

Liquidators' Third Report on the State of Affairs of

Cryptopia Limited (in Liquidation)

Company number: 2392901

12 June 2020



Contents

Introduction	2
Conduct of the Liquidation in the preceding six months	3
Remaining Matters	7
Appendix A – Receipts and Payments	8
Appendix B – Remuneration Report	9

Introduction

David Ian Ruscoe and Malcolm Russell Moore, 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”).

We set out below our third report on the state of the affairs of the Company as required by section 255(2)(d) of the Act

Restrictions

This report has been prepared by us in accordance with and for the purpose of section 255 of the Act. It is prepared for the sole purpose of reporting on the state of affairs with respect to the Company in liquidation and the conduct of the liquidation.

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.

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 in the preceding six months

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

Directions hearing

The absence of legal precedent on crypto-assets in New Zealand and worldwide meant that on 1 October 2019 the liquidators filed an application with the High Court seeking directions on the legal status of the Crypto-assets in New Zealand (i.e. is cryptocurrency “property” within the meaning of the Companies Act 1993).

This four-day hearing commenced on 11 February 2020 at the Christchurch High Court. The Court appointed counsel represented the interests of account holders and unsecured creditors respectively, to ensure the Court received the benefit of full and contested argument on the issues.

On the 8 April 2020, the High Court released its decision firstly, that Cryptocurrency is “property” for the purposes of the Companies Act 1993 and therefore at common law. And secondly, that account holders’ cryptocurrency is held on express trust by Cryptopia and a separate trust exists for each type of cryptocurrency.

What this means is that the cryptocurrencies are beneficially owned by the account holders and will not form part of the pool of assets available to unsecured creditors. This is the first final judgment on a fully contested basis that has considered whether cryptocurrency satisfies the legal definition of property at common law.

The full decision can be found [here](#)

Claims process

With the legal relationship of the company and account holders validated, the liquidators now have certainty that account holders’ claims are to be in the form of actual cryptocurrency held.

At this stage, no claims process for account holders has been established. We must reinforce that communications around this claims process will only come from the liquidators.

During the period, the liquidators have held discussions with several solution providers to develop a claims process that achieves the following objectives:

- | | |
|---|--|
| 1 | Allows the registration of account holders details and to make claims for their account balances |
| 2 | Verifies account holder’s identities to the necessary AML/CFT standard |
| 3 | Instigates asset transfers to account holders |

The liquidators intend to agree a provider shortly.

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. We are not investigating the root cause of the hack. Our obligation is to seek recoveries for stakeholders’ benefit.

We have undertaken investigations to trace and or freeze stolen crypto-assets. We are in the early stages of discussion with exchanges that have frozen stolen cryptocurrency. The legal decision confirms that any stolen

cryptocurrency that are recovered is to be applied to the specific trust associated with each cryptocurrencyCrypto-Asset Reconciliation process / Customer Holdings

We appreciate that account holders may be frustrated with why it is taking so long for us to determine customer holdings. As previously reported and commented on in the Judgement. There are two main reasons for the time and complexity of the process:

1. **Customers did not have individual wallets and it is impossible to determine individual ownership using just the keys in the wallets.** While Cryptopia held details of customer holdings and reported these on the Exchange, the crypto-assets themselves were pooled (co-mingled) in coin wallets. As a centralised exchange, customers' trades would occur in the exchange's internal ledger without confirmation on the blockchain.
2. **No detailed reconciliation process between the customer databases and the crypto-assets held in the wallets has ever been completed.**

At the date of this report we have made significant progress, but this is still taking some time to complete. We are working to reconcile the accounts of over 900,000 active customers, many holding multiple crypto-assets, millions of transactions and potentially over 900 different crypto-assets.

The reconciliation process has also been adversely impacted by the COVID19 lockdown. With security being paramount at Cryptopia we felt it was necessary to restrict the remote access staff had while working from home. As of 8 June 2020, this lockdown is now over and all Cryptopia staff can return without restriction to working from the secure premises. With this return we expect a return to pre lockdown productivity.

We expect the reconciliation process to be completed within the coming months.

Investigations

During the period, the Liquidators have increased their focus on investigating the affairs of the Company and its directors, officers and other parties prior to the liquidation. Due to the ongoing nature of our investigation, 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.

The Liquidators will shortly issue further notices pursuant to section 261 of the Companies Act requiring various parties to provide information to assist us in our investigation into the financial failure of the company. The Liquidators are continuing to correspond with various parties, and their legal representatives where appropriate, in respect of the provision of information.

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

Next steps

Once the reconciliation is complete our intention is to return to court and seek approval on our proposed distribution model to account holders. This is vital and requires the reconciliation to be complete and existence of account holders' funds confirmed. This step will provide clarity on the shortfall in total cryptocurrency held per each trust exists.

We will provide an update on the claims process as soon as we can. We continue to work and cooperate with law enforcement as we attempt to recovery stolen cryptocurrency for stakeholders and isolate the root causes of the failing of the company.

Asset Realisations

During the period we had the following asset realisations:

Sale of fixed assets

We have sold further goods that were not required.

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 2020.

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

Preferential claims of \$112,328 representing payroll related taxes on outstanding wages, holiday pay and suspension pay were paid out to Inland Revenue during this period.

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.

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 to 14 May 2020, charged at the hourly rates, totalled \$955,618, exclusive of GST. 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: 12 June 2020

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 2019 to 14 May 2020	Total
Opening funds on Hand	7,164,835	0
Receipts		
Funds on hand at date of Liquidation		1,065,426
Company Crypto-Assets converted to Fiat		4,427,292
Funds Recovered		5,022,935
Interest Income		58,975
Sale of Assets	\$ 4,196	206,730
GST Refunds received	\$ 160,576	273,263
GST on Receipts	\$ 629	18,322
Total Receipts	165,401	11,072,944
Payments		
Asset sale costs	\$ 1,485	86,067
Computer Costs	\$ 42,282	53,361
Consulting & Accounting	\$ 1,225	5,601
Contractor expenses	\$ 139,847	207,572
Distribution to Preferential Creditors	\$ 112,328	312,992
General Expenses	\$ 6,455	10,551
Insurance	\$ 12,604	19,843
Legal expenses	\$ 568,074	1,257,475
Light, Power, Heating	\$ 6,691	23,208
Liquidators Fees	\$ 955,618	1,778,782
Relocation Costs	\$ -	13,090
Rent	\$ -	293,123
Security Expenses	\$ 209	45,828
Server Hosting Fees	\$ 4,292	649,187
Telephone & Internet	\$ 3,652	9,719
Wages & Salaries	\$ 306,841	714,143
PAYE Payable	\$ 167,555	362,864
GST on Expenses	\$ 260,643	489,104
Total Payments	\$2,589,801	\$6,332,509
Net Receipts/Payments for the period	-\$2,424,400	\$4,740,435
Closing funds on hand	4,740,435	4,740,435

Appendix B – Remuneration Report

Section 1: Description of Work

Summary of work performed in relation the Liquidators' remuneration for the period 15 November 2019 to 14 May 2020:

Task Area	General Description	Includes
Assets	Assets subject to specific charges	<ul style="list-style-type: none"> All tasks associated with realising a charged asset Investigation into unregistered securities
	Debtors	<ul style="list-style-type: none"> Correspondence with debtors Reviewing and assessing debtors ledgers Liaising with debt collectors and solicitors
	Sale of Business Unit	<ul style="list-style-type: none"> Preparing an information memorandum Liaising with potential purchasers Internal meetings to discuss/review potential purchasers
	Plant and Equipment	<ul style="list-style-type: none"> Liaising with valuers, auctioneers and interested parties Reviewing asset listings Review of Sales
	Sale of Real Property	<ul style="list-style-type: none"> Liaising with valuers, agents Assistance with Sales process
	Debtors	<ul style="list-style-type: none"> Correspondence with debtors Reviewing and assessing debtors ledgers Liaising with debt collectors and solicitors
	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
	Secured creditor reporting	<ul style="list-style-type: none"> Notifying PPSR registered creditors of appointment Preparing reports to secured creditor Responding to secured creditor's queries
	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

		<ul style="list-style-type: none"> Preparation of letters to employees advising of their entitlements and options available Receive and prepare correspondence in response to employee's objections to leave entitlements and other remuneration.
	Calculation of entitlements	<ul style="list-style-type: none"> Calculating employee entitlements Reviewing employee files and company's books and records
	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"> Issuing new Liquidators employment contracts to staff retained for the period. 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. On site visits
	Bank account administration	<ul style="list-style-type: none"> Preparing correspondence opening and closing accounts 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 Filing education returns with relevant agencies
Administration/Statutory	Company office obligations	<ul style="list-style-type: none"> Filing with Companies Office
	Documents of appointment	<ul style="list-style-type: none"> Preparation of Court memorandum Review Execution 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 Beginning scoping 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
	AML scoping	<ul style="list-style-type: none"> • Initial review of customer database, identity requirements • Companies legal advice around sanctioned countries • Crypto specific engagements
	Legal Requirements	<ul style="list-style-type: none"> • Undertakings by staff for information and preparation of evidence for directions hearing • Tasks around the preparation of affidavits for direction hearing • Court order service preparation and review of communications to account holders and Creditors.
	Directions hearing	<ul style="list-style-type: none"> • Attendances in relation to these proceedings • Preparation of information for the legal proceedings

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		Creditors		Employees		Investigations		Legal matters		Operations		Total	
		Hours	Cost (\$)	Hours	Cost (\$)	Hours	Cost (\$)	Hours	Cost (\$)	Hours	Cost (\$)	Hours	Cost (\$)	Hours	Cost (\$)	Hours	Cost (\$)
Partner	600	20.5	11,839	-	-	4.2	2,520	-	-	64.3	38,580	106.0	63,600	93.2	55,920	288.2	172,459
IT Specialist	600-650	-	-	-	-	-	-	-	-	-	-	-	-	408.2	265,350	408.2	265,350
Specialist Partner	400	-	-	-	-	-	-	-	-	22.0	8,800	-	-	-	-	22.0	8,800
Tax Partner	495	1.9	940	-	-	-	-	-	-	-	-	-	-	-	-	1.9	940
Associate	325 – 450	-	-	-	-	1.0	450	-	-	33.0	10,725	-	-	-	-	34.0	11,175
Information Security Consultant	275	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Senior Manager	350 – 375	22.4	8,377	-	-	0.5	185	-	-	217.4	80,390	19.0	6,976	9.0	3,310	268.3	99,238
Manager	275 – 350	82.5	28,875	-	-	15.5	5,125	2.5	687	27.0	8,962	121.5	42,150	221.5	76,150	470.5	161,949
Assistant Manager	275	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Analyst	65 – 175	23.9	3,452	-	-	21.8	3,270	15.9	2,385	311.4	31,474	4.8	720	88.4	13,222	466.2	54,523
Support Staff	125 - 160	14.8	2,368	-	-	61.2	9,792	6.8	1,088	0.5	80	-	-	50.8	8,128	134.1	21,456
Total		166.0	55,851	-	-	104.2	21,342	25.2	4,160	675.6	179,011	251.3	113,446	871.1	422,080	2,093.4	795,890

Basis of Disbursement Claim

Disbursements	Total (\$ exc. GST)
Travel (flights, car rental, accommodation etc)	77,547
International Collection Costs	-
Software Licensing	219
Data Hosting	58,435
Advertising	-
Sundry	23,527
Total Disbursements	159,728
Total Fees	795,890
Total Liquidators costs	955,618

Section 3: 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.	\$600
IT Specialist/Specialist Partner	Specialist IT Practitioner bringing specialist skills in Cybersecurity, IT forensics, AML and other IT related matters.	\$400-\$650
Tax Partner	Specialist Tax Practitioner bringing specialist skills in Taxation and other IT related matters.	\$495
Associate Director	Qualified accountant and may be a Registered Insolvency Practitioner. Minimum 7/8+ years' experience. Likely to be appointed as a director in due course. 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
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.	\$275-\$375
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.	\$65-\$175
Information Security Consultant	Specialist Information Security specialist. Required to assist Liquidators with the day to day running operation of the Cryptopia and provided detail reporting around any security vulnerabilities.	\$275
Administration Staff	Conducts all aspects relating to administering the accounts function and other functions as required.	\$125-\$160

