

# Liquidators' Fourth Report on the State of Affairs of

Cryptopia Limited (in Liquidation)

Company number: 2392901

11 December 2020



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# 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 fourth 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 on 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.

## 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.

During the period, the liquidators have continued the development of the 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 identity verification standard             |
| 3 | Instigates asset transfers to account holders  |

We selected and engaged a third-party provider to deliver the claims process portal, which has launched. This is the first step for account holders to register to participate in the return of the Cryptocurrency.

## 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.

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 that are recovered is to be applied to the specific trust associated with each cryptocurrency.

## Investigations

During the period, we have increased our 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.

We have issued notices pursuant to section 261 of the Companies Act requiring various parties to provide information to assist us in our investigation the company and conducted examinations under oath interviews in relation to these matters. 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

Account holders registered in the claims portal will receive further requests from us to provide identity verification documents. We are currently liaising with the Department of Internal Affairs to determine the specific documentation required.

Repatriation will begin after this process is complete. Before this process can start, we will seek further Court directions in respect of several issues, including the distribution process. We cannot commence the repatriation of assets until we receive the Courts directions.

## Asset Realisations

There were no further asset realisations during the period.

## 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 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

No further Preferential claim payments were paid during the 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.

During the period we admitted another unsecured claim the quantum of which we are currently adjudicating.

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 May 2020 to 14 November 2020, charged at the hourly rates, totalled \$602,666, 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](mailto:Cryptopia@nz.gt.com).

Dated: 11 December 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 May 2020 to 14 November 2020 (\$)	Total (\$)
Opening funds on Hand	4,740,435	0
<b>Receipts</b>		
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		206,730
GST Refunds received	341,807	615,070
GST on Receipts		18,322
<b>Total Receipts</b>	<b>341,807</b>	<b>11,414,751</b>
<b>Payments</b>		
Asset sale costs	-	86,067
Claims Portal	345,969	345,969
Computer Costs	81,699	135,059
Consulting & Accounting	1,538	7,138
Distribution to Preferential Creditors	-	312,992
Employee Costs	625,917	1,910,496
General Expenses	5,312	15,862
Insurance	-	19,843
Legal expenses	185,193	1,442,668
Light, Power, Heating	8,170	31,378
Liquidators Fees	602,666	2,381,448
Relocation Costs	-	13,090
Rent	-	293,123
Security Expenses	-	45,828
Server Hosting Fees	3,210	652,397
Telephone & Internet	3,766	13,485
GST on Expenses	181,220	670,324
<b>Total Payments</b>	<b>\$2,044,658</b>	<b>\$8,377,167</b>
<b>Net Receipts/Payments for the period</b>	<b>-\$1,702,851</b>	<b>\$3,037,584</b>
<b>Closing funds on hand</b>	<b>3,037,584</b>	<b>3,037,584</b>

# Appendix B – Remuneration Report

## Section 1: Description of Work

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

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>
	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>
	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>• Issuing new Liquidators employment contracts to staff retained for the period.</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>• On site visits</li> <li>• Managing of staff involved in the Reconciliation process</li> <li>• Corresponding with coin devs and completing coin swaps</li> <li>• Continuous valuation of the customer database</li> </ul>
	Claims Portal	<ul style="list-style-type: none"> <li>• Project management of the claims portal development</li> <li>• Contract negotiation with vendors</li> <li>• Option analysis of vendors</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
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>

## 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 (\$)
<b>Partner</b>	650	6.0	3,900	-	-	15.4	9,935	-	-	31.7	20,355	31.1	19,805	218.5	141,010	302.7	195,005
<b>IT Specialist</b>	600-650	-	-	-	-	-	-	-	-	-	-	-	-	57.1	37,130	57.1	37,130
<b>Specialist Partner</b>	450	-	-	-	-	-	-	-	-	-	-	-	-	10.0	4,500	10.0	4,500
<b>Tax Partner</b>	495	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Associate</b>	325 – 450	-	-	-	-	1.5	513	-	-	4.0	1,300	-	-	19.0	7,125	24.5	8,938
<b>IT Director</b>	450	-	-	-	-	-	-	-	-	-	-	-	-	11.5	5,175	11.5	5,175
<b>Senior Manager</b>	325 – 375	-	-	-	-	16.0	6,400	-	-	2.0	800	37.6	14,992	59.7	20,010	115.3	42,202
<b>Manager</b>	275 – 350	55.0	19,250	-	-	25.0	8,750	-	-	68.0	23,800	65.0	22,750	361.0	126,350	574.0	200,900
<b>Assistant Manager</b>	275	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Analyst</b>	65 – 200	16.2	2,817	-	-	4.4	820	1.3	212	53.6	8,185	1.5	288	240.6	44,545	317.6	56,867
<b>Support Staff</b>	125 - 160	9.3	1,488	-	-	32.8	5,248	0.5	80	-	-	-	-	34.0	5,440	76.6	12,256
<b>Total</b>		86.5	27,455	-	-	95.1	31,666	1.8	292	159.3	54,440	135.2	57,835	1,011.4	391,285	1,489.3	562,973

### Basis of Disbursement Claim

Disbursements	Total (\$ exc. GST)
Travel (flights, car rental, accommodation etc)	16,211
International Collection Costs	-
Software Licensing	10,311
Data Hosting	-
Advertising	-
Sundry	13,171
Total Disbursements	39,693
Total Fees	562,973
<b>Total Liquidators costs</b>	<b>602,666</b>

## 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.	\$650
IT Specialist/Specialist Partner	Specialist IT Practitioner bringing specialist skills in Cybersecurity, IT forensics, AML and other IT related matters.	\$450-\$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
IT Director	IT specialist. Required to assist Liquidators with the day to day running operation of the Cryptopia and provided detail reporting around any security vulnerabilities.	\$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-\$200
Administration Staff	Conducts all aspects relating to administering the accounts function and other functions as required.	\$125-\$160

