Unofficial English Translation

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

IN THE MATTER OF:

THE RULES OF THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

THE BY-LAWS OF THE INVESTMENT DEALERS ASSOCIATION OF CANADA

AND

REGINALD GROOME

SETTLEMENT AGREEMENT

I. BACKGROUND

1. Enforcement Staff of the Investment Industry Regulatory Organization of Canada (Staff) and Reginald Groome (the Respondent) consent and agree to the settlement of these matters by way of this settlement agreement (Settlement Agreement);

2. The Enforcement Department of the Investment Industry Regulatory Organization of Canada (IIROC) has conducted an investigation (the Investigation) into the conduct of the Respondent.

3. On June 1, 2008, IIROC consolidated the regulatory and enforcement functions of the Investment Dealers Association of Canada (IDA) and Market Regulation

Services Inc. Pursuant to the Administrative and Regulatory Services Agreement between the IDA and IIROC, which came into force June 1, 2008, the IDA has retained IIROC to provide the necessary services for the IDA to carry out its regulatory functions;

4. The Respondent consents and agrees to be subject to IIROC's jurisdiction;

5. The Investigation disclosed matters for which the Respondent may be disciplined by a Hearing Panel appointed pursuant to Part C of Schedule C.1 to Transition Rule No. 1 of IIROC (the Hearing Panel).

II. JOINT SETTLEMENT RECOMMENDATION

6. Staff and the Respondent jointly recommend that the Hearing Panel accept the Settlement Agreement;

7. The Respondent admits to the following contraventions of IIROC Rules and Guidance and IDA By-Laws, Regulations or Policies:

   a) Between November 1, 2006 and June 30, 2008, while a registered representative with Union Securities Ltd., Respondent failed to use due diligence to learn and remain informed of the essential facts relative to his clients who invested in Millenia Hope Bio-Pharma, thus contravening IIROC Dealer Member Rule 1300.1 a)[IDA Rule 1300.1 a) prior to June 1, 2008];

   b) Between November 1, 2006 and July 31, 2008, while a registered representative with Union Securities Ltd., Respondent failed to use due diligence to ensure that the acceptance of orders from his clients to invest in Millenia Hope Bio-Pharma was appropriate to these clients given their financial circumstances, their knowledge of investing, their investment objectives and their risk tolerance, thus contravening IIROC Dealer Member Rule 1300.1 p) [IDA Rule 1300.1 p) prior to June 1, 2008];

   c) Between November 1, 2007 and July 31, 2008, while a registered representative with Union Securities Ltd., Respondent engaged in business conduct or practice unbecoming or detrimental to the public interest and failed to fulfill his role of gatekeeper, by allowing his clients to make a private investment in Millenia Hope Bio-Pharma, whereas the company was under a cease trade order and, subsequently, an agreement

not to seek financing from the public, thus contravening IIROC Dealer Member Rule 29.1 [IDA By-law 29.1 prior to June 1, 2008].

8. Staff and the Respondent have accepted the following terms of settlement:

   a) A fine of $65,000: $15,000 on count A, $15,000 on count B, $35,000 on count C;

   b) Disgorgement of $24,198 representing the profit realized by reason of the violations;

   c) A three(3)-year suspension of approval in any capacity;

   d) A 24-month period of strict supervision once the suspension is lifted;

   e) Successful completion of the Conduct and Practices Handbook Course as a condition for re-approval;

9. The Respondent agrees to pay IIROC costs in the amount of $5,000.

III. STATEMENT OF FACTS

(i) Acknowledgment

10. Staff and the Respondent agree with the facts set out in this section and acknowledge that the terms of the settlement contained in this Settlement Agreement are based upon those specific facts.

(ii) Factual Background

SUMMARY

11. It is alleged that Respondent opened accounts for certain clients without having verified the necessary information with them so that he might have adequate knowledge of the essential facts regarding these clients, especially since the information was pivotal in determining whether they were accredited investors.

12. Respondent thus allowed these clients to make private placements with Millenia Hope Bio-Pharma Inc. (MHBP) without ensuring that these placements were suitable given the clients' financial circumstances and their investment

objectives, and without making sure that they understood the risks inherent in these investments.

13. On November 1, 2007, the Bureau de décision et de révision en valeurs mobilières (BDRVM) issued a cease trade order and prohibition from acting as a securities advisor against Millenia Hope, Millenia Hope Bio-Pharma, MD Multimédia inc. (MD Multimédia), Pierre Couture (Couture) and Claude-Yvon Provost (Provost).

14. On November 30, 2007, the BDRVM lifted the cease trade orders against Millenia Hope and Millenia Hope Bio-Pharma, conditionally on not seeking financing from the public until a receipt for the prospectus was obtained from the Autorité des marchés financiers (AMF); however, the order against Couture and Provost was maintained.

15. After November 30, 2007, the Respondent executed private placements for his clients in the convertible debenture of MHBP with Union Securities Ltd., without ascertaining that these clients were accredited investors.

16. Moreover, Respondent continued to allow Provost to interact with his clients after the November 1st, 2007 decision of the BDRVM, in spite of the order against Provost;

THE RESPONDENT

17. The Respondent was a representative with unrestricted practice with Union Securities from April 2006 to January 2009. In August and September 2006, he was also approved as a branch manager at Union Securities. Prior to that, he worked as a representative with unrestricted practice with Marleau Lemire (1993 – 1996), Deacon Capital (1996 – 1998), Groome Capital (1998 – 2001), Desjardins Securities (2001 – 2002) and IPC Securities (2002 – 2006), where he was also the officer responsible for Québec (2003 – 2006).

THE MILLENIA HOPE BIO-PHARMA (MHBP) INVESTMENT

18. Over the course of 2007 and 2008, Provost referred several clients to the Respondent.

19. Many of these clients had been recruited by Couture, Provost, MP and/or CV (the promoters) through a small advertisement placed in newspapers to attract individuals who needed money fast, as appears from the following excerpt from one of the ads:

[TRANSLATION]

NEED cash fast?
Before you lose everything, we lend against
RRSP, LIF, LIRA (first and second mortgage)
Credit rehabilitation, CAN/USA credit cards
Fast professional service

20. Subsequently, the promoters would urge the clients to invest in a company by the name of MHBP.

21. MHBP was a pharmaceutical research company, a subsidiary of Millenia Hope Inc., which was a public company listed on the OTCBB.

22. The placements were in a product that was a convertible debenture of MHBP, guaranteeing an annual return of 10% payable in cash or in additional units, and maturing November 24, 2009.

23. The debenture provided that the investors were third (3rd) secured creditors and that they agreed to assign their rank to potential hypothecary lenders of an amount not to exceed $600,000:

> *"3.1 The Issuer owns the mortgaged property and the mortgaged property is free and clear of all rights, hypothecs or security, except the following:*
>
> > *(i) conventional hypothec on the universality of the Issuer's movable property in the amount of $400,000 in favour of Primatlantis Capital S.E.C. and registered at the Register of Personal and Movable Real Rights ("RPMRR") on August 23, 2006 under number 06-0487979-000l (the "Original Hypothec");*
> >
> > *(ii) conventional hypothec on the universality of the Issuer's movable property (excluding research and development tax credits that the Issuer will be entitled to receive) in the amount of $75,000 in favour of Mr. Farid Abdelahad and registered at the RPMRR on December 6, 2006 under number 06-0701707-0001;*
> >
> > *(iii) conventional hypothecs on the universality of the Issuer's movable property (excluding research and development tax credits that the Issuer will be entitled to receive) in favour of all other debenture holders.*
>
> *3.2 The Subscriber agrees to assign its priority rank in favour of Primatlantis Capital S.E.C. (or any other recognized financia1 institution) should the Issuer grant a new conventional hypothec on the*

> *universality of the Issuer's movable property in the future in favour of Primatlantis Capital S.E.C. (or any other recognized financial institution) in replacement of the above hypothec mentioned in 3.1(i) for an amount that shall not exceed $600,000. For greater certainty, the present assignment will not exceed an amount of $600,000 including Primatlantis Capital S.E.C.'s current conventional hypothec*."

24. According to the subscription agreement, the debenture could be sold to accredited investors in Québec, Alberta, British Columbia, and Ontario.

25. The promoters turned to the Respondent to facilitate private investment in MHBP.

26. In all, 26 clients invested in the MHBP debenture through the Respondent, for a total of slightly more than $2M.

27. Of these 26 clients, at least 12 were not accredited investors, with client files showing inaccurate and/or incomplete information regarding their income, their employment, their assets, their investment objectives and their general investor profile.

28. These 12 clients invested a little over $800,000 in the MHBP convertible debenture, an amount that was completely lost in MHBP's subsequent bankruptcy.

29. Respondent's net commission for these 12 clients was $24,198.

FAILURE TO RESPECT THE KNOW-YOUR-CLIENT RULE

30. The Respondent failed in his duty to know the clients referred to him for the purpose of investing in the debenture of MHBP.

31. He failed to use due diligence in order to know said clients.

32. Some clients only met the Respondent when their accounts were opened, at brief meetings during which the bulk of the time was spent signing the necessary forms to open the account and formalize the investment.

33. In some cases, the information necessary to open the account and execute the investment was obtained by the promoters, and not by the Respondent.

34. The Respondent did not determine with the clients and/or did not ensure that the facts entered on the new account application forms were true and accurate

as regards their financial circumstances, their knowledge of investing, their investment objectives, and their tolerance for risk.

35. The new account application forms contain erroneous information that is the opposite of the actual situation of some clients, in terms of their financial circumstances, their knowledge of investing, their investment objectives and their risk tolerance.

36. If the Respondent had fulfilled his duty of care he would have observed that, for certain clients, their investment objectives and risk tolerance were incompatible with their personal and financial circumstances.

37. If the Respondent had fulfilled his duty of care and done the required verifications, he would have observed that, for some clients, the financial information that appeared on the new account application form and the subscription agreement were inaccurate.

38. Notwithstanding the questions that the Respondent should have asked in order to know his clients, in some situations it should have been apparent to the Respondent, simply from reading the new account application forms, that the veracity of the financial information was questionable, for example:

    iv. the majority of new account application forms report annual incomes of exactly $200,000;

    v. one new account application form indicates that the investor was employed and that he had an annual income greater than $200,000 whereas, in fact, he was retired and his annual income was around $19,000;

    vi. one new account application form states that the investor was a manager at Tim Horton, but that he had an annual income of over $200,000;

    vii. one new account application form states that the investor was a sales clerk in a jewelry store, but that he had an annual income of more than $200,000;

    viii. one new account application form states that the investor was a grocery store manager, but that he had an annual income of $215,000, with $160,000 in net liquid assets and no fixed assets.

39. Moreover, since the placement was made by virtue of an exemption, the Respondent should have been all the more diligent, considering that the

investors' financial position was a requirement in order to qualify for the exemption.

40. In some cases, the clients did not know and did not understand the notion of accredited investor, which notion the Respondent did not explain to them.

41. The duty to know your client is a fundamental rule that is at the core of the rules applicable to investment dealers.

42. Similarly, the notions of accredited investor and prospectus exemption, along with their importance to the regulation of the securities industry, were known to the Respondent.

43. These failings are significant considering that:

    i. they constitute breaches of a fundamental rule aimed at protecting investors;

    ii. they constitute breaches of a rule that is well-established by IIROC;

    iii. they are breaches that concern numerous clients;

    iv. minimal questioning would have revealed the incongruities between the financial information and the other information appearing on the new account application forms;

    v. minimal questioning would have made clear that the clients could not have held the status of accredited investors by virtue of the *Securities Act*[1] and *Regulation 45-106 respecting prospectus and registration exemptions*[2].

44. Consequently, Respondent failed to use due diligence to learn and remain informed of the essential facts relative to certain of his clients, notably when the accounts were opened, contrary to his obligations as a registered representative.

SUITABILITY OF CLIENTS' ORDERS

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[1] R.S.Q. c. V-1.1.
[2] R.R.Q. c. V-1.1, r. 21.

45. The Respondent failed to ensure that the acceptance of orders from his clients and/or his recommendation to invest in the convertible debenture of MHBP was appropriate for his clients given their financial circumstances, their knowledge of investing, their investment objectives and their risk tolerance.

46. As stated in the introduction, the product that was invested in was a convertible debenture guaranteeing an annual return of 10% payable in cash or in additional units and maturing on November 24, 2009. According to the subscription agreement, it was a private placement that could be sold to accredited investors in Québec, Alberta, British Columbia, and Ontario.

47. The Respondent's clients had only fragmentary and limited information about the debenture that they were acquiring as part of a private placement.

48. They therefore deferred to the representations of the Respondent and the promoters.

49. However, the Respondent knew or should have known that these investments were unsuitable for his clients.

50. Indeed, the Respondent’s clients did not fully understand that the placement in the debenture was a high-risk investment in a product issued by a small pharmaceutical research company.

51. Some clients had understood from the representations that were made to them that the placement was guaranteed.

52. Yet such a high-risk, highly speculative placement could not have coincided with the actual profile of the Respondent's clients.

53. The 12 clients referenced previously had been invested in registered retirement accounts, namely RRSPs, LIRAs and LIFs.

54. Minimal questioning would have allowed the Respondent to see that this investment was unsuitable for his clients.

55. Minimal questioning would also have shown that some clients did not have the required knowledge to understand the nature of the product in which they were investing.

56. Consequently, the Respondent failed in his duty to ensure that the acceptance of orders from his clients and/or his recommendation to invest in the convertible debenture of MHBP were appropriate for his clients given their financial circumstances, their knowledge of investing, their investment

objectives and their risk tolerance, contrary to his duties as a registered representative.

PLACEMENTS IN A COMPANY THAT WAS UNDER A CEASE TRADE ORDER AND AN AGREEMENT NOT TO SEEK FINANCING FROM THE PUBLIC

57. On November 1, 2007, the *Bureau de décision et de révision en valeurs mobilières* (BDRVM) ordered the following against Millenia Hope, Millenia Hope Bio-Pharma, MD Multimédia, Pierre Couture and Claude-Yvon Provost[3]:

[TRANSLATION]

"prohibits L'Espoir de Millénaire inc. (Delaware) (Millenia Hope inc.), Espoir du Millénaire Pharmaceutique inc. (Millenia Hope Bio-Pharma) and MD Multimédia inc. from engaging in any and all activity relative to the trade of securities in all investment forms under the Securities Act;

prohibits Pierre Couture from any and all activity with a view to trading securities in all investment forms under the Securities Act for and in the name of L'Espoir de Millénaire inc. (Delaware) (Millenia Hope inc.), Espoir du Millénaire Pharmaceutique inc. (Millenia Hope Bio-Pharma) and MD Multimédia inc. ;

prohibits Claude-Yvon Provost from any and all activity with a view to trading securities in all investment forms under the Securities Act for and in the name of L'Espoir de Millénaire inc. (Delaware) (Millenia Hope inc.), Espoir du Millénaire Pharmaceutique inc. (Millenia Hope Bio-Pharma) and MD Multimédia inc. ; and

prohibits Pierre Couture and Claude-Yvon Provost from acting as investment advisors, as defined in section 5 of the Securities Act."

58. The same day, the BDRVM decision was served on Couture and Provost at an investors meeting the latter had organized, as detailed in the BDRVM decision.

59. The Respondent was at the meeting to make introductions. He witnessed the decision being served on Couture and Provost and became aware of the cease trade orders issued by the BDRVM.

60. On November 30, 2007, the BDRVM lifted the cease trade orders against Millenia Hope and Millenia Hope Bio-Pharma, but not against Couture and

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[3] *Autorité des marchés financiers* c. *Espoir du Millénaire inc. (Delaware)*, 2007 QCBDRVM 47.

Provost, conditionally on not seeking financing from the public until a receipt for the prospectus was obtained from the Autorité des marchés financiers (AMF)[4]:

> [TRANSLATION]
>
> *The AMF approves the lifting by the BDRVM of the cease trade order against the respondent companies on condition that the latter formally undertake not to seek financing from members of the public until a receipt for the prospectus has been issued by the AMF. At the hearing, Joseph Daniele, as agent for the respondent companies, made a formal agreement with the AMF to comply with the securities legislation.* [Our emphasis]

61. Under the circumstances, and even though he had been aware of the cease trade orders from the BDRVM, the Respondent, from November 30, 2007 on, executed private placements for 19 clients in the debenture of Millenia Hope Bio-Pharma.

62. What's more, many of these clients were referred to the Respondent by Provost and met the Respondent in the company of Provost on one or more occasions.

63. Now, the Respondent, given the information at his disposal, should have refused to deal with Provost, who was directly named in the order of prohibition from acting as a securities advisor issued by the BDRVM, as well as cited in the BDRVM decision of November 30, 2007, which upheld the prohibition against him, stating that the latter had no authority to act for and on behalf of MHBP.

64. Consequently, the Respondent engaged in conduct unbecoming or detrimental to the public interest and failed to exercise his gatekeeper role.

CONCLUSION

65. What emerges from these facts is that, with respect to the private placement in the convertible debenture of Millenia Hope Bio-Pharma, the Respondent failed in his duty to know his clients, and to ensure the suitability of his clients' orders, and engaged in business conduct or practice unbecoming or detrimental to the public interest, in addition to failing to fulfill his role of

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[4] *Autorité des marchés financiers* c. *Espoir du Millénaire inc. (Delaware)*, 2007 QCBDRVM 52.

gatekeeper, by leading numerous individuals to invest substantial sums in a high-risk investment in a company that ultimately went bankrupt.

IV. TERMS OF SETTLEMENT

66. In accordance with Dealer Member Rule 20.35 to 20.40 inclusively, and Rule 15 of the Dealer Member Rules of Practice and Procedure;

67. The Settlement Agreement is subject to acceptance by the Hearing Panel;

68. The Settlement Agreement shall become effective and binding upon the Respondent and Staff from the date of its acceptance by the Hearing Panel;

69. The Settlement Agreement will be presented to the Hearing Panel at a hearing ("the Settlement Hearing") for approval. Following the conclusion of the Settlement Hearing, the Hearing Panel may either accept or reject the Settlement Agreement.

70. If the Hearing Panel accepts the Settlement Agreement, the Respondent waives his right, under IIROC rules and any applicable legislation, to a disciplinary hearing, review or appeal.

71. If the Hearing Panel rejects the Settlement Agreement, Staff and the Respondent may enter into another settlement agreement; or staff may proceed to a disciplinary hearing in relation to the matters disclosed in the investigation.

72. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel;

73. Staff and the Respondent agree that, if the Hearing Panel accepts the Settlement Agreement, they, or anyone on their behalf, will not make any public statements inconsistent with the Settlement Agreement.

74. Unless otherwise stated, any monetary penalties and costs imposed upon the Respondent shall be payable immediately on the effective date of the Settlement Agreement;

75. Unless otherwise stated, suspensions, prohibitions, expulsions, restrictions and other conditions or terms of the Settlement Agreement shall commence on the effective date of the Settlement Agreement.

AGREED TO BY THE RESPONDENT AT MONTRÉAL, QUÉBEC, THIS 28 DAY OF MARCH 2013.

ROYCE GROOME	**REGINALD GROOME**
WITNESS:	**REGINALD GROOME**
	RESPONDENT

AGREED TO BY STAFF OF IIROC AT MONTRÉAL, QUÉBEC, THIS 28 DAY OF MARCH 2013.

NICOLAS D'ASTOUS	**MARTIN HOVINGTON**
WITNESS:	**MARTIN HOVINGTON**
	ENFORCEMENT COUNSEL, FOR STAFF OF IIROC