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RECOGNIZING FRAUD AND FAIRNESS: IN THE MATTER OF THE BANKRUPTCY OF DOUGLAS GROZELLE

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In the Matter of the Bankruptcy of Douglas Grozelle, 2026 ONSC 758,¹ the Ontario Superior Court of Justice granted a motion clawing back approximately \$21.5 million in fictitious “interest” payments paid to the “net winners” of a \$103 million-dollar Ponzi scheme. The decision is a rare glance into the process of unwinding Ponzi schemes and provides helpful guidance as to what a “fair” outcome looks like among a large group of very differently affected investors.

Factual Background

From 2021 to 2023, Douglas Grozelle (“**Grozelle**”) ran a Ponzi scheme under the guise of a high-yield real estate lending business. Grozelle raised money from 236 investors by promising short-term “bridge loans” on real estate.² However, no bridge loans were made. Instead, Grozelle promised super-market returns to attract investors and used funds raised from later investors to repay earlier ones. Over the course of the scheme, more than \$103 million flowed through Grozelle’s bank accounts.³ 120 of the investors (the “**Net Winners**”) received \$49.9 million dollars in payouts, representing the entirety of their principal investments plus an additional \$21.5 million in profit. Some Net Winners saw returns of up to 6,700% of their initial contributions.⁴

Conversely, the remaining 116 investors (the “**Net Losers**”) did not receive any payouts and were left with total losses of around \$24.6 million dollars. Justice Myers found that the Net Winners’ profits amounted to 85% of the Net Losers’ losses.⁵

¹ *In the Matter of the Bankruptcy of Douglas Grozelle*, [2026 ONSC 758](#) [“**Grozelle**”].

² *Grozelle* at [para. 3](#).

³ *Grozelle* at [para. 18](#).

⁴ *Grozelle* at [para. 21](#).

⁵ *Grozelle* at [paras. 20, 22](#).

The scheme ultimately collapsed in November 2023. Grozelle was subsequently put into receivership. The Trustee moved before a “claw back” order, requiring the Net Winners to repay all earnings in excess of their principal investment into the bankrupt estate to be used to fund compensation payments to the Net Losers.⁶

Key Findings

1. *Payment of Profits to Net Winners are Fraudulent Conveyances*

Justice Myers relied on sections 2 and 3 of the *Fraudulent Conveyances Act* (the “FCA”)⁷ to claw back the Net Winners’ profits, inferring Grozelle’s fraudulent intent from the fact that he ran a fraudulent Ponzi scheme, and concluding that the payments of profits to the Net Winners - by their very nature - were not made for “good consideration” or in “good faith.”⁸

On the first point, consistent with jurisprudence out of Ontario and British Columbia, Justice Myers found that the fraudulent intention required by section 2 of the FCA can be inferred by the goals of the Ponzi scheme itself.⁹ He concluded that Grozelle made the profit payments to the Net Winners to defraud, hinder, and delay creditors. Namely, to prevent those Net Winners from enforcing their rights and/or exposing the scheme for as long as possible.¹⁰

On the second point, Justice Myers conclude that the profit payments were not made for “good consideration” or in “good faith” as required by section 3 of the FCA. Citing Justice Pepall in *Haag Capital, LLC v. Correia*, he confirmed that such a defence is not available for an investor in a Ponzi scheme - even an innocent one - because the perpetrator of such a scheme does not provide “value” in exchange for “profit” in the course of providing profit payments in excess of principal.¹¹

2. *Fairness for All Trumps Fairness for Some*

Justice Myers acknowledged that his decision would not be popular among the Net Winners, noting from the outset that some Net Winners, particularly those with no knowledge of the fraudulent scheme or those who lacked the commercial sophistication to realize that the scheme was simply “too good to be true”, may find it unfair to have to

⁶ Grozelle at [paras. 52, 54](#).

⁷ *Fraudulent Conveyances Act*, [R.S.O. 1990, c. F. 29](#) (the “FCA”)

⁸ Grozelle at [paras. 63](#) and [74](#).

⁹ Grozelle at [para. 63](#).

¹⁰ Grozelle at [para. 69](#).

¹¹ Grozelle at [para. 75](#), citing *Haag Capital, LLC v. Correia*, 2010 ONSC 5339 at [para. 36](#). See also *My Mortgage Action Corp. (Re)*, 2025 BCSC 1520 at para. 208 and *Boale, Wood & Company Ltd v. Whitmore*, 2017 BCSC 1917 at [para. 70](#).

repay their profits to compensate the Net Losers.¹² The alternative, however, would result in a substantial disparity between Net Winners and Net Losers, allowing earlier investors to reap enormous profits while later ones were left with insurmountable losses.

Instead, and consistent with the goals of the *Bankruptcy and Insolvency Act*, the claw back order granted by Justice Myers allowed for the fair sharing of the bankrupt's assets among its creditors, while preventing any one investor from profiting off the fraudulent scheme perpetuated at the expense of others.

3. The Trustee is an Officer of the Court

Another important aspect of the decision was Justice Myers' firm rebuke of the Net Winners' attempts to discredit the court-appointed Trustee.

The Net Winners employed a "very fulsome kitchen sink"¹³ litigation strategy, according to Justice Myers, which included, among other things, unsubstantiated rebukes of the Trustee's accounting, attempts to equate the Trustee with Grozelle's fraud, and allegations that the Trustee prioritized payment of its own fees over the creditors' recovery.¹⁴ Justice Myers had little patience for such efforts, concluding that, as officers of the court tasked with finding a just and efficient outcome, trustees are "not proper targets for parties' litigation strategies absent real evidence of material wrongdoing."¹⁵

Implications

This decision is further confirmation of the old adage that "if it seems too good to be true, it probably is."¹⁶ *Grozelle* serves as a useful reminder that an investor's good faith cannot act as a shield to protect unlawful profits from being rightfully redirected to all creditors of a fraudulent scheme.

The Net Winners are appealing the decision of Justice Myers.

¹² *Grozelle* at [para. 10](#).

¹³ *Grozelle* at [para. 99](#).

¹⁴ *Grozelle* at [para. 127](#).

¹⁵ *Grozelle* at [paras. 124-126](#).

¹⁶ *Grozelle* at [para. 10](#).