agree that the divestitures referred to above at sub-paragraph (g) above will be a term and condition to the proposed registration of Winchester Securities;
- (j) Winchester Securities shall retain an individual acceptable to Staff who is qualified under securities legislation in the category of chief compliance officer to perform the functions described in section 5.2 of NI 31-103 and who was not affiliated with the Winchester Financial Group during the Relevant Time;
- (k) The Respondents shall conduct any and all trading through Winchester Securities upon it being registered with the Commission, or through another entity registered with the Commission, and in compliance with securities laws;
- (l) The Respondents further acknowledge that Winchester Securities will be subject to a compliance review by the Compliance and Registrant Regulation Branch of the Commission within the first 9 months of registration under the Act, or within such other period as may be determined by Staff;
- (m) The Respondents shall, on an annual basis going forward, cause audited financial statements to be prepared for Winchester Securities, the Property Trustee Entities, Gateway LP and 18<sup>th</sup>-Paulina LP, commencing in the current fiscal year ended December 31, 2013;
- (n) The Respondents shall distribute the annual audited financial statements referred to above in sub-paragraph (m) to the unit-holders for the respective Syndicated Property, following which the Winchester Financial Group shall hold an annual meeting of its unit-holders;
- (o) The Respondents shall segregate funds received for Financial Services obligations in a separate trust account during the contractual period for Financial Services, the amount and terms of which shall be determined in consultation with Grant Thornton; and

- (p) The Respondents shall be reprimanded.
32. The Commission will make an order pursuant to section 127(1) and section 127.1 of the Act that:
- (a) The settlement agreement is approved;
  - (b) The Respondents shall pay \$50,000 on a joint and several basis, representing a portion of Staff's costs in this matter;
  - (c) The Respondents shall cease all trading activity until Winchester Securities is registered with the Commission or the Respondents retain another entity registered with the Commission; and
  - (d) The Respondents are reprimanded.
33. The Respondents agree to make the payment ordered above in sub-paragraph 32(b) by certified cheque when the Commission approves this Settlement Agreement. The Respondents will not be reimbursed for, or receive a contribution toward, this payment from any other person or company.
34. The Respondents undertake to consent to a regulatory Order made by any provincial or territorial securities regulatory authority in Canada containing the prohibition set out in sub-paragraph 32(c) above. This prohibition may be modified to reflect the provisions of the relevant provincial or territorial securities law.

#### **PART VII – STAFF COMMITMENT**

35. If the Commission approves this Settlement Agreement, Staff will not initiate any other proceeding under Ontario securities law in relation to the facts set out in Part III of this Settlement Agreement, subject to the provisions of paragraph 36 below.
36. If the Commission approves this Settlement Agreement and the Respondents fail to comply with any of the terms of the Settlement Agreement, Staff reserve the right to

bring proceedings under Ontario securities law against the Respondents. These proceedings may be based on, but are not limited to, the facts set out in Part III of this Settlement Agreement as well as the breach of the Settlement Agreement.

#### **PART VIII – PROCEDURE FOR APPROVAL OF SETTLEMENT**

37. The parties will seek approval of this Settlement Agreement at a public hearing before the Commission scheduled for March 28, 2013, or on another date agreed to by Staff and the Respondents, according to the procedures set out in this Settlement Agreement and the Commission's Rules of Procedure.
38. Staff and the Respondents agree that this Settlement Agreement will form all of the agreed facts that will be submitted at the settlement hearing regarding the Respondents' conduct, unless the parties agree that additional facts should be submitted at the settlement hearing.
39. If the Commission approves this Settlement Agreement, the Respondents agree to waive all rights to a full hearing, judicial review or appeal of this matter under the Act.
40. If the Commission approves this Settlement Agreement, neither party will make any public statement that is inconsistent with this Settlement Agreement or with any additional agreed facts submitted at the settlement hearing.
41. Whether or not the Commission approves this Settlement Agreement, the Respondents will not use, in any proceeding, this Settlement Agreement or the negotiation or process of approval of this agreement as the basis for any attack on the Commission's jurisdiction, alleged bias, alleged unfairness, or any other remedies or challenges that may otherwise be available.

## **PART IX – DISCLOSURE OF SETTLEMENT AGREEMENT**

42. If the Commission does not approve this Settlement Agreement or does not make the order attached as Schedule “A” to this Settlement Agreement:
- i. this Settlement Agreement and all discussions and negotiations between Staff and the Respondents before the settlement hearing takes place will be without prejudice to Staff and the Respondents; and
  - ii. Staff and the Respondents will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations contained in the Statement of Allegations. Any proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this agreement.
43. Both parties will keep the terms of the Settlement Agreement confidential until the Commission approves the Settlement Agreement. At that time, the parties will no longer have to maintain confidentiality. If the Commission does not approve the Settlement Agreement, both parties must continue to keep the terms of the Settlement Agreement confidential, unless they agree in writing not to do so or if required by law.

## **PART X – EXECUTION OF SETTLEMENT AGREEMENT**

44. The parties may sign separate copies of this agreement. Together, these signed copies will form a binding agreement.
45. A fax copy of any signature will be treated as an original signature.

Dated this 26<sup>th</sup> day of March, 2013

“Cynthia Salamat”

---

Witness

“Aurelio Baglione”

---

Aurelio Baglione

Dated this 26<sup>th</sup> day of March, 2013

“Cynthia Salamat”

---

Witness

“Aurelio Baglione”

---

Winchester Financial Corporation,  
Raleigh Management and Leasing  
Corporation, Rundle Properties  
Corporation, Dundas & Wellington  
Investment Corporation, Parry Sound  
Mall Investment Corporation,  
Kirkland Lake Mall Investment  
Corporation, Chamberland Street  
Investment Corporation, Gateway  
Retail Center Limited Partnership,  
Gateway Center General Partner Inc.,  
18<sup>th</sup>-Paulina Limited Partnership, 18<sup>th</sup>-  
Paulina General Partner Inc., MHG  
Holdings Limited,  
Chelmsford/Dunnville Investment  
Corporation, Espanola Mall Inc.,  
1096966 Ontario Ltd., 56-62 Pond  
Street Inc., 169 Dufferin Street Inc.,  
1426430 Ontario Inc., 274 Dundas  
Street Inc., 833 Upper James Street  
Inc., 1855 LaSalle Boulevard Inc.,  
Parry Sound Mall Inc., Kirkland Lake  
Mall Inc., 2620 Chamberland Street  
Inc., 1732577 Ontario Inc., Huron and  
Suncoast Plaza Inc., 80 Courthouse  
Square Inc., 1729319 Ontario Ltd.,  
Chestnut Manor Inc., The Winchester

Leasing Trust, The Winchester  
Leasing Group Inc., The Winchester  
Capital Trust, Winchester Capital  
Corporation, Winchester Securities  
Corporation and The Winchester Real  
Estate Investment Trust Ltd.

I have the authority to bind each of the  
corporations and entities above.

Dated this            day of March, 2013

STAFF OF THE ONTARIO  
SECURITIES COMMISSION

“Tom Atkinson”

---

Director, Enforcement Branch