

TO: DIRECTOR OF TITLES, SERVICE ONTARIO

**RE: MICHAEL WOODS
LAW SOCIETY OF ONTARIO (“LSO”) NO. 28297A
APPLICATION FOR AUTHORIZATION TO SUBMIT DOCUMENT FOR
REGISTRATION IN THE ELECTRONIC LAND REGISTRATION SYSTEM**

I am writing this memo in support of the application of myself via my registered sole proprietorship, “Security Plus Law”, to be granted authorized to access the Ontario Electronic Registration System.

On December 20, 2020, I was suspended by the LSO for six months relating to events that took place between 2007 and 2012, and had been investigated by the LSO for 8 years. This suspension expired on June 20, 2021, and I am now reinstated and fully insured for real estate transactions.

I was called to Bar of Ontario in 1988. Over the 32 years I was a practicing lawyer, I closed an estimated 3,500 real estate transactions. The events that led to my suspension had nothing to do with any of these closings. There were no allegations that,

1. I misappropriated or misapplied trust money;
2. I did not complete any of the more than 3,500 real estate transactions I closed as I was directed by my clients; or
3. I used the electronic registration system in an improper manner in any of the transactions I was involved in as a lawyer.

There were three factual scenarios that were the subject matter of this investigation. The following is a summary of these facts:

1. The LSO took issue with certain transactions that occurred between myself and mortgage investment corporations (the “MICs”) I created starting in 2004. I controlled these MICs via owning all common equity. Investors invested in the MICs via an Offering Memorandum which specifically advised investors of all material risks associated with these investments. The OM’s also clearly set out that conflicts of interest would occur, and in fact were likely to occur. The MICs were wound up commencing in 2009.

These MIC’s were created in accordance with, and operated in strict compliance with, all Ontario exempt market securities laws in effect at the time. No complaint was ever made to the Ontario Securities Commission that they were not.

The MIC’s funded approximately 400 private mortgages between 2004 and 2011. I acted as lawyer for the MIC’s in all of these transactions. I was also a registered mortgage broker, and acted as underwriter for all these transaction. No complaint was ever made to the Financial Services Commission of Ontario with respect to any matter relating to these

transactions.

The LSO took issue with a two situations where I entered into transactions with the MIC's where I had a personal interest in the contracting party. This related to the purchase and renovation of a mixed use building. A loss was incurred by the MIC relating to this project.

Notwithstanding all investors had provided their consent for myself as manager to have conflicts of interest with respect to investments, the LSO took the position that as the lawyer for the MICs, I was required to arrange for independent legal advice for the relevant MIC in a situation where a conflict of interest existed. I was not aware of this obligation, and failed to do so.

It took 6 years to liquidate this MIC which started in 2009, and was completed in 2015. The MIC was made whole with respect to the impugned investment via rent earned from the property, the sale proceeds from selling and interest on a VTB mortgage taken back on the sale, cash payments from corporations I controlled totaling more than \$165K, and waiving of administration fees by our office for the 6 year period it took to liquidate.

2. In 2008, I began placing investors to in private mortgages. I was paid a fee for sourcing and underwriting the transactions as a registered mortgage broker, and for closing the transaction as the investor's lawyer. Since 2008 until my suspension in 2020, I acted on approximately 600 mortgages with a face value of more than \$80M CDN. The only complaint made to the LSO with respect to my involvement in these mortgages is set out below. In addition, no investor has suffered an loss of capital on an underwritten mortgage since 2014.

The first investor who I placed into private mortgage investments attended at my office in early 2009. He and his wife invested in a total of 6 mortgages, including 2 syndicated mortgages. They lost capital on two of the mortgages they invested in. However their portfolio of mortgages did not lose money as they recovered all of the lost capital by way of earned interest in the other 4 mortgages they invested in.

These investors complained to the LSO with respect to the funds lost on the two mortgages they invested in that lost capital. After an exhaustive investigation spanning many years, the LSO alleged that I did not provide these investors full written disclosure of all material facts relating to their investments. It was my position that full disclosure in writing was made on all of the investments to these investors by email, and certainly by discussions on the phone. However with the passage of time and a computer crash that occurred in our office in 2011, I could not locate all of these emails.

The LSO also determined that our small administration fee for administering these mortgages was transferred from trust to our general account on the 1st of the month, and the statement of account for these services was not sent to the investors until the 10th of the month. They also determined that on one mortgage where I acted as enforcement

lawyer, the investor did not receive statements of account for the enforcement work until after the enforcement was completed and the property sold. This violates an LSO rule that trust funds cannot be transferred from trust to general until the client receives an account. I had thought that the investors did receive all accounts before the funds were transferred, but could not establish this when proof was demanded many years later.

The LSO also took issue with the involvement of myself and my spouse as investors in three syndicated mortgages (including the two in which the complaining investors above had invested). We had invested our own RRSP funds into the MICs we operated. I was not aware that technically because of this indirect interest, I was required to ensure all other investors in these three mortgages obtained ILA, and I failed to do so. However the MIC's, and thus myself and my spouse, did not have a preferential interest in the mortgages and shared in interest and any loss pro-rata to our interest in the invested MIC.

3. The final fact situation related to investments I agreed to make on behalf of the MIC's I controlled with an individual who was in the construction business. The investments were "profit sharing" mortgages. The mortgages closed in 2011 and 2012. Unfortunately for myself, I became too involved in this person's affairs, which I discovered later was by design as a "trap". I agreed to accept an option to acquire common equity in one of his companies for arranging two of the mortgages which the MIC's participated in. Shortly after funding this person ran into financial difficulties. I requested and became a director in the borrowing corporation to protect invested capital.

I also did other legal work for this person and his spouse unrelated to the participation mortgages..

In early 2013, I discovered this individual had misappropriated a substantial amount of money from the debtor corporation, including a \$150,000 HST refund that had been assigned as security for its loans. When I discovered this, I commenced enforcement of these mortgages.

One mortgage involved renovating a water front motel into townhouses. The project was abandoned by this person in July 2013. I took over the project, and completed and sold the units in 2015, and distributed all funds to investors in this mortgage.

Another mortgage was a first mortgage to acquire a resort for renovation. This person completed the renovation, but defaulted on the mortgage. I took over the Resort by court order in 2013, which was obtained by a third party law firm on behalf of the investors in the first mortgage. With the assistance of my staff, we ran the Resort until it could be sold in 2015. All invested capital in the first mortgage was recovered.

The third mortgage involved the development of a 40 acre residentially zone piece of land. The mortgagee corporation abandoned this project in 2013. I took over the project and sold it in 2020.,

The LSO took issue with my becoming involved with this person by accepting the option referred to above. The relevant corporation owned both the townhouse project and the Resort. This option was worthless when it was granted, and could have only had any value if the projects were completed, and the mortgages paid in full as it was unsecured. However after selling the projects discussed above, there was not equity to distribute to the corporate owner.

The LSO took the position that the existence of this option was not disclosed in writing to the investors. It was my position that it was, but with the passage of time, I could not establish that it had been with definitive proof. However there were more than 15 investors in the mortgages granted to this corporation, None of these investors complained to the LSO with respect to my conduct relating to their investment in these mortgages.

The LSO also took issue with myself enforcing the mortgages this person defaulted on as I had acted for him and his spouse in other transactions. I took the position that the matters I acted for this person on were unrelated. However the bottom line is that this person was a fraud. He only contested the enforcement of the Resort mortgage as he was absconding on all funds coming into the Resort and paying nothing to the mortgagee. A third party lawyer was retained to enforce this mortgage. He abandoned the other projects and raised no issue with me enforcing the mortgages. I worked without payment to enforce these mortgages for a total of 7 years, and did not get paid until each property was sold at a substantial discount to the time I spent on the file.

At the end of the day, I was at the point of emotional breakdown fighting the LSO over these allegations. I needed it be over for my sanity. I question my decision making with respect to the fraudulent developer every day. However after I discovered who and what I was dealing with, I took all steps within my control to recover the invested capital.

The LSO was also not comfortable with me acting as closing lawyer for further transactions in which a registered mortgage broker in which I had an interest received a fee. Notwithstanding the more than 600 transactions I had closed since the most recent of the mortgages discussed above closed, I agreed to this restriction on my practice after the suspension was over to put an end to the nightmare.

However as stated above, at no time throughout this process did I misuse my access to the electronic registration system in any manner.

Michael Woods