

Digital Surge Pty Ltd (Administrators Appointed) ACN 620 473 109 ('the Company')

11 January 2023 | Fourth Frequently Asked Questions

John Mouawad, Scott Langdon and David Johnstone were appointed Voluntary Administrators of the Company on 8 December 2022 pursuant to section 436A of the Corporations Act 2001 ('the Administrators').

The Administrators have prepared this Frequently Asked Question ('FAQ') sheet to provide answers to commonly asked questions.

The purpose of this FAQ is to address creditors' queries received prior to, and during the First Meeting of Creditors, held on 5 January 2023. This is the fourth FAQ prepared by the Administrators and should be read in conjunction with our first three FAQs. Our previous FAQs have been uploaded to www.kordamentha.com/creditors/digital-surge-pty-ltd.

This FAQ sheet has been prepared using the information available at the time of issue.

1. Customers as unsecured creditors

What is the relationship between customers and the Company?

Based on the Terms and Conditions of the Company, which were acknowledged by customers, all customers are unsecured creditors of the Company, and therefore all customers will receive distributions from the realisation of Digital Surge's assets on a pari passu (equal footing) basis calculated at the date of appointment of Administrators.

All fiat currency and digital assets sent to Digital Surge by customers are recoverable as unsecured debts owed by Digital Surge to customers. The Terms and Conditions between Digital Surge and its customers provide the basis for this conclusion.

I held cash in my Digital Surge account, will I receive this back in full?

Based on the Company's Terms and Conditions, there is no distinction between cash and digital assets held by Digital Surge. Customers that held fiat currency on the Digital Surge platform are unsecured creditors of the Company. This means customers who held fiat currency will receive a percentage distribution in the same manner as customers whose unsecured debt relates to digital assets.

2. Outcome of the Administration

When will we know about the result of the expression of interest campaign? Have the Directors submitted their rescue plan?

Interested parties were required to submit final offers to the Administrators by 9 January 2023. The Administrators received proposals offers, including one from the Directors. We are working through these and will detail the best option to creditors in the Second Report to Creditors ('the Report to Creditors'), which will be sent to creditors on 17 January 2023.

The Report to Creditors will include all the details of the **preferred offer only**, including a comparison to the estimated outcome under a liquidation scenario. This will enable creditors to make an informed decision at the Second Meeting of Creditors regarding the future of the Company.

What happens at the Second Meeting of Creditors?

The Second Meeting of Creditors will be held on 24 January 2023 ('the Second Meeting') and will provide creditors and opportunity to hear from the Administrators regarding:

- The status of the Administration
- Actions taken by the Administrators since the first meeting of creditors
- The preliminary investigations completed by Administrators
- The alternatives available to creditors (i.e. liquidation or an asset sale/ Deed of Company Arrangement) and the Administrators' recommendation to creditors.

There will then be an opportunity for creditors to ask questions. The meeting will be held on Zoom and creditors will be asked to state their name and their question. A response will be provided by the Administrators after each question is asked. Creditors should expect this process may take some time.



Once all questions have been answered, creditors will be asked to vote on:

- The Administrators' remuneration
- The Company's future (i.e. liquidation or asset sale/Deed of Company Arrangement)
- Any other relevant resolutions.

Information required for creditors to make informed decisions about the future of the Company will be provided in the Report to Creditors.

How much money will we get back?

The return to creditors has not yet been determined. It will depend on the final offers received from the EOI campaign and will also depend how creditors vote at the Second Meeting. Information about the estimated returns available to creditors will be included in the Report to Creditors.

When will we get our money back?

The timing of returns to creditors will depend on the outcome of the Second Meeting.

- If creditors vote for a liquidation, the Administrators will realise all digital assets held by the Company and then seek to return funds to creditors in accordance with the priority regime established by the Corporations Act as soon as possible thereafter. Creditors should note that to participate in a distribution in a liquidation scenario, proofs of debt must be submitted and a formal adjudication process by the Liquidators must occur.
- If creditors vote for an asset sale or Deed of Company Arrangement ('DOCA'), the timing will be contingent on the DOCA being effectuated and the specific requirements of the successful purchaser or DOCA proponent. Estimated timing will be provided alongside other details of the proposed asset sale/DOCA in the Report to Creditors.
- The Company's FTX claim will be treated separately and will likely require a second distribution to creditors. Further information about the FTX claim will be provided in the Report to Creditors.

Will creditors be returned crypto or fiat currency?

In a liquidation scenario, creditors will be returned fiat currency. In an asset sale/DOCA, there may be a mix of fiat and crypto. Details will be provided in the Report to Creditors.

Is there a priority based on the type of account I had (i.e. personal, company, SMSF)? Will all creditors get the same percentage return from the Administration?

This depends on the outcome of the Second Meeting:

- If a liquidation is approved by creditors, all creditors will receive a distribution on a pari passu (equal footing) basis. There will be no distinction based on the type (or value) of each customer's account.
- If an asset sale or DOCA is approved by creditors, there may be a difference in distributions between customers and creditors based on type or value of each customers' account. Details regarding any asset sale or DOCA received from interest parties will be provided in the Report to Creditors, which will be sent to all creditors prior to the Second Meeting.

In a liquidation or asset sale/ DOCA scenario, at what date and how will my claim be calculated?

Your unsecured claim against the Company will be calculated at the date of appointment, being 8 December 2022. It will be calculated by multiplying the number of Company assets allocated to your account by the price the time the Company entered appointment.

In a liquidation scenario, the amount distributed to creditors will be calculated by dividing the total number of creditor claims (at 8 December 2022) by the assets available for distribution, less costs of the Administration and other priority entitlements. Further details regarding amounts available to creditors under a liquidation scenario will be provided in the Report to Creditors, which will be sent to creditors on 17 January 2023.

In an asset sale/DOCA scenario, the claim amount will be similar to the process noted above for liquidation, however the purchaser/DOCA proponent is required to provide a better outcome to some or all creditors than a liquidation, and will therefore need to contribute additional funds for distribution to creditors.



Are the Administrators investigating the conduct of the Directors or the Company prior to appointment?

The Administrators are required to investigate the Company's business, property, affairs and financial circumstances, including any offences under the Corporations Act 2001 committed by the Directors or the Company. Our preliminary findings will be detailed in the Report to Creditors, but creditors should note the depth of investigation in a voluntary administration is not the same as that in a liquidation. This is because the purpose of the voluntary administration is to maximise the chances of the company, or as much as possible of its business, continuing in existence.

If the Company is liquidated, further investigations will be conducted by the Liquidators.

3. Assets held by Administrators

Why did the Administrators move funds to another exchange? Isn't their risk that this exchange could collapse like FTX?

On appointment, the Company held assets in hot wallets, cold wallets, on FTX, Binance and Kraken. The Administrators transferred the vast majority of assets to the custody of Zerocap. This was done for the following reasons:

- Zerocap is not an "exchange", it is an institutional digital asset custodian, OTC trading desk and asset manager, which works with the likes of ANZ Bank and the ASX.
- The Company retains ownership of the digital assets. The digital assets stored within Zerocap's custody accounts are fully segregated and can be verified on-chain.
- Zerocap offers secure storage and custody, partnering with Fireblocks and utilising other private key management solutions to offer multi-layered cyber security.
- Zerocap has an insurance policy for the storage of digital assets on their platform. The Company's digital assets were previously uninsured. The insurance policy is the first of its kind in Australia, provided by Lloyd's of London.
- It is difficult, and more expensive, to insure all digital assets in cold storage. There are also several practical challenges in storing over 300 asset types in cold storage as several rare tokens need to be supported by their own native wallet hardware.
- Zerocap operates a regulated business (as a CAR of an AFSL), and as such is held accountable to significantly higher compliance and governance standards than a typical Digital Currency Exchange.

4. Information relating to FTX

Why did the Directors deposit money with FTX?

Digital Surge acts as a broker and has accounts on multiple different exchanges, as well as holding some assets (primarily BTC and ETH) in cold storage.

The technology licenced to Digital Surge required connection to multiple exchanges to extract the best price in real time by analysing thousands of combinations of asset purchases across different exchanges to deliver the lowest price for customers. The technology and pricing became more efficient as more exchanges were incorporated into the system.

At the time, the Company considered FTX to be the second largest global exchange by trading volume (after Binanace) and, in the opinion of the Directors, had the best technology. FTX offered low fees and better rates to Digital Surge customers than other exchanges.

Before funds were provided to FTX, the Directors tested the platform for more than 12 months without issues.

Why did the Directors deposit such a large amount of funds with FTX?

Holding greater than USD \$10 million on the FTX platform gave Digital Surge, and therefore its customers, significant discounts in transaction fees.

The proportion of funds held by Digital Surge increased from approximately 40% in the weeks prior to appointment to 52% on the day of appoint of Administrators given the large volumes of withdrawals by Digital Surge customers, which were processed on other platforms.



Why did the Company have transactions with FTX up to and including 9 November 2022, two days before the appointment of Bankruptcy advisors to FTX?

During the First Meeting of Creditors, the Chairperson advised that the Company completed the transfer of assets to FTX on 9 November 2022.

To clarify this statement, the Company transferred funds to FTX on 30 October 2022 and 31 October 2022 and then made a series of internal transfers between FTX sub-accounts from 1 November 2022 to 8 November 2022 and submitted a test withdrawal request on 9 November 2022, which was not actioned by FTX.

All the above transactions (deposits, transfers and withdrawals) are considered to be in the ordinary course of business in dealing with and transferring Company assets held on the FTX exchange.

Further detail about the transactions and correspondence with the Company and FTX will be included in the Report to Creditors.

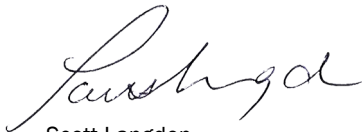
Why didn't the Directors withdraw funds from FTX before it collapsed?

Whilst the Directors were monitoring market events, they did not anticipate that FTX would collapse.

As noted above, the Directors issued withdrawal request to FTX of \$50,000 on 9 November 2022. Digital Surge enquired with FTX and received an email stating that withdrawals were suspended. The funds were never returned to Digital Surge and FTX entered Bankruptcy on 11 November 2022.

Should you have further queries, please submit them via email to digitalsurge@kordamentha.com.

Yours sincerely



Scott Langdon
Voluntary Administrator



John Mouawad
Voluntary Administrator



David Johnstone
Voluntary Administrator

