

Liquidators' Seventh Report on the State of Affairs of

Cryptopia Limited (in Liquidation)

Company number: 2392901

NZBN: 9429041327791

13 June 2022



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Introduction

David Ian Ruscoe (IP#50) and Malcolm Russell Moore (IP#42), of Grant Thornton New Zealand Limited, were appointed jointly as liquidators of Cryptopia Limited (in Liquidation) (“the Company”) on 14 May 2019 at 1.20pm by special resolution of the shareholders pursuant to section 241(2)(a) of the Companies Act 1993 (“the Act”).

Liquidators of insolvent companies are required to be licensed insolvency practitioners. Information about the regulation of insolvency practitioners is available from the Registrar of Companies.

We have considered the Declaration of Independence, Relevant Relationships and Indemnities provided in our first report and confirm that there have been no changes to it.

We set out below our seventh report on the state of the affairs of the Company for the period 15 November 2021 to 14 May 2022 as required by section 255(2)(d) of the Act and section 7 of the Companies (Reporting by Insolvency Practitioners) Regulations 2020 (“the Regulations”).

Restrictions

This report has been prepared by us in accordance with and for the purpose of section 255 of the Act. This report is not intended for general circulation, nor is it to be reproduced or used for any purpose without the liquidators’ written permission in each specific instance.

The Liquidators, their employees and agents do not assume any responsibility or liability for any losses occasioned to any party for any reason including as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

The Liquidators reserve the right (but will be under no obligation) to review this report and, if considered necessary, to revise the report in light of any information existing at the date of this report which becomes known to them after that date.

We have not independently verified the accuracy of the information provided to us and have not conducted any form of audit in respect of the Company. We express no opinion on the reliability, accuracy or completeness of the information provided to us and upon which we have relied. Whilst all care and attention has been taken in compiling this report, we do not accept any liability whatsoever arising from this report.

The statements and opinions expressed in this report are based on information available and assumptions made as at the date of this report. It is possible that actual outcomes may be significantly different from those disclosed in this report.

In addition, the following should be noted:

- Certain values included in tables in this report have been rounded and therefore may not add exactly.
- All amounts are stated in New Zealand dollars unless otherwise stated.

Background

Cryptopia was a New Zealand cryptocurrency exchange based in Christchurch. At the date of liquidation, it had over 2.2 million registered users worldwide and employed 37 staff.

The rapid growth of Cryptocurrency in early 2018 meant the Company scaled up to manage the increased level of trading. The Company entered into a number of long term, high cost contracts to provide the infrastructure necessary to trade at this level. Unfortunately trade volumes, from which the Company earned its revenue, reduced significantly through late 2018. Accordingly, the Company then took steps to reduce its expenses to minimise trading losses.

In January 2019, Cryptopia's exchange was hacked and a significant amount of crypto-assets taken. The reputation damage from this event adversely affected trade volumes and meant the Company was unable to meet its debts as they fell due. It was then decided the appointment of liquidators was in the best interests of customers, staff and other stakeholders

Conduct of the Liquidation

We have continued to keep stakeholders updated on the progress of the liquidation via the designated webpage <https://www.granthornton.co.nz/cryptopia-limited/>. A summary of conduct for the preceding six months is below.

Claims process

Launched In December 2020, the Liquidators have made significant progress during this six-monthly period following the launch of step 2 of the claims process in late 2021:

Process Step	Details
1. Claims registration	Allows the registration of account holders' details and to make claims for their account balances
2. Identity verification	Verifies account holders' identities to the necessary verification standard
3. Claim acceptance	Provides Account holders with the opportunity to agree that Cryptopia's records represents their holdings
4. Asset transfer	Instigates asset transfers to account holders

In October 2021 stage 2 of the claims process was launched to qualifying users. This has been a staged process due to the fact that Cryptopia users are domiciled in 183 different countries. The Liquidators are seeing progress to date with many account holders registering and verifying their identity. However, more account holders need to complete this stage before 3 & 4 can occur.

We continue to encourage claim registration and continue to send reminder emails to those who are yet to engage. At the date of this update, 82.8% of users by value have interacted in the claims process in some way. However, a number of these account holders may have only opened the email or clicked on the link to the portal and are yet to fully engage in registering their claim.

To support the claims process a dedicated customer support portal has been deployed. To date, the customer support team, via this portal, has supported over 84,000 users through the registration process. We continue to build this team to assist account holders to complete the claims and asset transfer process.

If account holders are having issues with the registration or identity verification, please refer to the '[Update for Cryptopia Claimants & Common Portal Errors 16 December 2020](#)' or contact the dedicated team via the customer support portal at the [Cryptopia customer support portal](#). This support portal is separate from the claims portal and can be accessed by any account holder, provided they register and click the "Sign Up" button on the page.

For the next stage '3. Claim acceptance', we will need to see sufficient progress in account holders completing stage 2. This stage will then give an opportunity to account holders to agree the balances of their Cryptopia account as recorded in the customer database at the date of Liquidation. This staggered approach is necessary and important as we require as many account holders as possible to participate in stage 4 of the process "Asset transfer". We realise that this may be frustrating to some account holders who have already registered their claim and completed identity verification. However, we are dealing with over 900,000 account holders from 183 different countries, and contacting and interacting with these account holders is taking time.

As previously reported the asset transfer stage will follow on from this. However, the transfer stage will require the input and approval of the Court particularly in relation to the following:

- Approving a distribution model that reflects the nature of stakeholders' property
- Confirming what is to be done with unclaimed Crypto assets
- Setting a cut-off date for claims to be received and assessed

We expect to file applications on these matters in the coming months.

Advanced discussions have been held on the design of the distribution model with underlying concepts agreed. Discussions have been held with vendors around the mode of distribution. While the Liquidators have the capability to complete asset transfer it is important that the most cost-effective and efficient method is used to return assets to account holders

There are a number of Cryptocurrency projects that have significant holdings frozen in Cryptopia wallets. We are engaging with the various coin development teams where possible to consider the impact that the asset transfer stage could have on their projects and seek their input on the most efficient process to assist in this transfer.

Hacked assets

We continue to work with the New Zealand Police and international authorities as they work to determine the source of the January 2019 hack. Our obligation is to seek recoveries for stakeholders' benefit.

During the period of this report, we have filed recovery actions in the United States of America, Malaysia and Singapore related to the January 2019 hack. For the most part, actions in respect to the January 2019 hack have been focused on recovering information that sets out the movement of the crypto assets post hack. Norwich Pharmacal and other disclosure orders have been utilised against other crypto asset exchanges and service providers to follow the movement of the assets once they left the Cryptopia exchange.

To assist in this process we have filed an application seeking recognition in the Singapore High Court as a foreign main proceeding. We hope to utilise this recognition to obtain the necessary information to recover hacked assets and have a upcoming hearing in early July around this action.

We continue our investigations to trace and or freeze stolen crypto-assets and are in discussion with exchanges that have frozen stolen cryptocurrency. We are working on providing the detailed analysis of hacked coins to these exchanges in our attempts to have these funds released to the Liquidators' control. The legal decision confirms that any stolen cryptocurrency recovered is to be applied to the specific trust associated with each cryptocurrency.

Investigations

Due to the ongoing nature of our investigations, we are unable to provide details regarding our findings to date since doing so could prejudice any proceedings, which may be taken at a later date.

If any insolvent transactions or breaches of legislation have occurred, we will take the appropriate action where it has the potential to increase the recovery available to creditors. Our duties as Liquidators require a transparent and robust investigation into the insolvency of the Company and its officers.

Legal matters

Ex-employee theft

In August 2020 an ex-employee admitted stealing funds from the Company's historic deposit addresses while in the employment of the company. This theft affected assets that were deposited after the date of liquidation. No connection between this theft and the January 2019 hack has been identified, and these funds have since been recovered in full. We have supported the NZ Police with its prosecution of the individual involved and have sort reparations.

The pre-liquidation employee of Cryptopia, Michael Glaser, was sentenced in the Christchurch district court on 18 March 2022 and ordered to pay the Liquidators approx. \$21,255 in reparations.

Next steps

Account holders registered in the claims portal and who have completed identity verification may receive further requests from us to provide identity verification documents. We continue to liaise with the Department of Internal Affairs to determine the specific documentation required.

Once the identity verification process is sufficiently progressed Account holders will be given the opportunity to agree that the Cryptopia records of coin holdings represents the customer's holdings.

Before repatriation can commence, we will seek further Court directions in respect of several issues, including the method of distribution. We cannot commence the repatriation of assets until we receive the Court's directions. Further information will be provided to account holders before this directions hearing

Asset Realisations

During the period we have had the following major asset realisation:

Conversion of Crypto-Assets

On application to the High Court of New Zealand and receipt of orders we have converted the equivalent of NZD\$5 million Dogecoin (DOGE) into fiat currency to meet the reasonable cost and expenses of and incidental to the protection, preservation, recovery, management, and administration of any Cryptocurrency held by the company. A copy of the Court Order can be found at the designated webpage noted above.

Receipts and Payments

Please refer to Appendix A: Statement of Receipts and Payments for further details on the receipts and payments for the six-month period ending 14 May 2022.

Creditors

Secured Creditors

On Liquidation there were two specific security financing statements (Purchase Money Security Interests (PMSIs)) registered. The Liquidators have contacted all registered PMSI holders and do not believe there are any secured amounts due.

Preferential Creditors

At the liquidation date the Inland Revenue Department were auditing the tax returns of the Company including GST, once this audit is complete, we will determine if there are any preferential taxes owing.

No further Preferential claim payments were paid during the period.

Unsecured Creditors

We have received 26 unsecured creditors' claims received to date totalling \$2.991m.

We confirm that only preferential creditors have been paid and that no other creditor distributions have been made.

Remuneration Report

The Liquidators' remuneration received for the period between 15 November 2021 to 14 May 2022, charged at the hourly rates, totalled \$719,108 exclusive of GST. This includes time spent carrying out investigations, attempting to secure hacked assets, development and management of the claim's portal, designing and overseeing an appropriate identity verification process, supervision of the Cryptopia customer support team, development and engagement with specialist Crypto-asset experts and liaising with legal authorities.

All time and expenses incurred and billed in the liquidation are reasonable and necessary.

A detailed breakdown of the Liquidators' remuneration and disbursements for the six-month period is enclosed at Appendix B, including a schedule of the qualifications and experience generally of staff at each level. A schedule of the work undertaken during the six-month reporting period is also summarised in Appendix B.

Remaining Matters

At this stage it is not practicable to estimate a completion date for the Liquidation.

Should you have any queries in relation to any matter raised in this report then please do not hesitate to contact Tom Aspin at Cryptopia@nz.gt.com.

Dated: 13 June 2022

A handwritten signature in blue ink, appearing to read 'D Ruscoe', with a horizontal line underneath.

David Ruscoe
Liquidator
Cryptopia Limited (in Liquidation)

Appendix A – Receipts and Payments

Receipts and Payments	15 November 2021 to 14 May 2022 (\$)	Total (\$)
Opening funds on Hand	2,187,506	0
Receipts		
Funds on hand at date of Liquidation	-	1,065,426
Crypto-Assets converted to Fiat	4,796,860	14,328,852
Court Settlement	-	50,000
Funds Recovered	-	5,022,935
Interest Income	-	58,975
Sale of Assets	-	241,142
GST Refunds received	182,775	1,367,024
GST on Receipts	-	23,931
Total Receipts	4,979,635	22,158,286
Payments		
Asset sale costs	-	86,067
Claims Portal	801,556	2,569,419
Computer Costs	24,268	319,438
Consulting & Accounting	-	7,751
Distribution to Preferential Creditors	-	312,992
Employee Costs	484,134	3,465,179
General Expenses	6,362	47,769
Insurance	10,161	41,627
Legal expenses	429,541	3,131,223
Light, Power, Heating	7,524	54,963
Liquidators Fees	719,108	5,063,848
Relocation Costs	-	13,090
Rent	50,000	393,123
Security Expenses	-	47,008
Server Hosting Fees	3,210	662,027
Telephone & Internet	4,255	43,884
GST on Expenses	175,114	1,446,971
Total Payments	\$2,715,232	\$17,706,376
Net Receipts/Payments for the period	\$2,264,403	\$4,451,910
Closing funds on hand	4,451,910	4,451,910

Appendix B – Remuneration Report

Section 1: Initial Advice to Creditors

Explanation of Hourly Rates

The rates for our remuneration calculation are set out in the following table together with a general guide showing the qualifications and experience of staff engaged in the Liquidation and the role they take. The hourly rates charged encompass the total cost of providing professional services and should not be compared to an hourly wage.

Title	Description of title	Hourly rate (Exc. GST) (State)
Partner	Accredited Insolvency Practitioner. Partner bringing specialist skills to Liquidations and Insolvency matters. Controlling all matters relating to the assignment.	\$650
IT Specialist/Specialist Partner	Specialist IT Practitioner bringing specialist skills in Cybersecurity, Procurement, vendor selection and other IT related matters. Provide detail reporting around any security vulnerabilities.	\$200-\$450
Cybersecurity Specialist Staff	Specialist Claims Portal staff brings project management and governance for the design and integration of the claims process.	\$415-\$725
AML Specialist Staff	Specialist AML practitioner bringing specialist skills in designing and implementation of a know your customer process to support the claims process.	\$90-\$725
Associate Director	Qualified accountant and may be a Registered Insolvency Practitioner. Minimum 7/8+ years' experience. Highly advanced technical and commercial skills. Planning and control of all Liquidation and Insolvency tasks. Controlling substantial matters relating to the assignment and reporting to the appointee.	\$325-\$450
IT Director	IT specialist. Required to assist Liquidators with the day to day running operation of the Cryptopia and cybersecurity.	\$450
Manager/Senior Manager	Typically Qualified. 5-8 years' experience. Well developed technical and commercial skills. Planning and control of Liquidation and Insolvency tasks with the assistance of the appointee.	\$370-\$410
Assistant Manager	Typically Qualified. 4+ years' experience. Co-ordinates planning and control of small to medium Liquidations and Insolvency tasks. Conducts certain aspects of larger Liquidations.	\$275
Analyst	Typically undertaking Qualifications. Up to 3 years' experience. Required to conduct the fieldwork on smaller Liquidations and Insolvency tasks and assist with fieldwork on medium to large Liquidations and Insolvency tasks.	\$150-\$250
Administration Staff	Conducts all aspects relating to administering the accounts function and other functions as required.	\$125-\$170

Section 2: Calculation of Remuneration

Calculation of Remuneration – Time based charges

Charged on an hourly basis and per the hourly rates set out by time and cost charged by key category:

	Hourly Rate (\$ph)	Administration/ Statutory		Asset Realisation		Employees		Legal matters		Operations		Total	
		Hours	Cost (\$)	Hours	Cost (\$)	Hours	Cost (\$)	Hours	Cost (\$)	Hours	Cost (\$)	Hours	Cost (\$)
Partner	650	8.5	5,525	7.0	4,550	-	-	112.3	72,995	139.5	90,675	267.3	173,745
Cybersecurity Specialist Staff	415-725	-	-	-	-	-	-	-	-	184.9	95,907	184.9	95,907
AML Specialist Staff	90-725	-	-	-	-	-	-	-	-	92.0	18,303	92.0	18,303
Associate Director	325-450	-	-	-	-	-	-	-	-	0.5	200	0.5	200
Senior Manager	410	-	-	-	-	-	-	25.1	10,291	243.0	99,675	268.1	109,966
Manager	370	26.0	9,620	3.5	1,295	5.5	2,035	105.5	39,035	451.5	167,255	592.0	219,240
Analyst	150-250	19.7	4,925	-	-	-	-	4.6	1,150	288.0	57,872	312.3	63,947
Support Staff	125-170	6.0	1,020	-	-	-	-	-	-	80.1	13,617	86.1	14,637
Total		60.2	21,090	10.5	5,845	5.5	2,035	247.5	123,471	1,479.5	543,504	1,803.2	695,945

Basis of Disbursement Claim

Disbursements	Total (\$ exc. GST)
Travel (flights, car rental, accommodation etc)	9,129
Data Hosting	10,692
Sundry	3,342
Total Disbursements	23,163
Total Fees	695,945
Total Liquidators costs	719,108

Section 3: Description of Work

Summary of work performed in relation the Liquidators' remuneration for the period 15 November 2021 to 14 May 2022:

Task Area	General Description	Includes
Assets	Debtors	<ul style="list-style-type: none"> • Correspondence with debtors • Reviewing and assessing debtors ledgers • Liaising with debt collectors and solicitors
	Sale of Plant and Equipment	<ul style="list-style-type: none"> • Liaising with valuers, auctioneers and interested parties • Reviewing asset listings • Review of Sales • Liaising with valuers, agents • Assistance with Sales process
	Crypto-Assets	<ul style="list-style-type: none"> • Review of company assets • Reviewing stock values from Crypto markets • Liaising with OTC traders • Securing assets into cold storage
	Other Assets	<ul style="list-style-type: none"> • Tasks associated with realising other assets
	Leasing	<ul style="list-style-type: none"> • Reviewing leasing documents • Liaising with owners/lessors • Tasks associated with disclaiming leases
Creditors	Creditor Enquiries	<ul style="list-style-type: none"> • Receive and follow up creditor enquiries via telephone and email • Maintaining creditor enquiry register • Review and prepare correspondence to creditors and their representatives via facsimile, email and post
	Creditor reports	<ul style="list-style-type: none"> • Preparing statutory report, investigation, meeting and general reports to creditors
	Dealing with proofs of debt	<ul style="list-style-type: none"> • Receipting and filing Proofs of Debt • Corresponding with Proofs of Debt
Employees	Employees enquiry	<ul style="list-style-type: none"> • Receive and follow up employee enquiries via telephone and email • Maintain employee enquiry register • Review and prepare correspondence to creditors and their representatives via facsimile, email and post
	Preferential payment	<ul style="list-style-type: none"> • Correspondence with employees regarding preferential payment • Correspondence with IRD regarding proof of debt • Receipting Proofs of Debt • Adjudicating Proofs of Debt • Ensuring PAYE is remitted to IRD
Operations	Correspondence	<ul style="list-style-type: none"> • Communications with government agencies around statutory obligations • Various other stakeholder communications
	Document maintenance/file review/checklist	<ul style="list-style-type: none"> • First month, then 6 monthly liquidation review • Filing of documents • File reviews • Updating checklists

	Ongoing Trading	<ul style="list-style-type: none"> • Management of currently employed staff • Management of premises including lease property • Review of Anti Money laundering obligations and statutory obligations. • Ongoing review and monitoring of IT security and record retention. • Correspondence with Law Enforcement • Preparation of budgets • Review of cashflow and its ability to operate the business and meet its commitments in the immediate future. • Corresponding with coin devs • Continuous valuation of the customer database
	Claims Portal	<ul style="list-style-type: none"> • Project management of the claim's portal development • Liquidator's time for the oversight of the project • Option analysis of vendors • Identity verification analysis and integration costs • Time in relation to the management of identity verification process • Specialist software development staff time
	Bank account administration	<ul style="list-style-type: none"> • Requesting bank statements • Bank account reconciliations • Correspondence with bank regarding specific transfers
	Planning/Review	<ul style="list-style-type: none"> • Discussions regarding status of Liquidation
	Books and records/ storage	<ul style="list-style-type: none"> • Dealing with records in storage • Sending job files to storage
Administration/Statutory	Company office obligations	<ul style="list-style-type: none"> • Filing with Companies Office
	Insurance	<ul style="list-style-type: none"> • Identification of potential issues requiring attention of insurance specialists • Correspondence with insurers regarding initial and ongoing insurance requirements • Reviewing insurance policies • Correspondence with previous brokers
	Report as to Affairs	<ul style="list-style-type: none"> • Directors Questionnaire • Completion deadlines and extensions • Meetings with coin developers • Drafting press releases for stakeholders
Investigations	Tracing exercise	<ul style="list-style-type: none"> • Using blockchain forensic tools to verify holdings • Hack analysis • Correspondence with law enforcement around compromised assets
	Company/Directors duties	<ul style="list-style-type: none"> • Reviewing company solvency and financial reporting • Investigating director's duties • Review of IT environment and company mailboxes • Inspection of service agreements • Reviewing conduct of companies for breaches of Companies Act • Interviews with Directors and Shareholders
Legal Matters	Cross-border recognition	<ul style="list-style-type: none"> • Chapter 15 bankruptcy recognition in the United States of America • Preparation of declarations for inclusion in legal submissions
	Identity verification scoping	<ul style="list-style-type: none"> • Initial review of customer database, identity requirements • Companies' legal advice around sanctioned countries • Crypto specific obligations
	Legal Requirements	<ul style="list-style-type: none"> • Undertakings by staff for information • Court order service preparation and review of communications to account holders and Creditors.

