

# Liquidators' Second Report on the State of Affairs of

Cryptopia Limited (in Liquidation)

Company number: 2392901

11 December 2019



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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 second 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.

# Conduct of the Liquidation in the preceding six months

As discussed in our first report, 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.

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.

## Securing assets

In May 2019, we filed a petition for chapter 15 recognition in the Bankruptcy Court of the Southern District of New York (SDNY) seeking recognition of the New Zealand liquidation in the USA, and we also applied for urgent interim relief. These steps were taken to preserve the Cryptopia information that was stored and hosted on servers of an Arizona based business.

Subsequent to this recognition we physically collected assets from this business data centre and returned these to New Zealand. This step was vital as it contained the only records of Cryptopia's customer holdings and certain crypto-assets.

## Legal proceedings

The absence of legal precedent on crypto-assets in New Zealand and worldwide has 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). The purpose of this is to determine whether Crypto-assets can be held on trust for account holders, or whether the cryptocurrencies are beneficially owned by the Company. To read more on this proceeding please refer to <https://www.granthornton.co.nz/update-for-cryptopia-account-holders-25-october-2019/>

The directions hearing is scheduled to begin on 3 February 2020, all account holders and Creditors should have been received an email as per services of the Court orders dated 18 October 2018.

## 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 therefore undertaken work to trace and or freeze stolen crypto-assets. This is a complex situation with cooperation needed from third parties.

### Operations and sale of surplus fixed assets

We have continued to employ certain Cryptopia staff to assist with the collection of tangible and intangible assets. However, the headcount of the Company has significantly reduced and therefore we have vacated the company's premises for a smaller more cost effective one. We have sold by online auction excess desks, computer equipment, furniture and other items that are not required for the continued operations.

### Coin developers' meetings

We have held several webinars with affected coin developers in order to better engage with the developer community, provide an overview of the liquidation process and allow the developers to raise any issues or concerns they have. So far we have received positive feedback on these sessions and we plan to hold further webinars once the process is further progressed.

### Investigations

We have begun our review into the operations and affairs of the Company to establish whether any further matters need to be addressed. Our duties as Liquidators require a transparent and robust investigation into the insolvency of the Company and its officers. 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.

### Crypto-Asset Reconciliation process/ Customer Holdings

We appreciate that customers wonder why it is taking so long for us to determine customer holdings. 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 the process is well underway but will still take 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.

To provide transparency to stakeholders we have split the reconciliation process into three main phases to illustrate progress made:

1. Securing assets and company data – We have recovered assets from Arizona and have secured company data.
2. Wallet environment and customer reconciliation – Due to the January 2019 hack it was necessary to rebuild the full wallet environment. This was done to ensure no leftover malicious code from the January hack would corrupt the new environment. This recompiling is not a straightforward process, as over 900 different assets were supported by Cryptopia at one time or another.
3. Identifying users and repatriation of returns - This phase is at an early stage. Several legal matters need to be resolved before this phase can progress

## Asset Realisations

During the period we had the following major asset realisations:

### Funds recovered

The company at the date of liquidation had a balance of \$5,022,935 sitting in a 3<sup>rd</sup> party trust account this was recovered by the Liquidators.

### Sale of fixed assets

We have sold by auction excess desks, computer equipment, furniture and other items that are not required for the continued operations. this has generated \$202,534 from the sale of the Company's excess fixed assets.

### Company Crypto-Assets

As included in the first report on the 29 May 2019 a High Court order was made that Bitcoin being held in the company wallet outside of known client funds, could be converted into fiat currency to help fund the liquidation and the protection and preservation of crypto-assets for the benefit of those entitled to them. These 344 BTC were converted into \$4,427,292.

## 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 2019.

## 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

Employees' preferential claims of \$200,664 representing outstanding wages, holiday pay and suspension pay was paid out during this period (this amount excluded payroll related taxes which were paid after the date of this report).

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.

## Remuneration Report

The Liquidators' remuneration received for the period between 14 May 2019 to 29 October 2019, charged at the hourly rates, totalled \$823,164, 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

## Investigations

We continue to investigate the affairs of the Company and its directors in the period prior to our appointment to determine if there are any further avenues of recovery available to the Company.

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

Our next statutory report is not due until May 2020, however, we expect to provide another update to stakeholders after the High Court hearing in February 2020.

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 2019



David Ruscoe  
Liquidator  
Cryptopia Limited (in Liquidation)

# Appendix A – Receipts and Payments

Receipts and Payments		14 May 2019 to 14 November 2019 (\$)
<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		202,534
GST Refunds received		112,687
GST on Receipts		17,693
<b>Total Receipts</b>		<b>10,907,543</b>
<b>Less Payments</b>		
Asset sale costs		84,581
Computer Costs		11,079
Consulting & Accounting		4,376
Contractor expenses		67,725
Distribution to Preferential Creditors		200,664
General Expenses		4,096
Insurance		7,239
Legal expenses		689,401
Light, Power, Heating		16,517
Liquidators Fees		823,164
Relocation Costs		13,090
Rent		293,123
Security Expenses		45,619
Server Hosting Fees		644,894
Telephone & Internet		6,067
Wages & Salaries		407,302
PAYE Payable		195,308
GST on Expenses		228,461
<b>Total Payments</b>		<b>3,742,708</b>
<b>Net Receipts/Payments for the period</b>		<b>7,164,835</b>
<b>Closing funds on hand</b>		<b>7,164,835</b>

# Appendix B – Remuneration Report

## Section 1: Description of Work

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

Task Area	General Description	Includes
<b>Assets</b>	Assets subject to specific charges	<ul style="list-style-type: none"> <li>All tasks associated with realising a charged asset</li> <li>Investigation into unregistered securities</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>
	Sale of Business Unit	<ul style="list-style-type: none"> <li>Preparing an information memorandum</li> <li>Liaising with potential purchasers</li> <li>Internal meetings to discuss/review potential purchasers</li> </ul>
	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> </ul>
	Sale of Real Property	<ul style="list-style-type: none"> <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>
	Secured creditor reporting	<ul style="list-style-type: none"> <li>Notifying PPSR registered creditors of appointment</li> <li>Preparing reports to secured creditor</li> <li>Responding to secured creditor's queries</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> <li>Preparation of letters to employees advising of their entitlements and options available</li> </ul>

		<ul style="list-style-type: none"> <li>Receive and prepare correspondence in response to employee's objections to leave entitlements and other remuneration.</li> </ul>
	Calculation of entitlements	<ul style="list-style-type: none"> <li>Calculating employee entitlements</li> <li>Reviewing employee files and company's books and records</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> </ul>
	Bank account administration	<ul style="list-style-type: none"> <li>Preparing correspondence opening and closing accounts</li> <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> <li>Filing education returns with relevant agencies</li> </ul>
<b>Administration/Statutory</b>	Company office obligations	<ul style="list-style-type: none"> <li>Filing with Companies Office</li> </ul>
	Documents of appointment	<ul style="list-style-type: none"> <li>Preparation of Court memorandum</li> <li>Review</li> <li>Execution</li> <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>Beginning scoping</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> </ul>

		<ul style="list-style-type: none"> <li>• Reviewing conduct of companies for breaches of Companies Act</li> <li>• Interviews with Directors and Shareholders</li> </ul>
Legal Matters	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>
	AML 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 engagements</li> </ul>
	Legal Requirements	<ul style="list-style-type: none"> <li>• Undertakings by staff for information and preparation of evidence for directions hearing</li> <li>• Tasks around the preparation of affidavits for direction hearing</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>	600	80.0	48,000	15.5	9,300	11.8	7,080	5.0	3,000	68.0	40,800	96.5	57,900	240.4	144,223	517.2	310,303
<b>IT Specialist</b>	600-650	-	-	-	-	-	-	-	-	-	-	-	-	285.0	172,050	285.0	172,050
<b>Tax Partner</b>	495	0.5	248	2.0	990	-	-	-	-	-	-	2.0	990	-	-	4.5	2,228
<b>Associate</b>	325 – 450	-	-	-	-	0.2	90	-	-	3.0	975	-	-	-	-	3.2	1,065
<b>Information Security Consultant</b>	275	-	-	-	-	-	-	-	-	-	-	-	-	13.5	3,713	13.5	3,713
<b>Senior Manager</b>	375	0.3	113	-	-	-	-	-	-	-	-	-	-	-	-	0.3	113
<b>Manager</b>	275	0.1	28	-	-	-	-	-	-	-	-	-	-	0.1	28	0.2	55
<b>Assistant Manager</b>	275	110.5	30,388	33.5	9,213	22.0	6,050	24.5	6,738	13.5	3,713	48.0	13,200	175.0	48,125	427.0	117,425
<b>Analyst</b>	150	83.0	12,450	11.4	1,710	10.7	1,605	65.9	9,885	18.1	2,715	7.8	1,170	106.3	15,945	303.2	45,480
<b>Support Staff</b>	125 - 255	38.8	7,132	2.0	510	56.6	9,056	18.4	2,944	-	-	0.5	80	18.7	2,975	135.0	22,697
<b>Total</b>		313.2	98,357	64.4	21,723	101.3	23,881	113.8	22,567	102.6	48,203	154.8	73,340	839.0	387,057	1,689.1	675,127

### Basis of Disbursement Claim

Disbursements	Total (\$ exc. GST)
Travel (flights, car rental, accommodation etc)	71,887
International Collection Costs	9,000
Software Licensing	50,913
Advertising	962
Sundry	15,276
Total Disbursements	148,038
Total Fees	675,127
<b>Total Liquidators costs</b>	<b>823,164</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.	\$600
IT Specialist	Specialist IT Practitioner bringing specialist skills in Cybersecurity, IT forensics and other IT related matters.	\$600-\$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.	\$150
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-\$155



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