

ONTARIO SECURITIES COMMISSION

Applicant

– and –

**LIQUID MARKETPLACE INC., LIQUID MARKETPLACE CORP.,
RYAN BAHADORI, AMIN NIKDEL and DENNIS DOMAZET**

Respondents

APPLICATION FOR ENFORCEMENT PROCEEDING
(Subsection 127(1) and Section 127.1 of the *Securities Act*, RSO 1990 c S.5)

A. OVERVIEW

1. This matter involves a multi-layered fraud in the crypto asset sector.
2. The Liquid Marketplace business promotes and sells crypto assets that purportedly represent fractional ownership of valuable collectibles (**LMP Tokens**). The collectibles include trading cards and digital assets such as non-fungible tokens (**NFTs**) which are purportedly fractionalized into LMP Tokens. These LMP Tokens are offered to investors through an online platform accessible through LMP's (defined below) website at www.liquidmarketplace.io (the **LMP Platform**). LMP Tokens are securities and/or derivatives under the *Securities Act*, RSO 1990, c S.5 (the **Act**).
3. Liquid Marketplace is operated and controlled by Ryan Bahadori, Amin Nikdel and Dennis Domazet (together, the **LMP Principals**) and operated primarily through two entities: Liquid MarketPlace Inc. (**LMP Inc.**) and Liquid Marketplace Corp. (**LMP Nevada**, together with LMP Inc., **LMP**).
4. LMP and its Principals (the **Respondents**) have perpetrated a fraud on investors in two ways. First, the Respondents raised over \$10 million by selling common shares and promissory notes in LMP to investors located primarily in Canada and the U.S. (**Share and Note Purchasers**). From these funds, the Respondents misappropriated approximately \$3 million, including through hidden payments to shell companies, for the personal enrichment of the LMP Principals.

5. Second, approximately US\$2.7 million has been obtained by LMP from the sale of LMP Tokens to LMP Token purchasers (**Token Purchasers**). LMP, Bahadori and Nikdel made false and misleading statements to Token Purchasers including that LMP Tokens represent legal ownership in underlying collectibles, and that the collectibles themselves had been authenticated, appraised and insured.

6. In addition, LMP sold and facilitated the trading of LMP Tokens without complying with the prospectus and registration requirements of the Act, thus depriving investors of important safeguards to protect them from unscrupulous and fraudulent conduct.

7. Finally, the LMP Principals also made misleading and untrue statements to the Ontario Securities Commission (the **Commission**) during the Commission's investigation into LMP. The LMP Principals misled the Commission by hiding the true nature and total amount of money they had misappropriated for their personal enrichment.

B. GROUNDS

The Commission makes the following allegations of fact:

I. The Liquid Marketplace Business

8. Bahadori, Nikdel and Domazet are individuals residing in Ontario.

9. At all material times, Bahadori (co-founder and Chief Executive Officer), Nikdel (co-founder, Chief Operations Officer and Chief Technology Officer) and Domazet (formerly Chief Financial Officer and ongoing advisor to the business) were the legal or *de facto* directing and controlling minds of LMP.

10. The LMP Principals have operated the business and LMP Platform primarily through two companies: LMP Inc., and LMP Inc.'s wholly-owned subsidiary, LMP Nevada.

11. LMP Inc. was incorporated under the *Canada Business Corporations Act*, RSC 1985, c C-44 in or around February 2021. Each of the LMP Principals is, or has been, an officer and/or director of LMP Inc. Each of the LMP Principals is also a shareholder of LMP Inc.

12. LMP Nevada was incorporated in the State of Nevada in or around February 2023. Bahadori and Nikdel are officers and directors of LMP Nevada. Beginning in or around March

2023, LMP Nevada has carried on activities of LMP, including holding U.S. corporate bank accounts and raising capital.

13. LMP Platform operations began on or around April 3, 2022. LMP represents that it “tokenizes” valuable collectibles (i.e., fractionalizes legal ownership of the collectibles into LMP Tokens). LMP promotes, sells and facilitates the trading of the LMP Tokens on the LMP Platform, as described below. The collectibles that are purportedly tokenized on the LMP Platform include trading cards and digital assets such as NFTs. Most of the collectibles were contributed by LMP personnel or other non-arm’s length associates (**Collectors**).

II. The Sale of LMP Tokens

14. Investors can purchase LMP Tokens in two ways. Initially, LMP Tokens for each collectible are offered for “pre-order” on an “**Initial Drop**” where they are offered to Token Purchasers for a set price of US\$0.10 each. The number of LMP Tokens offered for a collectible’s Initial Drop is purportedly based on the offering price of that collectible, divided by the US\$0.10 token price, less the number of LMP Tokens reserved for the Collector. By way of illustration only, if a collectible were valued at \$10,000, it would be fractionalized into 100,000 LMP Tokens. According to LMP’s representations, the number of tokens on offer on Initial Drop would be 100,000, less the number of LMP Tokens reserved for the Collector.

15. Only once all LMP Tokens representing a particular collectible are fully sold on the Initial Drop are the LMP Tokens for that collectible to be moved to the LMP “**Marketplace**” on the LMP Platform. Here, buyers and sellers can enter into various types of orders to trade LMP Tokens at any price they wish. Buy and sell orders are then matched automatically using an algorithm. Collectibles whose tokens do not sell out on the Initial Drop are to be removed from the LMP Platform and money returned to those who pre-ordered tokens in the Initial Drop.

16. To purchase LMP Tokens, investors must create an account, agree to LMP’s Terms of Use, and deposit fiat currency or crypto assets on the LMP Platform, which are converted to U.S. Dollars and held in an LMP custody bank account.

17. LMP charges fees for: (i) any collectible whose LMP Tokens are moved to the Marketplace; (ii) trades made in the Marketplace; and (iii) investors’ deposits into, and withdrawals from, their LMP Platform accounts.

i. Promotion of LMP Tokens as an Investment

18. LMP promotes LMP Tokens as a means to profit or obtain increased value. The LMP Platform offers two main ways Token Purchasers can earn profits on their investments in LMP Tokens: (i) through trades on the Marketplace described above; and (ii) through sale of collectibles via a buyout offer or at auction. Token Purchasers can vote on the sale of collectibles, such as on whether a collectible should be sent for sale at auction, or whether to accept a buyout offer (**Sale Votes**).

19. In particular, LMP communications and promotional materials that were disseminated to actual and prospective investors make representations that the collectibles underlying the LMP Tokens are attractive investments with anticipated returns because they are, among other things, “good hedge[s] on inflation” with “long-term growth potential”. LMP has also purported to list collectibles on Initial Drop at “cheap” or discounted prices, further creating an expectation of profits for Token Purchasers whether through LMP Token trades on the Marketplace or Sale Votes to sell or auction the collectibles for their purportedly higher market value.

20. LMP facilitates the sale of collectibles by, among other things: (i) maintaining and operating the Marketplace through which Token Purchasers can make trades; (ii) enabling certain users to make buyout offers through the LMP Platform; (iii) effecting certain buyouts, in its discretion; (iv) maintaining relationships with auction houses; and (v) once Token Purchasers vote to auction a collectible, sending the collectible for sale at such auction houses. After a collectible is sold, LMP delivers the proceeds of sale to Token Purchasers proportionate to the percentage of LMP Tokens they held for the collectible.

ii. LMP Token Sales Involve Securities

21. The LMP business involves securities and/or derivatives in two ways. First, the LMP Tokens themselves are securities and/or derivatives under the Act.

22. Second, LMP also retains custody of the LMP Tokens, holding them in LMP-controlled crypto wallets. Token Purchasers do not have possession or control of LMP Tokens. It is not possible for Token Purchasers to withdraw or otherwise request delivery of the LMP Tokens into an investor-controlled wallet. Accordingly, in practice, LMP only provides Token Purchasers with

instruments or contracts involving crypto assets. These instruments or contracts constitute securities and/or derivatives under the Act.

III. Fraud on Share and Note Purchasers

23. In or around March 2021 to August 2022, LMP and its Principals raised approximately US\$6.8 million and CA\$0.9 million by selling common shares and share options of LMP Inc. to approximately 146 investors located primarily in Canada and the US. Since around June 2023, LMP and its Principals have raised at least a further US\$1.4 million by selling unsecured convertible promissory notes in LMP Nevada.

24. The Respondents defrauded Share and Note Purchasers by misappropriating millions of dollars of funds from LMP for the LMP Principals' personal enrichment by: (i) making hidden payments to shell corporations without any legitimate business purpose; and (ii) providing interest-free loans from investor funds to LMP Principals for personal use, which loans were never repaid.

i. Hidden Payments to LMP Principals' Shell Companies

25. In or around fall 2021, the LMP Principals devised a scheme to make significant payments to themselves through purported consulting companies – Kooney Industries Inc. (Bahadori), Kooney Marketing Inc. (Nikdel), and Kooney Management Corp. (Domazet) (each individually a **Kooney Company** and together, the **Kooney Companies**).

26. Beginning in November 2021, each of the LMP Principals received payments to his Kooney Company while also earning hundreds of thousands of dollars in salary from LMP.

27. In total, the LMP Principals authorized approximately \$2.5 million in payments to the LMP Principals' Kooney Companies.

28. There was no business purpose for the payments to the Kooney Companies. There are no consulting services agreements between LMP and any of the Kooney Companies, and the services purportedly provided to LMP by the Kooney Companies were identical to the pre-existing roles and responsibilities of the LMP Principals, for which they were already earning generous salaries.

29. The LMP Principals did not disclose their Kooney Company payments to actual or prospective Share and Note Purchasers.

ii. Personal Loans to Bahadori and Nikdel

30. The LMP Principals also authorized the use of investor funds to make interest-free personal loans to Bahadori and Nikdel. In total, at least \$550,000 of investor funds were received by Bahadori and Nikdel by way of, among other things: (i) nearly half a million dollars worth of loans made to Bahadori for personal use; and (ii) advances to Bahadori (approximately \$56,000) and Nikdel (approximately 37,000) to fund their personal LMP Platform accounts. These loans and advances have not been repaid.

31. With respect to paragraph 30(i), Bahadori used LMP credit cards and funds to pay for nearly half a million dollars' worth of personal expenses including high-end fashion, expensive jewellery and watches, personal health and luxury spa services. These Bahadori personal expenses were accounted for as loans from LMP to Bahadori and his Kooney Company. Bahadori did not repay LMP for any of his personal spending loans. Instead, many of Bahadori's personal expenditures were written off by periodically offsetting them against amounts purportedly owing to Bahadori's Kooney Company. By December 2022, Bahadori and/or his Kooney Company still owed LMP over \$286,000 for personal expenses. To write off this outstanding loan, the LMP Principals declared a notional "bonus" from LMP to Bahadori's Kooney Company for the exact amount Bahadori owed LMP, and used the "bonus" to offset Bahadori's outstanding loan owed to LMP.

IV. Fraud on Token Purchasers

32. The Respondents obtained approximately US\$2.7 million from Token Purchasers through the sale of LMP Tokens.

i. Overview of Fraud on Token Purchasers

33. As described in greater detail below, LMP, Bahadori and Nikdel defrauded Token Purchasers by misrepresenting the fundamental characteristics, values and risks of the LMP Tokens they were selling. In particular, LMP, Bahadori and Nikdel made or caused to be made representations to the effect that: (i) LMP Tokens represent legal ownership, recorded on the blockchain, of a fraction of an underlying collectible that could be traded in the Marketplace only after all tokens for a collectible had been sold on Initial Drop; and (ii) LMP authenticates, appraises and insures the collectibles.

34. Contrary to these representations and as described in greater detail below, (i) LMP Tokens do not represent legal ownership of underlying collectibles, purported Token Purchaser ownership is not recorded on any blockchain, and LMP moved collectibles to the Marketplace that had failed to sell out on Initial Drop; and (ii) LMP does not authenticate, appraise or insure the collectibles. These false and misleading representations exposed Token Purchasers to undisclosed risks, caused investor losses and benefitted LMP and its associates.

ii. LMP Tokens Do Not Represent Legal Ownership of Collectibles

35. LMP represented to actual and prospective Token Purchasers that LMP Tokens represent legal fractional ownership of the underlying collectibles, including that:

- i. Legal ownership of a collectible is transferred to the LMP Tokens pursuant to a listing agreement between LMP and a Collector. LMP requires all Collectors to sign such a listing agreement before listing a Collectible for sale on the LMP Platform;
- ii. LMP Tokens are offered for “pre-order” on an Initial Drop and only once all tokens for a collectible are fully sold on the Initial Drop does the collectible move to the Marketplace where Token Purchasers can trade their fractional ownership (purportedly represented by the LMP Tokens) with other LMP Platform users;
- iii. Each LMP Token is on the Ethereum blockchain and proof of purchase of an LMP Token is recorded and transferable on the blockchain; and
- iv. LMP has structures in place to protect Token Purchasers’ purported proprietary interests in an LMP insolvency event.

36. Contrary to these representations:

- i. LMP has only entered into listing agreements for six of the thirty-seven collectibles that were listed on the LMP Platform, and has no other documentation to transfer legal ownership of the collectibles from Collectors to Token Purchasers;

- ii. LMP moved collectibles to the Marketplace that had not sold out on the Initial Drop and deposited the unsold LMP Tokens into LMP Platform accounts that were owned or controlled by the LMP Principals or their affiliates;
- iii. LMP failed to mint or create tokens for many of the collectibles, and no purported Token Purchaser ownership has been recorded on any blockchain. Rather, LMP tracks LMP Token sales and trades through an ‘off-chain’ ledger system; and
- iv. LMP has no structures in place to protect Token Purchasers’ purported proprietary interests in an insolvency event.

iii. LMP Does Not Authenticate, Appraise or Insure the Collectibles

37. LMP represented to actual and prospective Token Purchasers that:

- i. Each collectible that is tokenized for listing on the LMP Platform is properly authenticated, including representations that collectibles are “carefully inspected for authenticity”, go through an “extensive” authentication process and additional evaluation is conducted to “guarantee” the collectibles’ authenticity;
- ii. Each collectible is also appraised and LMP determines a fair offering price for each collectible after working with “renowned experts relevant to the particular collectible” and “constant” monitoring of global collectible markets for data on sales amounts and assets sold; and
- iii. The collectibles are insured and safely stored in a third-party vault.

38. Contrary to LMP’s representations:

- i. LMP does not authenticate the collectibles, does not have the credentials to perform such authentications, and does not coordinate the authentication of the collectibles by any qualified third party. Even when a Collector was known to have previously brought fraudulent collectibles for tokenization on the LMP Platform, LMP did not conduct diligence to ensure the authenticity of subsequent collectibles offered by such (non-arm’s-length) Collector;

- ii. LMP does not appraise or otherwise ensure the fair valuation of the collectibles. Rather, LMP accepts whatever price is stipulated by Collectors who profit from the sale of LMP Tokens for their collectibles. For at least eleven collectibles, LMP also artificially raised the Initial Drop price by 8% beyond what Collectors were seeking, and gave the additional 8% worth of LMP Tokens free-of-charge to an LMP associate. Furthermore, LMP hid instances where the market did not show sufficient interest in the collectible at the stated value on Initial Drop by moving collectibles to the Marketplace that had not sold out on the Initial Drop and not disclosing the fact that such collectibles had failed to sell out from Token Purchasers, as described at subparagraph 36.ii above; and
- iii. LMP does not insure the collectibles and has failed to ensure that the collectibles stored in third-party vaults are covered by any insurance. LMP stores some of the collectibles in a Canadian safe deposit box, and the rest in third-party storage vaults located in the United States. LMP has no insurance over the collectibles in the Canadian safe deposit box, and has relied on the third-party vaults' insurance without confirming whether or to what extent any vault insurance covers the collectibles stored in their vaults.

V. The LMP Principals' Misleading Statements to the Ontario Securities Commission

39. Over the course of the Commission's investigation, each of the LMP Principals attended compelled interviews under oath. In addition, each of the LMP Principals helped prepare responses to the Commission's written requests for records and information.

40. As described above, the LMP Principals misappropriated significant amounts of investor funds. Initially, the LMP Principals provided false and misleading information to the Commission, hiding the true nature and total amount of money misappropriated for their benefit.

41. For example, in a written response to a Commission question for the LMP Principals to advise of "all compensation" provided to each of them "including the amount and form of compensation", the LMP Principals answered that they each only received a \$102,153.86 salary

in 2022, and that no salaries were paid in 2023. The response made no mention of any other forms of compensation.

42. Additionally, in their interviews, each of the LMP Principals gave false and misleading responses as follows:

- i. Bahadori was asked multiple times in a variety of ways to advise (a) of the total amount of all compensation he received from LMP and (b) whether he or the other LMP Principals received any compensation through another company. Bahadori gave a number of false and misleading responses, including that: (i) he identified one company, not his Kooney Company, which he claimed was the sole company he had incorporated; (ii) each of the LMP Principals only received a \$102,153.86 salary in 2022; (iii) Bahadori and Nikdel took no salaries in 2023; (iv) even if Bahadori received any compensation payments via another corporation, any such compensation was included in his \$102,153.86 salary; and (v) Bahadori did not spend LMP funds on personal items or expenses that were “flashy or of substantial value like jewellery [and] watches”;
- ii. In response to questions about his compensation from LMP, Nikdel advised that he was paid an annual salary of \$150,000 but he stopped taking a salary in summer 2022. When asked if he received “any other form of compensation”, Nikdel responded “No.”; and
- iii. Domazet was asked to identify all companies that he had incorporated. In response, Domazet identified three companies, but did not mention his Kooney Company or other companies that he had incorporated.

43. In reality, in or around 2021-2023:

- i. Bahadori received over \$300,000 in salary and over \$1.2 million in payments to his Kooney Company;
- ii. Bahadori also spent nearly half a million dollars of LMP investor funds on personal expenses, including over \$50,000 of investor funds on high-end jewellery, watches and clothing;

- iii. Bahadori also received US\$10,000 from LMP investor funds to pay for his personal rent;
- iv. Approximately \$93,000 of investor funds were used to fund Bahadori and Nikdel's personal accounts on the LMP Platform;
- v. Nikdel received over \$260,000 in salary and approximately \$750,000 in payments to his Kooney Company;
- vi. Domazet received nearly \$200,000 in salary and at least approximately \$490,000 and US\$240,000 in payments to his Kooney Company and one other company – Lone Star Advisory Ltd. – through which Domazet received these payments after he dissolved his Kooney Company in or around early 2023; and
- vii. Domazet also received approximately \$50,000 of investor funds towards the renting and furnishing of a residential condominium owned by Domazet.

44. It was only after the Commission independently discovered these payments and questioned the LMP Principals that they admitted to these payments.

45. Not only did the earlier responses fail to disclose payments to the Kooney Companies, but the responses also failed to disclose any of the other forms of compensation received by the LMP Principals, including the various payments and loans for the LMP Principals' personal use or benefit.

46. Each of the LMP Principals made misleading or untrue statements and/or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to s. 122(1)(a) of the Act.

VI. Unregistered Trading

47. Neither LMP Inc. nor LMP Nevada was registered with the Commission in any capacity under the Act. No exemptions from the registration requirement were available to LMP under Ontario securities law.

48. Based on the conduct described above, beginning April 2022, LMP has engaged in, or held itself out as engaging in, the business of trading in LMP Tokens without the necessary registration or an applicable exemption from the registration requirement, contrary to s. 25(1) of the Act.

VII. Illegal Distribution

49. The sale of LMP Tokens are trades in securities not previously issued and are, therefore, distributions.

50. No preliminary prospectus or prospectus was filed for the distribution of the LMP Tokens. The investments did not qualify for any exemption from the prospectus requirements, and no reports of exempt distribution were filed with the Commission.

51. By engaging in the conduct described above, LMP has engaged in distributions of securities without filing a preliminary prospectus or a prospectus and without an applicable exemption to the prospectus requirement, contrary to s. 53(1) of the Act.

VIII. Unlawful Operation of a Marketplace

52. The LMP Platform is a marketplace under the Act.

53. Beginning April 2022, when the LMP Platform began operating, LMP has operated a marketplace, without either recognition as an exchange contrary to s. 21(1) of the Act or registration as a dealer and approval to operate an Alternative Trading System (ATS) contrary to s. 6.1 of National Instrument 21-101 *Marketplace Operation* (NI 21-101).

IX. Authorizing, Permitting, or Acquiescing in Breaches of Ontario Securities Law

54. The LMP Principals, as legal or *de facto* directors and officers of LMP, authorized, permitted or acquiesced in the conduct described above. As a result, the LMP Principals are deemed not to have complied with Ontario securities law pursuant to s. 129.2 of the Act.

C. BREACHES AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

55. The Commission alleges the following breaches of Ontario securities law and conduct contrary to the public interest:

- i. The Respondents directly or indirectly engaged or participated in an act, practice or course of conduct relating to securities, derivatives or the

underlying interest of a derivative that they knew or reasonably ought to have known perpetrated a fraud on a person or company, contrary to s. 126.1(1)(b) of the Act;

- ii. LMP engaged in, and held itself out as engaging in, the business of trading in securities without being registered to do so and without an applicable exemption from the registration requirement, contrary to s. 25(1) of the Act;
- iii. LMP engaged in distributions of securities without filing a preliminary prospectus or prospectus and without an applicable exemption from the prospectus requirement, contrary to s. 53(1) of the Act;
- iv. LMP operated a marketplace, without either recognition as an exchange contrary to s. 21(1) of the Act or registration as a dealer and approval to operate an ATS contrary to s. 6.1 of NI 21-101;
- v. The LMP Principals authorized, permitted or acquiesced in LMP's non-compliance with Ontario securities law, including contraventions of ss. 126.1(1)(b), 25(1), 53(1) and 21(1) of the Act and/or s. 6.1 of NI 21-101, and are therefore deemed not to have complied with Ontario securities law pursuant to s. 129.2 of the Act;
- vi. The LMP Principals made statements to the Commission that were misleading, untrue and/or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to s. 122(1)(a) of the Act; and
- vii. The Respondents engaged in conduct that is contrary to the public interest.

56. 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. ORDERS SOUGHT

57. The Commission requests that the Tribunal make the following orders as against each of the Respondents:

- i. that they cease trading in any securities or derivatives permanently or for such period as is specified by the Tribunal, pursuant to paragraph 2 of s. 127(1) of the Act;
- ii. that they be prohibited from acquiring any securities permanently or for such period as is specified by the Tribunal, pursuant to paragraph 2.1 of s. 127(1) of the Act;
- iii. that they resign any position they may hold as a director or officer of any issuer, pursuant to paragraph 7 of s. 127(1) of the Act;
- iv. that they be prohibited from becoming or acting as a director or officer of any issuer permanently or for such period as is specified by the Tribunal, pursuant to paragraph 8 of s. 127(1) of the Act;
- v. that they resign any position they may hold as a director or officer of any registrant, pursuant to paragraph 8.1 of s. 127(1) of the Act;
- vi. that they be prohibited from becoming or acting as a director or officer of any registrant permanently or for such period as is specified by the Tribunal, pursuant to paragraph 8.2 of s. 127(1) of the Act;
- vii. that any exemptions contained in Ontario securities law do not apply to them permanently or for such period as is specified by the Tribunal, pursuant to paragraph 3 of s. 127(1) of the Act;
- viii. that they be reprimanded, pursuant to paragraph 6 of s. 127(1) of the Act;
- ix. that they be prohibited from becoming or acting as a registrant or promoter permanently or for such period as is specified by the Tribunal, pursuant to paragraph 8.5 of s. 127(1) of the Act;
- x. 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 s. 127(1) of the Act;
- xi. that they disgorge to the Commission any amounts obtained as a result of non-compliance with Ontario securities law, pursuant to paragraph 10 of s. 127(1) of the Act;

- xii. that they pay costs of the investigation and the hearing, pursuant to s. 127.1 of the Act; and
- xiii. such other order as the Tribunal considers appropriate in the public interest.

DATED this 19th day of June, 2024

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