



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF HARALD SEEMANN,
JENS BRANDT AND KARL PAWLOWICZ**

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

A. ORDERS SOUGHT

1. Staff of the Enforcement Branch ("Enforcement Staff") of the Ontario Securities Commission (the "Commission") request that the Commission make the following orders:

- (a) that trading in any securities or derivatives by Harald Seemann ("Seemann"), Jens Brandt ("Brandt") and Karl Pawlowicz ("Pawlowicz") (collectively the "Respondents"), cease permanently or for such period as is specified by the Commission, pursuant to paragraph 2 of subsection 127(1) of the *Securities Act*, RSO 1990, c S.5, as amended (the "Act");
- (b) that the acquisition of any securities by each of the Respondents is prohibited permanently or for such period as is specified by the Commission, pursuant to paragraph 2.1 of subsection 127(1) of the Act;
- (c) that any exemptions contained in Ontario securities law do not apply to each of the Respondents permanently or for such period as is specified by the Commission, pursuant to paragraph 3 of subsection 127(1) of the Act;
- (d) that each of the Respondents be reprimanded, pursuant to paragraph 6 of subsection 127(1) of the Act;
- (e) that each of the Respondents resign any position he holds as a director or officer of an issuer, pursuant to paragraph 7 of subsection 127(1) of the Act;

- (f) that each of the Respondents be prohibited from being or acting as a director or officer permanently or for such period as is specified by the Commission, pursuant to paragraph 8 of subsection 127(1) of the Act;
- (g) that each of the Respondents be prohibited from becoming or acting as a registrant, as an investment fund manager or as a promoter, pursuant to paragraph 8.5 of subsection 127(1) of the Act;
- (h) that each of the Respondents pay an administrative penalty of not more than \$1 million for each failure by the Respondents to comply with Ontario securities law, pursuant to paragraph 9 of subsection 127(1) of the Act;
- (i) that each of the Respondents 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;
- (j) that each of the Respondents pay the costs of the Commission investigation and the hearing, pursuant to section 127.1 of the Act; and
- (k) such other order as the Commission considers appropriate in the public interest.

B. FACTS

2. Enforcement Staff make the following allegations of fact:

Overview

3. The Respondents engaged in manipulative trading in shares of Big Rock Labs Inc. ("BLA"). In doing so, the Respondents created a misleading appearance of market activity in an attempt to generate interest and create liquidity in BLA shares, and to sell BLA shares at beneficial prices. By engaging in such behaviour, the Respondents interfered with the free and fair operation of the market.

4. Ensuring that market participants do not manipulate the market for the shares of a company is essential in achieving the purposes of the Act of protecting investors from unfair, improper or fraudulent practices and fostering fair and efficient capital markets and confidence in capital markets.

5. The Respondents' manipulative trading of BLA shares occurred between June 2014 and June 2015 (the "Material Time").

6. Seemann, the founder of BLA, was the directing mind of the manipulative trading of BLA shares. Through the use of his own trading accounts and those of others, Seemann employed a number of different strategies to manipulate the market for BLA shares, all of which resulted in or contributed to a misleading appearance of trading activity in, and an artificial price for BLA shares.

7. Pawlowicz was the Chief Executive Officer ("CEO") of BLA during the Material Time. Pawlowicz participated in the manipulative trading of BLA shares by providing Seemann with access to, and allowing him to trade, BLA shares in his Questrade accounts. Pawlowicz also engaged in manipulative trading by placing a bid for BLA shares in his Toronto Dominion Bank ("TD") trading account as directed by Seemann as Seemann did not have access to Pawlowicz's TD account.

8. Brandt also participated in the manipulative trading of BLA shares by engaging in match and pre-arranged trading, as directed by Seemann.

The Respondents

9. BLA is a public company which was incorporated in British Columbia in April 2014. Its shares are listed on the Canadian Securities Exchange ("CSE") and the Frankfurt Stock Exchange ("FSE"). BLA is a reporting issuer in Ontario with its registered address in Toronto. In 2014, BLA was a technology company which specialized in digital product research and development. BLA did not earn any revenue during the Material Time.

10. In 2016 and 2017, BLA tried to change its business numerous times, from technology development to real estate and then to energy resources. In November 2017, BLA changed its name to Blox Labs Inc. In December 2017, it entered into a partnership with an arms-length third party, and commenced development of a blockchain based smart contract supply chain management platform for the legalized cannabis industry.

11. Seemann is a resident of Ontario. During the Material Time, Seemann was the founder, Chief Financial Officer ("CFO") and a director of BLA. Seemann has never been registered with the Commission in any capacity.

12. Pawlowicz is a resident of Ontario. During the Material Time, he was the CEO and a director of BLA. Pawlowicz has never been registered with the Commission in any capacity.

13. Brandt is a resident of Ontario. Brandt met and became an acquaintance of Seemann in 2008. In October 2014, Brandt became a director of BLA. Since August 2016, he has been the CFO of BLA. Brandt has never been registered with the Commission in any capacity.

Seemann - Manipulative Trading in BLA shares

14. Seemann was the directing mind of BLA. Seemann was responsible for having the BLA shares listed on the CSE and the FSE. Seemann solicited the services of Bankhaus Scheich Wertpapierspezialist AG ("Bankhaus Scheich") to assist him with the listing of BLA shares on the FSE. Bankhaus Scheich performed market making activities for BLA on both the CSE and FSE during the Material Time.

15. From June 2014 to June 2015, Seemann engaged in manipulative trading of BLA shares. Specifically, Seemann executed orders and trades in BLA shares using: (i) five accounts under his name and the name of his spouse; and (ii) six accounts of four other insiders of BLA, including Pawlowicz (the "Other Insiders").

16. Seemann encouraged the Other Insiders to open trading accounts at Questrade during the Material Time and each of the Other Insiders did so. Seemann then obtained the log-in information and the verbal consent of the Other Insiders to enter orders and execute trades in these accounts. Seemann used the accounts of the Other Insiders to carry out the manipulative trading described below.

17. During the Material Time, Seemann also engaged in pre-arranged trading with Brandt and with his father-in-law, JR, which resulted in or contributed to a misleading appearance of trading activity in BLA shares.

18. Seemann's trading activities reflected the following:

(a) Dominance

19. In June 2014, by trading through his accounts, his spouse's accounts and the accounts of the Other Insiders, and by co-ordinating pre-arranged trading with Brandt and JR (collectively "the Seemann Trading Group"), Seemann dominated the entire BLA market, accounting for 100% of the buy side volume and 99.7% of the sell side

volume. On five of the six days when BLA shares traded in the month of June 2014, accounts owned by members of the Trading Group were buying or selling the BLA shares among each other at the same price of \$0.30. This resulted in a false appearance of trading activity and volume of BLA shares.

20. Between July 1, 2014 and July 16, 2014, trading by the Seemann Trading Group again dominated the entire BLA market, accounting for 63% of the buy side volume and 97% of the sell side volume. On three of the six days when the BLA shares traded between July 1, 2014 and July 16, 2014, accounts owned by members of the Seemann Trading Group were buying and selling the BLA shares among each other at prices between \$0.35 and \$0.42 through pre-arranged trading. This resulted in a false appearance of trading activity and volume of BLA shares.

(b) Wash and Match Trading

21. In June and July 2014, Seemann orchestrated pre-arranged trading through match trades. On June 9, 2014, Seemann executed one buy order for 128,182 BLA shares in his spouse's Scotia iTrade TFSA and one sell order, also for 128,182 BLA shares in his spouse's Scotia iTrade margin account, at the same time. This resulted in a wash trade which was cancelled by Scotia iTrade.

22. After this trade was cancelled, Seemann pre-arranged for the sale of BLA shares from his spouse to his father-in-law, JR. On June 10, 2014, JR bought 103,300 BLA shares which were sold from Seemann's spouse's iTrade margin account. This match trade was directed by Seemann. On the same day, Seemann was questioned by Scotia iTrade about whether this trade was arranged as the shares were purchased by JR, his father-in-law.

23. In June 2014, Seemann also engaged in match trading with Brandt. On the evening of June 10, 2014, there were two telephone calls between Seemann and Brandt, which were followed by Brandt's purchase of 145,200 BLA shares which were sold from Seemann's spouse's margin account on June 12 and 13, 2014.

24. On June 15, 2014, there was another telephone call between Brandt and Seemann, which was followed by the sale of 128,182 BLA shares from Brandt to Seemann's spouse's Scotia iTrade TFSA account, just after the opening of the market on June 16, 2014. The telephone calls between Seemann and Brandt on June 10 and

15, 2014 were the only three phone calls made between the two of them during the entire month of June.

25. On July 7, 2014, Brandt entered a buy order for 5,000 BLA shares at \$0.35 in his Questrade TFSA trading account and established the National Best Bid ("NBB"), which had previously been \$0.29. Approximately 19 minutes later, Seemann placed a sell order in his spouse's Scotia iTrade margin account for exactly the same volume of BLA shares and at the same price and traded against Brandt's buy order.

26. On July 11, 2014, Brandt entered a buy order for 8,000 BLA shares at \$0.40 in his TFSA trading account and established the NBB, which had previously been \$0.36. Just one minute later, Seemann placed a sell order in his spouse's Scotia iTrade margin account for exactly the same volume of BLA shares and at the same price and traded against Brandt's buy order.

27. On July 28, 2014, Brandt entered a buy order for 15,000 BLA shares at \$0.55 in his spouse's Questrade TFSA trading account. Less than three minutes later, Seemann placed a sell order in his spouse's Scotia iTrade margin account for exactly the same volume of BLA shares and at the same price and traded against Brandt's buy order. This set the high closing trade, an improvement of \$0.01 from the previous trading day.

(c) Seemann's Passive Trading Strategy

28. In addition to making match trades, in June and July 2014, Seemann employed a passive trading strategy with respect to BLA shares which involved multiple entries and amending and cancelling Good Till Cancel ("GTC") orders with a 30 day expiration period on both sides of the market. The majority of these orders were entered by Seemann through his accounts or by him through his spouse's accounts. The GTC orders were entered at different price levels and outside the market spread resulting in:

- (a) multiple orders being placed in the market in the pre-opening and setting the market spread at the opening;
- (b) improving the market spread during the course of the trading day to the price level at which Seemann planned to sell the BLA shares; and
- (c) further improving the market after the trades occurred, to accommodate the execution of the same type of trading the following day at an improved price range.

(d) Seemann's Active Trading Strategy

29. From July 16, 2014 to December 2014, Seemann continued to employ the passive trading strategy to line the market and improve the market spread for BLA shares. In addition, during this time, Seemann engaged in another form of market manipulation, including, but not limited to practices known as intraday spoofing.

30. Intraday spoofing involves the use of non-bona fide orders, or orders that the trader does not intend to have executed, to induce others to buy or sell the security at a price not representative of actual supply or demand. More specifically, a trader places a non-bona fide buy (or sell) order, which, if followed by another market participant, the trader will then enter a number of non-bona fide buy (or sell) orders for the purpose of attracting interest to that side of the order book. These non-bona fide orders are not intended to be executed. The purpose of these non-bona fide orders is to create a false impression of interest on that side of the order book. The trader will then enter an order for execution on the other side of the market at the better price.

31. More specifically, commencing on July 16, 2014, the German market maker, Bankhaus Scheich became active on the buy side on the CSE with respect to BLA shares. Seemann was aware of Bankhaus Scheich's trading strategy, which was to short BLA on the FSE and buy long on the CSE. Seemann took advantage of Bankhaus Scheich by engaging in intraday spoofing. He lined the book on the CSE with buy orders and baited Bankhaus Scheich to join his order on the NBB. Once Bankhaus Scheich joined the NBB, Seemann cancelled or amended his bid and, within a short time period, he would switch sides of the market and place a sell order and trade against Bankhaus Scheich's bid.

32. As a result of Seemann's trading pattern, in July 2014, BLA's share price increased by 54%, from \$0.29 to \$0.63. Seemann continued to engage in intraday spoofing during the period of August to November 2014. During this time, BLA's share price increased month-to-month from \$0.75 to \$1.24. In December 2014, BLA's share price continued to rise, closing at \$1.50 by the end of the month.

(e) High Closing

33. Seemann also engaged in the high closing of BLA shares. In particular:

- (a) on the 19 trading days in July 2014, Seemann set the high closing trade on five days on up-ticks between \$0.01 to \$0.06;

- (b) on the 21 trading days in September 2014, Seemann set the high closing trade on two days on up-ticks between \$0.01 to \$0.04;
- (c) on the 22 trading days in October 2014, Seemann set the high closing trade on two days. The high closing on October 30 was on an up-tick of \$0.27;
- (d) on the 20 trading days in November 2014, Seemann set the high closing trade on three days on up-ticks between \$0.01 and \$0.10; and
- (e) on the 21 trading days in December 2014, Seemann set the high closing trade on two days on up-ticks between \$0.06 and \$0.09.

Seemann Acted Contrary To the Public Interest

34. As the founder, an officer and a director of BLA, Seemann was ultimately responsible for BLA's compliance with Ontario securities legislation. Seemann's conduct of engaging in manipulative trading of BLA shares, including the use of his spouse's and the Other Insiders' trading accounts, completely failed to meet the standard expected of an officer and director participating in Ontario's capital markets.

Pawlowicz – Manipulative Trading in BLA shares

35. Pawlowicz was directed by Seemann to and did open two trading accounts at Questrade. Pawlowicz then provided Seemann with his log-in information and consent to conduct trading activity in these two trading accounts at Questrade. Seemann used his access to Pawlowicz's trading accounts, as well as his access to the accounts of the Other Insiders, to engage in a course of conduct which manipulated the market for BLA shares. Pawlowicz was aware that Seemann held the log-in information to the accounts of the Other Insiders and was aware that Seemann was trading through the accounts of the Other Insiders, as well as through his own Questrade accounts.

36. Pawlowicz also held a cash trading account at TD. Seemann did not have access to Pawlowicz's TD account. During the Material Time, Seemann instructed Pawlowicz, the CEO of BLA, to place a bid for BLA shares on the market through his TD account and then to advise Seemann that the bid had been made. As instructed by Seemann, Pawlowicz placed the bid for BLA shares. Seemann told Pawlowicz to place bids in an attempt to show that there was an interest in buying BLA shares. Pawlowicz followed Seemann's instructions.

Pawlowicz Acted Contrary To the Public Interest

37. As the CEO and a director of BLA, Pawlowicz was also responsible for BLA's compliance with Ontario securities legislation. Pawlowicz's conduct of: (i) participating in manipulative trading of BLA shares by providing Seemann with access to and use of his trading accounts; and (ii) placing orders for BLA shares in his TD account at the direction of Seemann, completely failed to meet the standard expected of an officer and director participating in Ontario's capital markets.

Brandt – Manipulative Trading in BLA shares

38. In June and July 2014, Brandt engaged in manipulative trading of BLA shares at the direction of Seemann by making match trades, as described above in paragraphs 23-27.

39. As well as the match trading, in June and July 2014, Brandt also engaged in placing additional GTC sell orders outside the market spread (non-tradable orders) to support Seemann's orders in lining the book which created a false impression of trading activity in BLA shares.

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

40. Enforcement Staff alleges the following breaches of Ontario securities law and conduct contrary to the public interest:

- (a) By their conduct, each of the Respondents, directly or indirectly, engaged or participated in an act, practice or course of conduct relating to securities that they knew or reasonably ought to know, resulted in or contributed to a misleading appearance of trading activity in, or an artificial price for a security contrary to subsection 126.1(1)(a) of the Act and therefore was conduct contrary to the public interest;
- (b) Seemann engaged in conduct contrary to the public interest by directing the manipulative trading of BLA shares, using the trading accounts of others to engage in manipulative trading and by failing to adhere to the high standard expected of him as an officer or director of an issuer; and

- (c) Pawlowicz engaged in conduct contrary to the public interest by providing access to his trading accounts to Seemann and by failing to adhere to the high standard expected of him as an officer or director of an issuer.

41. Enforcement Staff reserve the right to make such other allegation as Enforcement Staff may advise and the Commission may permit.

DATED at Toronto, Ontario, this 3rd day of May, 2018.