

**In the Matter of
*The Securities Act, 1988***

and

**In the Matter of
Jack Louis Comeau
Pinnacle Wealth Brokers Inc.
and
Grasswood Property Finance Ltd.**

**STATEMENT OF ALLEGATIONS
OF STAFF OF FINANCIAL AND CONSUMER AFFAIRS
AUTHORITY OF SASKATCHEWAN**

**To: Jack Louis Comeau
Pinnacle Wealth Brokers Inc.
Grasswood Property Finance Ltd.**

Staff of Financial and Consumer Affairs Authority of Saskatchewan (Staff of FCAA)
make the following allegations:

The Respondents

1. The Respondent, Jack Louis Comeau (Comeau), was, since on or around January 23, 2012 and at all material times, registered in Saskatchewan as a dealing representative with Pinnacle Wealth Brokers Inc. (Pinnacle).
2. The Respondent, Pinnacle, has been registered in Saskatchewan as an Exempt Market Dealer since around October 2010.
3. The Respondent, Grasswood Property Finance Ltd. (Grasswood), is an active Alberta corporation, incorporated on or around February 1, 2008. Grasswood was registered in Saskatchewan as a New West Partnership Business Corporation on or around May 1, 2008. Grasswood was struck from the Saskatchewan Corporate registry on or around August 19, 2011 and is no longer incorporated in Saskatchewan.

(collectively, the Respondents)

Contraventions of clause 33.1(1) of *The Securities Act, 1988* (the Act), clause 44.1(2) of the Act, subsection 55.11(1) of the Act and subsection 13.3(1) of National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103)

4. From in or around June, 2012 to in or around November, 2014 (the Relevant Time), Comeau failed to deal fairly, honestly and in good faith with his clients; engaged in an unfair practice with the intention of advising or effecting the purchase or sale of a security; made statements that he knew, or reasonably ought to have known, were misleading in material respects in light of the circumstances under which they were made, which statements would have reasonably been expected to have a significant effect on the value of a security or derivative. Further, during the Relevant time, Comeau failed to take reasonable steps to ensure that, before making a recommendation to or accepting an instruction from a client to buy or sell a security, or making a purchase or sale of a security for a client's managed account, the purchase or sale was suitable for the client. The details of such activities include, but are not limited to, the following:
- a. Investor 1, a resident of Saskatchewan, met Comeau through a networking club.
 - b. Having known Comeau for a number of years, and having heard Comeau speak during networking club meetings about investments, Investor 1 asked Comeau what she should do with her Locked-In Retirement Account (LIRA).
 - c. Comeau recommended that Investor 1 open an account with him and move her LIRA account to him.
 - d. After moving her LIRA account to Comeau, he then recommended multiple exempt market investments to Investor 1.
 - e. In or around the middle to end of 2014, Investor 1 invested her entire LIRA account and RRSP account in the exempt market investments recommended by Comeau, which were sold using the offering memorandum exemption.
 - f. Investor 1 invested a total of \$43,550.00 in the following investments (the Investor 1 Investments) through Comeau:

Investments	Amount Invested (CAD)
Canadian Coyote – Plan A LIRA	\$6,780.00
KV Mortgage – Class B LIRA	\$10,000.00
Omni/Arch Class C Bond LIRA	\$10,000.00

SecureCare Series F 5 year Bond LIRA	\$10,000.00
Weslease Income Growth Fund RRSP	\$6,770.00
Total	\$43,550.00

- g. All of the Investor 1 Investments are rated as high-risk investments, which were not suitable for Investor 1.
- h. Investor 1 signed a standard Risk Acknowledgement Form (Form 45-106F4) before she invested in any of the Investor 1 Investments.
- i. When signing documents, such as the Form 45-106F4, the Know Your Client Form (KYC Form), and blank subscription agreements (collectively, the Documents), Comeau simply placed a large quantity of documents in front of Investor 1 and pointed out where she had to sign or initial.
- j. On the Documents, Investor 1 did not fill in any information that needed to be filled in. Rather, Comeau filled or caused to be filled in any information that needed to be filled in at a later time without Investor 1 present. Comeau had Investor 1 sign the Documents in rapid succession and did not fully explain the Documents to Investor 1.
- k. The net financial assets, net fixed assets and estimated net worth specified on Investor 1's KYC Form do not reflect Investor 1's financial situation at the time of investment. These financial numbers were added, without Investor 1's knowledge, to her KYC Form after Investor 1 had already signed the forms. Investor 1 does not know how Comeau would have come up with the financial numbers written on her KYC Form.
- l. The net financial assets, net fixed assets and estimated net worth specified on Investor 1's KYC Form are not only greatly exaggerated but it appears someone has further modified the original numbers on the KYC Form, without Investor 1's knowledge, in order to make it appear that Investor 1 has over \$400,000 in net assets.
- m. On the subscription agreements Investor 1 initialed that she is an "Eligible Investor" because Comeau indicated the she should initial as such. However, Investor 1 does not meet the definition of "Eligible Investor".
- n. Investor 1 did not understand the liquidity issues with her investments, and Comeau did not fully explain the liquidity issues to Investor 1.
- o. According to Investor 1, the status of her investments are as follows:

Investments	Status
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Canadian Coyote – Plan A LIRA	Company is no longer operating and it is unknown if Investor 1 will receive any of her investment capital.
KV Mortgage – Class B LIRA	Investor 1 has cashed out this investment and expects that the entire investment and some interest will be paid to her.
Omni/Arch Class C Bond LIRA	The company is restructuring or in receivership.
SecureCare Series F 5 year Bond LIRA	The company has solvency issues and applied for protection from creditors.
Weslease Income Growth Fund RRSP	The fund is not paying interest payments and units cannot currently be redeemed.

- p. On or around June 29, 2012 Investor 2, a resident of Alberta, on behalf of a company owned by Investor 2 and his wife, invested \$300,000.00 through Comeau in Series A Bonds of Grasswood, which were sold using the offering memorandum exemption.
- q. Investor 2 attended Comeau's office in Saskatoon, SK to make the investment in Grasswood and the trade took place in Saskatoon, SK.
- r. In or around 2016, Grasswood stopped paying interest on the Series A Bonds of Grasswood.
- s. At the time Investor 2 invested in Grasswood, Comeau told Investor 2 that the investment was very secure, as Investor 2 was registered as a "landowner in the estate". Investor 2 has since learned that another company holds a first mortgage position on the property and his interest in Grasswood is subordinate to the first mortgage. The offering memorandum does not indicate that Investor 2 would own any of the property in the Grasswood development.
- t. At the time Investor 2 invested in Grasswood, Comeau told Investor 2 that any investment vehicles he represented had to pass a strict due diligence review. No due diligence was done by Comeau or Pinnacle on Grasswood.

- u. A disclaimer/conflict of interest document, purportedly signed by Investor 2, provides the following:

Please be advised that the Grasswood Estates Bond offering is not available through Pinnacle Wealth Brokers. This investment opportunity is made available through a referral arrangement between Comeau Financial and Urban Elements Development Corporation. Jack Comeau of Comeau Financial is receiving no compensation, commissions, or any remuneration for this referral arrangement. Jack Comeau is not benefitting in any way, including having any equity position or ownership in this investment opportunity.

Updates and information regarding this investment will not be provided by Pinnacle, as this will be the responsibility of the issuer, Urban Elements development Corporation.

I have discussed this matter in full with Jack Comeau.

- v. Investor 2 says that his signature on the disclaimer/conflict of interest document was forged.
- w. There was no written referral arrangement entered into between Comeau, Comeau Financial and Grasswood or any related company.
- x. Comeau personally owns \$300,000 worth of Grasswood Series "A" Bonds and he has received at least a year of interest payments on his bonds, after Investor 2 invested.
- y. Investor 2 was directed by Comeau to sign a blank KYC Form and blank subscription agreements in rapid succession without Comeau fully explaining the documents to Investor 2.
- z. Investor 2 was directed by Comeau to sign Risk Acknowledgement forms without Comeau fully explaining the forms to Investor 2.
- aa. Investor 2 did not understand the liquidity issues of the investment in Grasswood and Comeau did not fully explain the liquidity issues to Investor 2.
- bb. In an Investment Plan (the Investment Plan) Comeau completed during his first meeting with Investor 2, it is noted that Investor 2 is looking to invest in good, secure, safe investments that generate a reasonable level of return, and that safety of principal was more important than growth of principal and
- cc. Even though Comeau was aware of Investor 2's investment wants, Comeau invested a large portion of Investor 2's investment money into high-risk exempt market products, which were not suitable for Investor 2.

- 5. In carrying out the acts indicated in paragraph 4, above, Comeau failed to deal

fairly, honestly and in good faith with his clients, thereby contravening clause 33.1(1) of the Act.

6. In carrying out the acts indicated in paragraph 4, above, Comeau engaged in an unfair practice with the intention of advising or effecting the purchase or sale of a security, thereby contravening clause 44.1(2) of the Act.
7. In carrying out the acts indicated in paragraph 4, above, Comeau made statements that he knew, or reasonably ought to have known, were misleading in material respects in light of the circumstances under which they were made, and said statements would have reasonably been expected to have a significant effect on the value of a security or derivative, thereby contravening subsection 55.11(1) of the Act.
8. In carrying out the acts indicated in paragraph 4, above, Comeau failed to take reasonable steps to ensure that, before making a recommendation to or accepting an instruction from a client to buy or sell a security or derivative, or making a purchase or sale of a security or derivative for a client's managed account, the purchase or sale is suitable for the client, thereby contravening subsection 13.3(1) of NI 31-103.

Contraventions of subsection 27(2) of the Act and section 6.1 of National Instrument 45-106 *Prospectus Exemptions* (NI 45-106)

9. During the Relevant Time, Comeau and/or Grasswood acted as dealers by engaging in the business of trading in securities or derivatives or holding themselves out as engaging in the business of trading in securities or derivatives in Saskatchewan. Further, during the Relevant Time, Comeau acted as an adviser in Saskatchewan by engaging in the business of advising the public on securities or derivatives or holding himself out as engaging in the business of advising the public on securities or derivatives. The details of such activities include, but are not limited to, the following:
 - a. On or around June 29, 2012, while registered with Pinnacle, Comeau advised on and sold \$300,000.00 worth of Series A Bonds of Grasswood to Investor 2, on behalf of a company owned by Investor 2 and his wife.
 - b. Grasswood is an exempt market security and was not a product on Pinnacle's shelf at the time the investment was made. Comeau was therefore not properly licensed to sell this product.
 - c. The May 2009 Offering Memorandum for Grasswood bonds indicated that \$800,000.00 is budgeted to be paid to selling agents on all subscriptions.
 - d. Since starting at Pinnacle, Comeau has referred approximately 15 investors to Grasswood; and

- e. From around January, 2012 to around March, 2015, there have been 35 separate trades of Grasswood bonds, several of which were multiple trades to the same person.
- 10. In carrying out the acts indicated in paragraph 9, above, Comeau and/or Grasswood engaged in, or held themselves out as engaging in, the business of trading in securities or derivatives, and as such, acted as 'dealers' as defined in the act.
- 11. Grasswood is not registered in the National Registration Database in any capacity.
- 12. The Grasswood bonds were previously unissued securities, and as such, trades in these securities would be distributions, pursuant to the Act.
- 13. A Form NI 45-106F1 pursuant to section 6.1 of NI 45-106 was never filed for Investor 2's investment in Grasswood, or for any trades in Grasswood bonds since 2011. As such, Grasswood failed to file its report of exempt distribution within 10 days after each distribution, as required by section 6.1 of NI 45-106.
- 14. Neither Comeau nor Grasswood complied with General Order 45-918 when they sold the Grasswood Series "A" Bonds to Investor 2 and Comeau or Grasswood made no filings relating to General Order 45-918 *Registration Exemption For Trades in Connection with Certain Prospectus Exempt Distributions* during the material time. Comeau and/or Grasswood have therefore contravened clause 27(2)(a) of the Act.
- 15. In carrying out the acts indicated in paragraph 9, above, Comeau engaged in, or held himself out as engaging in, the business of advising the public on securities or derivatives, and as such, acted as an 'adviser' as defined in the Act.
- 16. During the Relevant Time, Comeau was not registered as an 'adviser' as required by the Act, and therefore, Comeau has contravened clause 27(2)(b) of the Act.

Contravention of subsection 135.7(1) of the Act

- 17. Comeau destroyed, concealed or withheld, or attempted to destroy, conceal or withhold, information, property, and things reasonably required for an investigation pursuant to the Act. The details of such activities include, but are not limited to, the following:
 - a. The Investment Plan provided to Investor 2 contains a number of misrepresentations, including the stated risk level for the investments offered and identifying the Grasswood investment as Grasswood Estates;
 - b. In a summons, Comeau was requested by Staff of FCAA to provide "A

copy of all marketing materials, investment plans or related documents” given to Investor 2 and/or his company;

- c. In response to the summons, Comeau provided Staff of FCAA a revised copy of the Investment Plan he had given to Investor 2 (the Revised Investment Plan);
 - d. The Revised Investment Plan was prepared by Comeau to give to Pinnacle after Investor 2 had made a complaint to Pinnacle and later Staff of FCAA; and
 - e. The Revised Investment Plan removed a number of the misrepresentations that were present in the Investment Plan.
18. In carrying out the acts indicated in paragraph 17, above, Comeau destroyed, concealed or withheld, or attempted to destroy, conceal or withhold, information, property, and things reasonably required for an investigation pursuant to the Act, thereby contravening subsection 135.7(1) of the Act.

Contravention of subsection 11.1 (Compliance system) of NI 31-103

19. Pinnacle, in allowing Comeau to commit the acts indicated in paragraphs 4, 9 and 17, above, failed to establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation, in contravention of subsection 11.1 (Compliance system) of NI 31-103.

Orders Sought

20. Based on the above, Staff of FCAA ask the hearing panel to consider whether it is in the public interest to make the following orders:
- a. Pursuant to subsection 134(1)(a) of the Act, all of the exemptions in Saskatchewan securities laws do not apply to Comeau, permanently, and Grasswood, for a period of 5 years;
 - b. Pursuant to subsection 134(1)(d) of the Act, Comeau, permanently, and Grasswood, for a period of 5 years, shall cease trading any securities and derivatives in Saskatchewan;
 - c. Pursuant so subsection 134(1)(d.1) of the Act, Comeau, permanently, and Grasswood, for a period of 5 years, shall cease acquiring securities and derivatives for and on behalf of residents of Saskatchewan;

- d. Pursuant to subsection 134(1)(e) of the Act, Comeau shall cease giving advice respecting securities, trades, and derivatives in Saskatchewan, permanently;
- e. Pursuant to section 135.1 of the Act, Comeau shall pay an administrative penalty to the Financial and Consumer Affairs Authority of Saskatchewan, in the amount of \$50,000.00;
- f. Pursuant to section 135.1 of the Act, Grasswood shall pay an administrative penalty to the Financial and Consumer Affairs Authority of Saskatchewan, in the amount of \$15,000.00;
- g. Pursuant to section 135.1 of the Act, Pinnacle shall pay an administrative penalty to the Financial and Consumer Affairs Authority of Saskatchewan, in the amount of \$10,000.00;
- h. Pursuant to section 135.6 of the Act, the Respondents shall pay financial compensation to each person or company found to have sustained financial loss as a result, in whole or in part, of the Respondents' contraventions of the Act, in an amount to be determined; and
- i. Pursuant to section 161 of the Act, the Respondents shall pay the costs of or relating to the hearing in this matter.

DATED at Regina, Saskatchewan, this 27 day of June, 2018.


Dean Murrison
Director,
Securities Division
Financial and Consumer Affairs Authority of
Saskatchewan