

# Liquidators' Eighth Report on the State of Affairs of

Cryptopia Limited (in Liquidation)

Company number: 5392901

NZBN: 9429041327791

12 December 2022



# Contents

Introduction	2
Conduct of the Liquidation	4
Remaining Matters	8
Appendix A – Receipts and Payments	9
Appendix B – Remuneration Report	10

# 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 eighth report on the state of the affairs of the Company for the period 14 May 2022 to 14 November 2022 to 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.grantthornton.co.nz/cryptopia-limited/>. A summary of conduct for the preceding six months is below.

## Wallets environment resilience

Since appointment we have had to re-establish the majority of the exchange's wallets environment. This is due to the fact that the source of the original hack is still unidentified. This means the risk that malicious code still resides in the historic wallet environment still exists. This is a real threat, as evidenced by the Cryptopia hack and various other cryptocurrency exchange hacks that have occurred worldwide. The Liquidators have had to engage with international cybersecurity experts to secure wallets on behalf of the users and transfer assets to a secure environment. This has been a complex and lengthy process.

## Customer database remediation

The record keeping and accounting of the exchange showed various deficiencies and as previously reported a detailed reconciliation between assets held in the exchange's wallets and the balances recorded as customer funds never took place. This has meant we have had to forensically reconstruct parts of certain exchange wallets and corroborate on-chain transactions for certain customer deposits and withdrawals. This process has involved a significant amount of data discovery exercise involving millions of transactions and addresses. The outcome of this exercise has meant we have updated a material amount of account holders' balances to ensure the amount due from Cryptopia is recorded accurately. The response to stage 3 mentioned below confirms that this was a necessary process.

## Claims process

We continue to follow the claim process previously reported.

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. Balance acceptance	Provides Account holders the opportunity to agree that Cryptopia's records represents amount due
4. Asset Distribution	Instigates distribution of assets to account holders

In November 2022, stage 3 of the claims process was launched to qualifying users. Those users who have completed stages 1 and 2 above were invited to begin the balance acceptance process. By the end of November, 72% of users who had been invited to begin this stage had responded and accepted their balances, <2% of users who have been invited have disputed their balances, with the remainder yet to respond.

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, 84.5% 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. While we have made significant progress on the claims process by value, we still have a large number of unclaimed holdings. Despite this, sufficient progress has been made for us to petition the court for directions to allow distribution to participating users.

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 90,000 users through the claims process.

If account holders are having issues with the claims process, 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.

As previously reported the distribution stage will follow 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 including how the costs of distribution will be fairly allocated across each cryptocurrency trust.
- Confirming what is to be done with unclaimed Crypto assets and the administration of these, given there remains a material amount of cryptocurrency attributed to account holders who have not yet participated in the claims process or identified themselves.
- Setting a cut-off date for claims to be received and assessed. So that a more definitive timeline can be provided around the length of the claims process and the eventual date of distribution to account holders.

We expect to file the distribution application in the first quarter of 2023.

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 distribution 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 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.

As previously reported 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.

During the period of this report, we have petitioned US law enforcement for the return of restrained assets attributed to the January 2019 compromise and subsequent theft. We will provide further updates as this matter progresses.

In Singapore, we obtained recognition as a foreign main proceeding and have used this recognition to obtain information from an international exchange that received a number of stolen assets. The exchange has complied with these disclosure orders and our investigations are ongoing in regard to provided information, focusing on the user accounts that received stolen assets.

In Malaysia, we continue legal action to obtain discovery orders against another international exchange. We hoped to advance this action by the date of the report however, due to changes in the other party's legal counsel and appeal applications by this exchange progress in this matter has been further prolonged. We anticipate to provide an update on this action in the next report.

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 and compensate the victims of the hack. As previously reported 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

As previously reported an ex-employee admitted to stealing funds from the Company's historic deposit addresses while in the employment of the company. This employee was sentenced in the Christchurch district court on 18 March 2022 and ordered to pay the Liquidators approx. \$21,255 in reparations, these reparations are being paid weekly. For the period of this report, we have received \$2,706 in reparation payments.

## Next steps

We anticipate submitting an application to the Courts seeking directions in respect of several issues, including the method of distribution, in the first quarter of 2023. Further information will be provided to account holders before this directions hearing.

We continue to encourage account holder claim registration, identify verification, and interaction with the balance acceptance stage.

Account holders registered in the claims portal and who have completed identity verification may receive further requests from us to provide identity verification documents.

## 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 November 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.

### Contingent Creditors

To date, we have received 1 contingent creditor claim. This claim is based on the potential lost market value of cryptocurrency lost prior to the Liquidation of Cryptopia. We are yet to adjudicate the value of this claim.

We expect to receive further claims against the Company based on any potential shortfalls found in each cryptocurrency trust based on assets held versus assets recorded against account holders. We also expect claims from other users of the Cryptopia platform such as Coin developers who paid for a fee listing but never received a corresponding listing on the exchange. We will adjudicate these claims as they are received.

## Remuneration Report

The Liquidators' remuneration received for the period between 15 May 2022 to 14 November 2022, charged at the hourly rates, totalled \$723,760 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](mailto:Cryptopia@nz.gt.com).

Dated: 12 December 2022



David Ruscoe  
Liquidator  
Cryptopia Limited (in Liquidation)

# Appendix A – Receipts and Payments

Receipts and Payments	15 May 2022 to 14 November 2022 (\$)	Total (\$)
Opening funds on Hand	4,451,909	0
<b>Receipts</b>		
Funds on hand at date of Liquidation	-	1,065,426
Crypto-Assets converted to Fiat	-	14,328,852
Court Settlement	-	50,000
Theft Repatriations	2,706	2,706
Funds Recovered	-	5,022,935
Interest Income	30,805	89,780
Other income	1,800	1,800
Sale of Assets	-	241,142
GST Refunds received	193,628	1,560,652
GST on Receipts	-	23,931
<b>Total Receipts</b>	<b>228,939</b>	<b>22,387,225</b>
<b>Payments</b>		
Asset sale costs	-	86,067
Claims Portal	849,862	3,419,280
Computer Costs	60,040	379,477
Consulting & Accounting	-	7,751
Distribution to Preferential Creditors	-	312,992
Employee Costs	494,642	3,959,821
General Expenses	6,440	54,208
Insurance	3,124	44,750
Legal expenses	257,248	3,388,470
Light, Power, Heating	8,726	63,690
Liquidators Fees	723,760	5,787,608
Relocation Costs	-	13,090
Rent	-	393,123
Security Expenses	-	47,008
Server Hosting Fees	3,210	665,237
Telephone & Internet	4,166	48,050
GST on Expenses	200,412	1,647,383
<b>Total Payments</b>	<b>2,611,628</b>	<b>20,318,005</b>
<b>Net Receipts/(Payments) for the period</b>	<b>(2,382,689)</b>	<b>2,069,220</b>
<b>Closing funds on hand</b>	<b>2,069,220</b>	<b>2,069,220</b>

# 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
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	-	-	-	-	-	-	53.8	34,970	204.2	132,730	258.0	167,700
Cybersecurity Specialist Staff	415-725	-	-	-	-	-	-	-	-	101.7	61,632	101.7	61,632
AML Specialist Staff	90-725	-	-	-	-	-	-	-	-	86.7	15,975	86.7	15,975
Director	500	-	-	-	-	-	-	7.3	3,650	64.2	32,100	71.5	35,750
Tax Specialist Staff	450	-	-	-	-	-	-	-	-	0.5	225	0.5	225
Senior Manager	420	74.0	31,080	-	-	-	-	74.5	31,290	525.5	220,710	674	283,080
Manager	370	-	-	-	-	-	-	-	-	-	-	-	-
Assistant Manager	315	29.6	9,324	-	-	-	-	-	-	114.2	35,973	143.8	45,297
Analyst	135-250	-	-	-	-	-	-	-	-	149.6	31,281	149.6	31,281
Support Staff	125-170	2.9	493	-	-	-	-	-	-	65.6	11,152	68.5	11,645
<b>Total</b>		<b>106.5</b>	<b>40,897</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>135.6</b>	<b>69,910</b>	<b>1,312.2</b>	<b>541,778</b>	<b>1,554.3</b>	<b>652,585</b>

### Basis of Disbursement Claim

Disbursements	Total (\$ exc. GST)
Travel (flights, car rental, accommodation etc)	18,392
Data Hosting	31,030
Blockchain Specialist Advisory	13,160
Sundry	8,594
Total Disbursements	71,176
Total Fees	652,585
<b>Total Liquidators costs</b>	<b>723,760</b>

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

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

