



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF
TROY RICHARD JAMES HOGG, CRYPTOBONTIX INC.,
ARBITRADE EXCHANGE INC., ARBITRADE LTD.,
T.J.L. PROPERTY MANAGEMENT INC. and GABLES HOLDINGS INC.**

STATEMENT OF ALLEGATIONS
(Subsection 127(1) and Section 127.1
of the *Securities Act*, RSO 1990, c S.5)

A. OVERVIEW

1. This matter involves a fraudulent offering of crypto security tokens that serves as a cautionary tale to investors interested in the crypto asset sector.
2. During the period of May 2017 to June 2019 (the **Material Time**), Troy Richard James Hogg, an Ontario resident, together with his companies Cryptobontix Inc., Arbitrade Exchange Inc. and Arbitrade Ltd., promoted and sold a crypto asset named Dignity token (formerly Unity Ingot) to investors around the world. Approximately US \$51 million was raised from investors by or on behalf of Cryptobontix, the issuer of the Dignity token.
3. Hogg and his companies perpetrated a fraud on unwitting investors through the dissemination of promotional materials which contained false and misleading statements, including false statements indicating that there was a significant amount of gold bullion which supported the value of Dignity tokens. Furthermore, significant amounts of investor funds were diverted by Hogg and his companies, Arbitrade Ltd., T.J.L. Property Management Inc. and Gables Holdings Inc., for their own purposes contrary to representations made to investors. In 2021, the Ontario Securities Commission (the **Commission**) froze assets that had been obtained with the proceeds of diverted investor funds. As a result, the proceeds of the sales of certain properties were placed in the custody of the Accountant of the Ontario Superior Court of Justice.

4. In addition, no prospectus was filed by Cryptobontix with respect to the distribution of the Dignity token. None of Hogg and his companies obtained the necessary registration with the Ontario Securities Commission to engage in trading activities regarding the Dignity token. By selling Dignity tokens to investors without complying with those requirements, Hogg and his companies deprived investors of important safeguards in place to protect them from unscrupulous and fraudulent conduct.

B. FACTS

The following allegations of fact are made:

Fraud

5. Hogg, an Ontario resident, and his companies Cryptobontix Inc. (**Cryptobontix**), Arbitrade Exchange Inc., Arbitrade Ltd., T.J.L. Property Management Inc. (**TJL**) and Gables Holdings Inc. (**Gables**)¹ each engaged or participated in a course of conduct relating to the Unity Ingot (**UNY**) and Dignity (**DIG**) tokens, as described below, that they knew or reasonably ought to have known perpetrated a fraud on investors and/or Cryptobontix, contrary to paragraph 126.1(1)(b) of the *Securities Act*, RSO 1990, c S.5 (the **Act**).

6. The fraudulent actions of the Respondents prejudiced and put at risk the economic interests of investors and/or Cryptobontix.

7. As a director and/or officer of the Corporate Respondents², Hogg authorized, permitted or acquiesced in their fraudulent conduct during the Material Time and, pursuant to section 129.2 of the Act, is deemed to have contravened Ontario securities law.

¹ Cryptobontix, Arbitrade Exchange Inc., TJL and Gables are each Ontario corporations of which Hogg was an officer and the sole director during the Material Time. Arbitrade Ltd. is a Bermuda corporation and, during the Material Time, Hogg indirectly held the majority of its issued and outstanding shares and was also its *de facto* director and/or officer.

² Cryptobontix, Arbitrade Exchange Inc., Arbitrade Ltd., TJL and Gables.

The Unity Ingot / Dignity Token

8. Hogg directed the creation of UNY, a crypto security token, on the Ethereum blockchain in or around May 2017. The UNY token, Hogg's brainchild, was issued by his company Cryptobontix.

9. Hogg made arrangements with two crypto asset trading platforms, Livecoin.net and C-CEX.com, to list the UNY token for trading.³ The UNY token was listed for trading beginning in May 2017.

10. Promotional materials, including a white paper issued by Cryptobontix dated November 5, 2017 (the **White Paper**), represented that investor funds would be used to acquire crypto asset mining equipment, managed by Cryptobontix, to generate proceeds that would primarily be used to buy gold bullion and additional mining equipment in order to create exponential growth in earnings and physical bullion holdings to "back" the UNY tokens. Promotional materials also represented that each UNY token would be backed by a floor price of US \$1.00 worth of gold. The UNY tokens were promoted as investments with limited risks and maximum potential.

11. Beginning in early 2018, the UNY token was renamed and replaced by the DIG token on Livecoin.net and C-CEX.com. Existing investors of UNY tokens were given DIG tokens, created at the direction of Hogg, as replacement for their UNY tokens. No new white paper was issued for the DIG token, although promotional materials for the DIG token made representations similar to those previously made for the UNY token.

Promotion and Sale of the Unity Ingot / Dignity Token

12. During the Material Time, promotional materials with respect to UNY and DIG tokens were disseminated to existing and prospective investors by or on behalf of Hogg, Cryptobontix, Arbitrade Exchange Inc. and/or Arbitrade Ltd. in a variety of ways, including by:

- (a) Making posts on Bitcointalk.org, an online forum;

³ Livecoin.net and C-CEX.com appear to be based outside of Canada. C-CEX.com appears to have suspended its operations in or around June 2019. Livecoin.net announced the closure of its business in January 2021.

- (b) Distributing the White Paper through a website for Cryptobontix maintained by Hogg;
- (c) Sending email announcements to subscribers to the websites for Cryptobontix and Arbitrade Exchange Inc./Arbitrade Ltd. (**Arbitrade**) which were maintained by Hogg;
- (d) Paying Livecoin.net to send email announcements to its users;
- (e) Issuing press releases through third parties;
- (f) Making posts on social media platforms such as Twitter and Telegram, including through third parties; and
- (g) A public teleconference held on or around June 28, 2018 during which Hogg was a speaker.

13. Hogg also played a significant role in drafting and reviewing promotional materials prior to their dissemination during the Material Time.

14. In or around June 2017, Hogg entered into an agreement with two individuals from the United States, Stephen Braverman and James Goldberg, pursuant to which Braverman and Goldberg agreed to sell UNY tokens to investors in exchange for future compensation.

15. During the Material Time, UNY and DIG tokens were sold to investors primarily by Braverman and Goldberg. Hogg provided UNY and DIG tokens to Braverman and Goldberg for sale to investors. Prior to his agreement with Braverman and Goldberg, on at least one occasion, Hogg personally solicited investment in the UNY token.

16. To enable Braverman and Goldberg to sell UNY tokens, Hogg also prepared training materials regarding crypto assets, including materials to help them set up accounts on Livecoin.net and C-CEX.com.

17. On Livecoin.net and C-CEX.com, the UNY and DIG tokens were sold to investors from different jurisdictions around the world, including Ontario. During the Material Time, approximately US \$51 million was raised from investors by or on behalf of Cryptobontix.

18. Investors purchased UNY and DIG tokens using primarily bitcoin. Braverman, directly or indirectly through companies he controlled, exchanged the bitcoins for US dollars and transferred the proceeds to various parties, including Hogg who received millions of dollars directly and indirectly through companies he controlled, such as TJJ and Gables.

The Gold Title Fraud

19. During the Material Time, Hogg, Cryptobontix, Arbitrade Exchange Inc. and Arbitrade Ltd. made, or caused to be made, false and misleading statements in promotional materials regarding the acquisition of gold to back the UNY/DIG tokens, including that Arbitrade was in the process of acquiring Cryptobontix and that on November 5, 2018, Arbitrade Ltd. had acquired “title” to 395,000 kilograms of gold, with a market value of over US \$10 billion.

20. In reality:

- (a) Cryptobontix was never acquired by either Arbitrade Exchange Inc. or Arbitrade Ltd. There was no agreement involving Cryptobontix, the entity that issued the UNY and DIG tokens, to back the tokens with any gold during the Material Time;
- (b) In July 2018, Arbitrade Ltd. entered into an “asset pledge agreement” with SION Trading FZE (**SION**), an entity that appears to be based in the United Arab Emirates and controlled by Max Barber, a resident of the United States. That agreement required Arbitrade Ltd. to pay a significant monthly fee to SION in order for SION to “pledge” US \$10 billion of gold bullion in favour of Arbitrade Ltd. Pursuant to the agreement, Arbitrade Ltd. purportedly agreed to purchase US \$10 billion of its gold bullion requirements from SION within a term of 15-years. However, the “agreement” did not contain important details pertaining to the actual purchase of gold, such as purchase price;
- (c) SION did not own the gold bullion that it purportedly pledged to Arbitrade Ltd.; and
- (d) During the Material Time, millions of dollars in investor funds from the sale of UNY and DIG tokens were paid to maintain the asset pledge agreement between

Arbitrade Ltd. and SION. However, none of Cryptobontix, Arbitrade Exchange Inc. and Arbitrade Ltd. purchased any gold from SION or otherwise owned any amount of gold bullion.

The Gold Audit Fraud

21. During the Material Time, Hogg, Cryptobontix, Arbitrade Exchange Inc. and Arbitrade Ltd. made, or caused to be made, false and misleading statements on November 5, 2018 and December 5, 2018, stating or otherwise suggesting that a public accounting firm had verified or confirmed 395,000 kilograms of gold held at independent security facilities.

22. In reality:

- (a) On July 25, 2018, SION entered into an agreement with G4S Cash Services LLC in Dubai, United Arab Emirates (**G4S**) for vaulting services regarding “a sensitive document”;
- (b) On July 26, 2018, Barber provided Hogg with a copy of a Safe Keeping Receipt purportedly issued by G4S, stating that it had vaulted “1 piece” of package containing an “Original Certificate of Guarantee” with a notation for 395,000 kilograms of gold (the **SKR**); and
- (c) Beginning in or around August 2018, Arbitrade Ltd. sought to retain a number of firms to perform agreed upon procedures to verify the authenticity of the SKR. Two firms attempted to verify the authenticity of the SKR but took no steps to verify the existence of any physical gold. A third firm declined the engagement as the proposed procedures did not involve physical validation of any metals.

Misappropriation of Investor Funds

23. During the Material Time, Hogg, Cryptobontix, Arbitrade Exchange Inc. and Arbitrade Ltd. made, or caused to be made, false and misleading statements in promotional materials, stating or otherwise suggesting that investor funds from the sale of the UNY/DIG token would be used to purchase crypto asset mining equipment to create growth in the value of the token.

24. While some investor funds were applied to purchasing and operating crypto asset mining equipment⁴, a significant amount of investor funds were used and depleted for various other purposes unrelated to the UNY/DIG token, including:

- (a) To acquire and/or improve real properties in Ontario, including a hotel, restaurant and bar in Grand Bend, two luxury motorboats, and other assets by Hogg and his companies, including TJJ and Gables;
- (b) To make payments to bank accounts controlled by Hogg, held in the name of his companies, including TJJ and Gables, or to other parties for the benefit of and/or on behalf of Hogg or his companies;
- (c) To pay business expenditures of Arbitrade Ltd. unrelated to purchasing crypto mining equipment, such as purchasing real property located in Hamilton, Bermuda known as “Victoria Hall”;
- (d) To pay monthly fees under the gold asset pledge agreement between Arbitrade Ltd. and SION; and
- (e) To acquire crypto asset mining equipment which were later transferred to Hogg for his personal benefit.

25. Both TJJ and Gables knew or reasonably ought to have known that by diverting investor funds for purposes unrelated to the UNY/DIG token, they participated in a course of conduct which perpetrated a fraud on investors and/or Cryptobontix. Neither TJJ nor Gables had any legitimate reason to receive or benefit from those funds.

Unregistered Trading

26. Hogg, Cryptobontix, Arbitrade Exchange Inc. and Arbitrade Ltd. have never been registered in any capacity under the Act.

⁴ Some of the crypto asset mining equipment acquired appear to have had significant issues that prevented their operation entirely or limited the amount of income they generated.

27. During the Material Time, Hogg, Cryptobontix, Arbitrade Exchange Inc. and Arbitrade Ltd. acted in concert and engaged in the business of trading in UNY and DIG tokens without registration, including through their acts in furtherance of trades as described above, contrary to subsection 25(1) of the Act.

28. As a director and/or officer, Hogg authorized, permitted or acquiesced in the contravention of subsection 25(1) of the Act by Cryptobontix, Arbitrade Exchange Inc. and Arbitrade Ltd and, pursuant to section 129.2 of the Act, is deemed to have contravened Ontario securities law.

Illegal Distribution

29. The UNY and DIG tokens sold to investors during the Material Time had not been previously issued by Cryptobontix. Cryptobontix did not file any prospectus or preliminary prospectus with the Commission during the Material Time, including with respect to the UNY and DIG tokens.

30. During the Material Time, Hogg, Cryptobontix, Arbitrade Exchange Inc. and Arbitrade Ltd. engaged in the distribution of UNY and DIG tokens without a prospectus, including through their acts in furtherance of trades as described above, contrary to subsection 53(1) of the Act.

31. As a director and/or officer, Hogg authorized, permitted or acquiesced in the contravention of subsection 53(1) of the Act by Cryptobontix, Arbitrade Exchange Inc. and Arbitrade Ltd and, pursuant to section 129.2 of the Act, is deemed to have contravened Ontario securities law.

C. BREACHES OF ONTARIO SECURITIES LAW AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

32. The following breaches of Ontario securities law and conduct contrary to the public interest are alleged:

- (a) During the Material Time, each of the Respondents engaged or participated in an act, practice or course of conduct relating to a security that they knew or reasonably ought to have known perpetrated a fraud on a person or company, contrary to paragraph 126.1(1)(b) of the Act;

- (b) During the Material Time, Hogg, Cryptobontix, Arbitrade Exchange Inc. and Arbitrade Ltd. engaged in the business of trading in a security without registration, contrary to subsection 25(1) of Act;
- (c) During the Material Time, Hogg, Cryptobontix, Arbitrade Exchange Inc. and Arbitrade Ltd. traded in a security where the trade was a distribution of the security, without a prospectus, contrary to subsection 53(1) of the Act; and
- (d) During the Material Time, Hogg, as a director and/or officer of the Corporate Respondents, authorized, permitted or acquiesced in the non-compliance of the Corporate Respondents with Ontario securities law and as a result is deemed to also have not complied with Ontario securities law pursuant to section 129.2 of the Act.

33. These allegations may be amended and further and other allegations may be added as counsel may advise and the Capital Markets Tribunal (the **Tribunal**) may permit.

D. ORDER SOUGHT

34. It is requested that the Tribunal make the following orders against the Respondents:

- (a) that they cease trading in any securities or derivatives permanently or for such period as is specified by the Tribunal under paragraph 2 of subsection 127(1) of the Act;
- (b) that they be prohibited from acquiring any securities permanently or for such period as is specified by the Tribunal under paragraph 2.1 of subsection 127(1) of the Act;
- (c) that any exemption contained in Ontario securities law not apply to them permanently or for such period as is specified by the Tribunal under paragraph 3 of subsection 127(1) of the Act;
- (d) that they be reprimanded under paragraph 6 of subsection 127(1) of the Act;
- (e) that they resign any position they may hold as a director or officer of any issuer under paragraph 7 of subsection 127(1) of the Act;

- (f) that they be prohibited from acting as a director or officer of any issuer permanently or for such period as is specified by the Tribunal under paragraph 8 of subsection 127(1) of the Act;
- (g) that they resign any position they may hold as a director or officer of any registrant under paragraph 8.1 subsection 127(1) of the Act;
- (h) that they be prohibited from acting as a director or officer of any registrant permanently or for such period as is specified by the Tribunal under paragraph 8.2 of subsection 127(1) of the Act;
- (i) that they be prohibited from becoming or acting as a registrant or promoter permanently or for such period as is specified by the Tribunal under paragraph 8.5 of subsection 127(1) of the Act;
- (j) that they pay an administrative penalty of not more than \$1 million for each failure to comply with Ontario securities law, pursuant to paragraph 9 of subsection 127(1) of the Act;
- (k) that they disgorge to the Commission any amounts obtained as a result of non-compliance with Ontario securities law, pursuant to paragraph 10 of subsection 127(1) of the Act;
- (l) that they pay costs of the investigation and hearing, pursuant to section 127.1 of the Act; and
- (m) such other order as the Tribunal considers appropriate in the public interest.

DATED at Toronto this 30th day of September, 2022.

ONTARIO SECURITIES COMMISSION

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