

IN THE MATTER OF: THE SECURITIES ACT

-and-

IN THE MATTER OF: SIMON MEYER ROTHSCHILD, SIMON DE ROTHSCHILD, DEAN GEORGE ROTHSCHILD, D.S.M. ROTHSCHILD, DEAN GEORGE MCDONALD, DAVID MICHAEL COSTELLO, AND SIMON ELAH WEINSTEIN (collectively referred to as "Rothschild"), AND S.M. ROTHSCHILD MORTGAGE CORPORATION

STATEMENT OF ALLEGATIONS OF STAFF OF THE  
MANITOBA SECURITIES COMMISSION

STAFF OF THE MANITOBA SECURITIES COMMISSION ALLEGE, AMONG OTHER THINGS, THAT:

A. STATEMENT OF FACTS

1. Simon Meyer Rothschild, Simon de Rothschild, D.S.M. Rothschild, Dean George Rothschild, Dean George McDonald, David Michael Costello and Simon Elah Weinstein are one and the same person ("Rothschild"). At all material times, Rothschild was a resident of Winnipeg, Manitoba.
2. S.M. Rothschild Mortgage Corporation is a corporation incorporated under the laws of Manitoba ("S.M. Rothschild Mortgage Corporation"), with Rothschild named as its director.
3. R.M.C. Investments was a business name approved by the Companies Office, Province of Manitoba on or about August 19, 1998.
4. At all material times neither Rothschild nor S.M. Rothschild Mortgage Corporation were registered to trade in securities under The Securities Act of Manitoba (the "Act").
5. S.M. Rothschild Mortgage Corporation had not filed a preliminary prospectus or a prospectus with The Manitoba Securities Commission (the "Commission"), nor had it applied for or been granted an exemption order under section 20 of the Act.
6. S.M. Rothschild Mortgage Corporation had not filed any reports under section 7 of the Regulation to the Act or any notice under section 91 of the Regulation to the Act with respect to any trades under section 19 of the Act or sections 90 or 91 of the Regulation.
7. At all material times, Rothschild represented himself to be a law student, practicing as such with the law firm of Morris Feuer in the City of Winnipeg (the "Law Firm").
8. Each of Elizabeth Paguio ("Paguio"), Jacqueline Surla ("Surla"), and Norman Espinosa ("Espinosa") had retained Rothschild for legal advice in his capacity as a law student. Each of Paguio, Surla, and Espinosa were residents of Winnipeg, Manitoba.

9. As a result of the relationship of client and legal advisor and based upon Rothschild's investment advice, each of Paguio, Surla, and Espinosa caused monies to be paid over to Rothschild to be invested pursuant to his recommendations as follows:

Paguio:

10. In or about April of 1998, Paguio was introduced to Rothschild by her nephew Espinosa. Rothschild had represented Espinosa previously as legal counsel in respect of an injury claim with Autopac.

11. Paguio had power of attorney to act on behalf of Arnel Balisacan a beneficiary of the Estate of Charito Fukusawa (the "Estate"). The probating and distribution of Estate proceeds was being handled by the law firm of Davis & Company located in British Columbia. Paguio was represented by counsel in Winnipeg.

12. Based upon Rothschild's representations, Paguio believed Rothschild to be a law student practicing at the Law Firm and transferred the matter of the receipt of the Estate proceeds to him.

13. Rothschild in representing Paguio did receive Estate monies from Davis & Company.

14. On or about November 2, 1998, a payment in the amount of \$25,000.00 was made by Davis & Company to Rothschild as counsel, representing an interim distribution from the residue of the Estate. After deductions including legal fees, the net amount remaining was approximately \$18,755.00.

15. Rothschild advised Paguio that he could either hold the Estate money in trust with his Law Firm at a 3.4% rate of return or alternatively invest it with a company of his own for a guaranteed 10% rate of return.

16. Paguio trusted Rothschild and opted for the 10% investment.

17. Paguio endorsed the cheque of approximately \$18,755.00 over to Rothschild, which was then deposited into a chequing account in the name of Rothschild held at the TD bank, main branch, bearing account # 3152205.

18. On or about December 28, 1998, \$15,000.00 of the \$18,755.00 of Estate money was invested in Rothschild's company, S.M. Rothschild Mortgage Corporation, for a period of 120 days at a guaranteed interest rate of 10% (the "Second Investment"). Rothschild advised Paguio that the S.M. Rothschild Mortgage Corporation investment was in a brewing company project.

19. On or about January 11, 1999, at the recommendation of Rothschild, Paguio transferred two sums of money each in the amount of \$3,250.00 to Rothschild again for investment in S.M. Rothschild Mortgage Corporation for a period of 30 days with a guaranteed interest rate of 10%, one such sum having represented a payment of Estate monies and the second sum having been money obtained from Paguio's own personal account (the "Third and Fourth Investments", respectively).

20. In respect of the Third and Fourth Investments, Rothschild advised Paguio that S.M. Rothschild Mortgage Corporation in turn made loans of money, calling these investments the consumer loan program.

21. Prior to the Fourth Investment, on or about August 24, 1998, Paguio had previously invested \$4,300.00 of her own personal funds with Rothschild (the "First Investment").

22. Rothschild told Paguio that the First Investment would pay 10% over 3 months.

23. In December of 1998, Rothschild paid to Paguio the sum of \$4,730.00 representing principal plus interest on the First Investment, said payment being drawn on the account of S.M. Rothschild Mortgage Corporation.

24. Subsequent to the above three investments, Paguio was advised by Rothschild that the remaining monies from the Estate had been received by him from Davis & Company. The remaining monies totalled \$74,589.44 Canadian and \$600.00 U.S. funds.

25. Rothschild again provided Paguio with an investment option of either investing the balance of the Estate monies with the Law Firm at a rate of 3.4% or investing the monies with his company at a rate of 10%.

26. Paguio understood from Rothschild that either way the money was secure and that Rothschild, who would be handling the monies, was legal counsel in a position of trust.

27. Paguio trusted Rothschild with the balance of the Estate monies.

28. On or about January 26, 1999, \$72,262.19, representing the balance of the Estate monies less deductions including legal fees, was deposited into the account of S.M. Rothschild Mortgage Corporation, account # 0325086.

29. Also on January 26, 1999, \$70,000.00 was debited from the S.M. Rothschild Mortgage Corporation account in favor of Rothschild personally.

Espinosa:

30. In or about late 1997 or early 1998, Espinosa met Rothschild. Based upon his discussions with Rothschild, Espinosa

believed Rothschild to be an articling student with the Law Firm.

31. Espinosa transferred conduct of his autopac personal injury claim from his past legal counsel to Rothschild.

32. The personal injury claim was settled, resulting in net proceeds to Espinosa in the amount of \$10,000.00. Espinosa received the settlement proceeds.

33. Following receipt of the settlement proceeds, Rothschild told Espinosa of an investment opportunity involving investing in Eco-tech stocks, which Rothschild advised was a trendy stock that would explode in value in the short term, but that it would not last.

34. Rothschild recommended that Espinosa put some money in, and when it goes up in value, sell the shares.

35. Rothschild told Espinosa about his family history, the Rothschild family, and that it was like a dynasty, they had built lots of money and he had lots of connections.

36. Espinosa was impressed by Rothschild and trusted him. Based upon Rothschild's recommendations, Espinosa gave Rothschild \$4,500.00 to purchase what Espinosa understood to be 1,000 Class "A" Common Shares @ \$4.50 each.

37. A few months after investing with Rothschild, Rothschild advised Espinosa that he had sold the shares and that Espinosa would be receiving a cheque in the amount of \$9,000.00.

38. Espinosa did not receive the payment. Instead, Rothschild later told Espinosa that he had taken the \$9,000.00 and purchased real estate and that Espinosa's share in the real estate had tripled in value.

39. Next, Rothschild advised Espinosa that he would trade Espinosa one lot of shares in a credit union he was starting, S.M.R. Credit Union, in exchange for Espinosa's share of the real estate investment.

40. Rothschild offered Espinosa shares in the S.M.R. Credit Union @ \$25.00 each. The minimum investment was 1,000 shares or \$25,000.00. Rothschild offered to simply swap Espinosa's share in the real estate for \$25,000.00 worth of shares in S.M.R. Credit Union. Espinosa agreed to Rothschild's suggestion.

41. In furtherance of the transaction immediately described above, on or about February 22, 1999, Espinosa signed a Share Purchase Agreement as presented to him by Rothschild (the "Share Purchase Agreement").

42. The Share Purchase Agreement identified Espinosa as the purchaser and Rothschild as the vendor of 1,000 Class "A" Common Shares in the capital stock of S.M. Rothschild Mortgage Corporation at a price of \$25,000.00.

Surla:

43. In or about late 1997 or early 1998, Surla met Rothschild. She understood that Rothschild was a law student working under Morris Feuer and Gerald Holt of the Law Firm.

44. Surla had an autopac personal injury claim then being handled by another lawyer. Rothschild persuaded her that he could do a better job for her.

45. Surla transferred conduct of her autopac personal injury claim from her past legal counsel to Rothschild.

46. The personal injury claim was settled, resulting in net proceeds to Surla in the amount of \$10,000.00. Surla received a portion of the settlement proceeds in the amount of \$5,500.00 from Rothschild. The balance of the settlement proceeds, being \$4,500.00, was to be invested by Rothschild.

47. On or about June 1, 1998, the \$4,500.00 plus accumulated interest of \$29.00 was invested with R.M.C. Investments for a term of one year, in the form of class "B" preferred shares at a guaranteed interest rate of 9.25%. The investment was locked in for the one year term and provided for renewal thereafter.

48. Rothschild confirmed that a confirmation of investment (stock certificates) would be sent to Surla by the investment company.

## B. ALLEGATIONS

49. Staff of the Commission allege that:

(a) Rothschild traded in securities without having been registered and without prospectus in contravention of sections 6 and 37 of the Act;

(b) S.M. Rothschild Mortgage Corporation traded in securities without having been registered and without prospectus in contravention of sections 6 and 37 of the Act;

(c) Rothschild acted in contravention of section 69(2) of the Act by guaranteeing a rate of return to each of Paguio and Surla;

and that due to these allegations, Rothschild and S.M. Rothschild Mortgage Corporation should not be entitled to use any of the exemptions set out in the Act and should not be entitled to participate in the exempt markets in Manitoba in the future.

50. Such further and other matters as counsel may advise and the Commission may permit.

**DATED** at Winnipeg, Manitoba this day "7th" of February, 2000.

Director, Legal and Enforcement

TO: SIMON MEYER ROTHSCHILD

AND TO: S.M. ROTHSCHILD MORTGAGE CORPORATION