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2nd Investor Says CanaFarma Hemp Execs Stole \$4M

By **Katryna Perera**

Law360 (February 25, 2022, 5:53 PM EST) -- Cannabis company CanaFarma Hemp Products Corp. has been hit with a second securities suit in New York federal court from an investor who says the company and two of its executives misappropriated at least \$4 million for personal use and other inappropriate reasons.

Plaintiff Standmill SRO filed its complaint Thursday, adding to a string of litigation the hemp entrepreneurs are facing.

In November, investor Emilio Habib Mouazeb filed suit against CanaFarma, Vitaly Fargesen and Igor Palatnik over **identical claims** saying the two men raised millions of dollars from investors for CanaFarma by misrepresenting how the funds would be used and by making false statements about the company's business prospects.

And in October, Fargesen and Palatnik were accused by the Manhattan U.S. attorney's office of allegedly **siphoning \$4 million** from investors by claiming they were producing cannabis-infused chewing gum and other products. The men are also facing a civil action filed by the U.S. Securities and Exchange Commission for securities fraud.

The complaint filed Thursday makes the same allegations as Mouazeb's suit. Standmill says that from March 2019 to October 2020, Fargesen and Palatnik raised about \$15 million from more than 60 investors, including Standmill. The publicly stated business plan was that CanaFarma would cultivate and grow hemp in New York and then sell hemp-based products to retail customers.

Investors were told their funds would be used for business operations, according to the complaint, but in reality, Fargesen and Palatnik were hiding their theft by using fake financial projections and counterfeit contracts and invoices to make business costs seem legitimate.

The complaint states that Fargesen and Palatnik also made several misrepresentations to investors about the company, including that it was a "fully integrated" business that was using oil in products with hemp from its farms.

"However, the reality was that the firm did not process any of this hemp, and its products contained third-party hemp oil," the complaint states.

Similar to Mouazeb, Standmill also claims the men falsely told investors that CanaFarma was led by an experienced CEO when in actuality the executive was merely a figurehead who "took orders and instructions directly from Fargesen and Palatnik."

The complaint says investors paid up to 50 cents per share during the relevant period, and that those shares are now worth a fraction of that amount.

Standmill seeks compensatory damages, litigation costs, attorney fees and a jury trial.

In a phone call with Law360, counsel for both Mouazeb and Standmill, Christopher D. Warren of Warren Law Group, said his clients were "intentionally defrauded" by the defendants and that they plan to pursue the matter "to the fullest extent of the law."

Warren also said they had filed for a certificate of default in Mouazeb's case, which is still pending. Once granted by the court, Warren said Mouazeb plans to file for default judgment.

The SEC's suit and the criminal case are still progressing.

In the criminal complaint, federal prosecutors say Fargesen and Palatnik enlisted others, including an unnamed straw buyer and executives at CanaFarma, in their efforts to sell private shares and to manipulate the company's stock value after it was listed on Canadian and German exchanges in March 2020.

The government says the men falsely held themselves out as experienced executives building a consumer-product business that would source cannabis via company-owned hemp farming.

The indictment charging the two men alleges that the defendants had at least two co-conspirators inside CanaFarma, drew up a sham consultancy agreement with another unnamed individual and used a straw buyer to complete a reverse merger to get CanaFarma stock listed.

Both men have denied the fraud and conspiracy charges, are free on bail and are set to return to court this month.

Representatives for CanaFarma, Fargesen and Palatnik did not immediately respond to requests for comment on Friday.

Standmill is represented by Christopher D. Warren of Warren Law Group.

Fargesen is represented by Jeffrey Harris Lichtman of the Law Offices of Jeffrey Lichtman.

Palatnik is represented by Marc Allan Fernich of the Law Office of Marc Fernich.

Counsel information for CanaFarma was not immediately available.

The case is Standmill SRO v. Fargesen et al., case number 1:22-cv-01537, in the U.S. District Court for the Southern District of New York.

--Additional reporting by J. Edward Moreno. Editing by Andrew Cohen.