

Peter Cooney

22 December 2022

By email: peter@coinharbour.com.au

Dear Peter

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

Thank you for your Expression of Interest ('EOI') in the Company. We are pleased to confirm that you have moved into the next phase of our process. Now you have signed the Confidentiality Agreement, we can provide you with information on the Company and the next phase of the EOI process.

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

In our capacity as Voluntary Administrators, we are seeking proposals regarding the sale or recapitalisation of the business and assets of the Company in final form by **5.30 pm AEST Monday, 9 January 2023** ('the Process').

The purpose of this letter is to describe the next phase in the EOI process, provide further information about the Company and detail what you will need to provide for your offer to be considered.

1 Background and context

Digital Surge is a cryptocurrency trading platform which was established in 2017. It currently services over 30,000 customers, including ~1,300 self-managed super funds. Digital Surge offers a wide range of digital assets, with customers currently holding over 300 different assets.

Digital Surge differentiates itself through personalised customer service via its dedicated customer support team, it's easy to understand trading platform and low fees (0.5% on all trades with an average margin of 0.7%).

Prior to entering administration, Digital Surge had AUM of ~\$55.4 million (in AUD equivalent). Approximately 52% of its AUM is tied up in the FTX bankruptcy process, meaning it currently holds ~\$26.8 million (in AUD equivalent). The Administrators have transferred most of these assets into secure custody.

2 Process

Key milestones of the Process are as follows:

- a. **Phase One – Preliminary information:** To accompany information provided in the Annexures to this letter, you will also be provided with:
 - i. Overview of the Company's operational process.
 - ii. List of digital assets currently held by the Company.
 - iii. Company search for Digital Surge from the ASIC database.
- b. **Non-binding indicative offers ('NBIO'):** You are required to submit a NBIO via email to phewson@kordamentha.com by no later than **5.30 pm AEST on Friday, 30 December 2022**. To be considered to progress to Phase Two, you must include the following information:
 - **Value:** indicative value and rationale of your proposed transaction consideration.
 - **Purchasing party:** an overview of the purchasing party and their experience in the digital assets sector.
 - **Financing:** overview of your proposed financing and capital structure (including transacting entities) for the transaction, as well as sources and availability of debt and equity and other forms of capital to execute the transaction in full.
 - **Approvals:** overview of all internal and third-party approvals required to complete the transaction and the likely timing of obtaining these approvals.
 - **Conditions:** a fulsome and detailed list of conditions applicable to your NBIO, if any. NBIO with few conditions will be considered more favourable.
 - **Information request list:** any further due diligence required. The Administrators may not be able to provide information further to that listed below.
 - **Other information:** any other information you consider relevant to your NBIO.
- c. **Evaluation of NBIO:** we will undertake an assessment of the NBIO received and may nominate preferred bidders to participate in Phase Two.
- d. **Phase Two:** Participants invited into Phase Two of the Process will be notified by **9.00 am AEST Monday, 2 January 2023**.
- e. **Submission of final offers:** Final Offers will be required by no later than **5.30 pm AEST Monday, 9 January 2023**.
- f. **Report to creditors:** In accordance with Section 439A of the Act, the Administrators are required to send a report to creditors by no later than **Tuesday, 17 January 2023**. This report will summarise our recommended transaction.
- g. **Second Meeting of Creditors** is likely to be held on **Tuesday, 24 January 2023**. At this meeting, creditors of the Company will vote on the future of the Company.

3 Terms and conditions

All information made available to you, by or on behalf of the Company and its Administrators, and each of their representatives, including in this letter and subsequent information provided is provided on the basis of the terms and conditions of the Confidentiality Agreement signed by you and the Disclaimer set out in Annexure 4 (together 'the Terms and Conditions').

In addition to the Terms and Conditions, the information set out in this letter and subsequent information provided to you on the following terms and conditions:

- The Administrators retain the right to suspend, alter or terminate the Process and terms set out in this letter in their absolute discretion at any time. By continuing to participate in the Process, you acknowledge and agree that the Administrators have the right, in their absolute discretion, to:

- invite, or decline to invite, you and any number of participants to conduct further detailed due diligence and to submit a proposal in respect of the transaction.
 - disclose information to one or more interested parties at any time during the Process without disclosing that information to all interested parties.
 - reject or refuse to consider or accept any NBIO that does not comply with the requirements set out in this letter, or is otherwise incomplete as solely determined by the Administrators.
 - change the procurement method, process, or process milestones of the transaction in any way they see fit.
 - not provide any reasons for any actions or decisions taken, including in respect of any or all the above-mentioned rights.
 - require you to enter any confidentiality, probity, or process deeds (in addition to the Confidentiality Agreement), from time to time, as a condition of your continued participation in the Process.
- The Administrators are not liable to compensate or reimburse you or any other interested party for any liabilities, costs or expenses incurred in connection with submitting a NBIO or otherwise.
 - For the avoidance of doubt, this letter and subsequent information provided is 'Confidential Information' for the purposes of the Confidentiality Agreement and are accordingly subject to the terms of the Confidentiality Agreement.
 - Terms and conditions of any successful sale agreement will be agreed upon as part of Phase Two, however:
 - You will expressly acknowledge that you have not relied upon the information contained in this letter or any other information provided to you by the Company or the Administrators.
 - You will not hold the Company or the Administrators in any way responsible or liable for any loss which may be suffered directly or indirectly because the information in this letter or subsequent information provided was incorrect, misleading, or incomplete in any way.
 - You will expressly acknowledge that neither the Company or us as Administrators have given or will give any express or implied warranties representations or assurances.
 - You have relied solely upon your own enquiries and investigations.
 - Under no circumstances should you approach or contact any director, officer, employee, customer, supplier, contractor, sub-contractor, landlord, creditor, shareholder or relative of any shareholder of Digital Surge to discuss the transaction or any similar or related matter without the prior written consent of the Administrators.

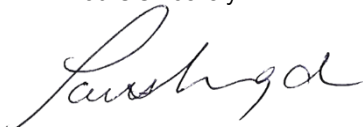
4 Contact information

All questions or discussions regarding the Process should be directed to:

Paul Hewson
phewson@kordamentha.com
0405 770 682

We look forward to receipt of your NBIO, to be submitted via email by **5.30 pm AEDT on Friday, 30 December 2022.**

Yours sincerely



Scott Langdon
Administrator

Annexure 1 – Company information

Overview of operations

- Digital Surge leases a state-of-the-art trading platform ('the DS Platform') under a licence from DSX Pty Ltd, a related entity, to enable customers to trade and hold cryptocurrencies.
- Once customers are onboarded, customers place orders on the DS Platform, which selects the optimal external exchange (Binance, Kraken or, prior to Administration, FTX) to purchase digital assets, based on price and other factors.
- Once the best path is identified, the DS Platform places the order on the selected exchange.
- The Company historically charges a transaction fee of 0.5% and spread of 0.7%. The Company's ledgers on external exchanges are adjusted to reflect the customer's holdings, less fees.
- The same process is repeated when customers trade digital assets.
- Prior to appointment of Voluntary Administrators, Digital Surge had AUM of ~\$55.4 million (in AUD equivalent). Approximately 52% of its AUM is tied up in the global FTX bankruptcy process, meaning it currently holds ~\$26.8 million (in AUD equivalent). The Administrators have transferred most of these assets into secure custody.
- Prior to the collapse of FTX, the directors of Digital Surge have noted to the Administrators that a 1:1 ratio of assets under management to customer assets was maintained, held on a mixture of global exchanges (Binance, Kraken and FTX), as well as hot and cold wallets.
- The company entered Administration on 8 December 2022.
- Prior to this and according to the directors of the Company, there were no known operational or financial issues.
- Since the appointment of Administrators, the Company has ceased trading.

DSX Pty Ltd

- In March 2020, Digital Surge sold its IP and trading platform to DSX Pty Ltd ACN 637 036 796 ('DSX'), a related entity.
- DSX is a software development and SaaS company that built and maintains the exchange software and infrastructure to offer crypto platforms as a service to third parties.
- Its software finds the most efficient way of undertaking customers requested trade by looking at a multitude of trading pairs across several exchanges and determining how best to convert fiat or a digital asset into other digital assets.
- Digital Surge licences the IP to DSX. The current fee structure of DSX to Digital Surge is:
 - A monthly fee of \$3,418.33 (ex GST), plus
 - \$50,000 (ex GST) for Gross Revenue up to \$300,000, plus
 - 16.67% of all Gross Revenue exceeding \$300,000.
- Interested parties should note DSX is not in Administration and not part of the sale process. The directors of DSX have confirmed they will negotiate with interested parties in this process are open to discussions regarding the ongoing use and fee structure between the Company and DSX.
- For the avoidance of doubt, the Company and DSX have common directors.

Customer information

- Digital Surges' 30,000 customers can be divided into the following account balance categories:

- 3 accounts over \$500,000
- 248 accounts between \$50,000 and \$499,999
- 1,777 accounts between \$5,000 and \$49,999
- 9,544 accounts between \$50 and \$4,999
- 18,648 below \$49.
- Digital Surge has attracted over 1,400 self-managed super fund accounts with an average balance of \$22,000.
- Over the last twelve months, deposits have averaged ~\$19 million per month (comprising of ~\$15 million in fiat and ~\$4 million in digital assets).
- Over the last twelve months, withdrawals have averaged ~\$13 million per month (comprising of \$5 million in fiat and ~\$8 million in digital assets).

Annexure 2 – Company history and milestones

Date	Event	Details
July 2017	Digital Surge established	Digital Surge started as an easy way to trade crypto. The initial product was limited to just Bitcoin and Ethereum.
December 2018– March 2019	Participated in QUT ‘bluebox accelerator’	Digital Surge accepted into the sought after QUT ‘bluebox accelerator’ as one out 10 startups for the summer 2019 cohort. The product was still quite limited in features and trading activity was low.
March 2020	IP sale to DSX	Restructure the IP to allow DSX to offer crypto platform as a service to third parties.
March 2020– December 2020	Redevelop DSX platform from exchange to a broker model	Customer interviews undertaken to better understand customer needs and how the platform can best serve them.
December 2020	Relaunched the app (broker model)	Based on the customer interviews, relaunched the app with more than 300 coins available to trade, complex user experience refresh and multiple new features.
January 2021– May 2021	Hyper growth (users, revenue, team)	As a result of the relaunch and the crypto market entering a bull run, Digital Surge experienced explosive growth. In the first 6 months of 2021 the company generated \$1.4 million in revenue, which was more than 7 times the combined revenue that was made since inception. Total revenue for 2020–2021 was \$1.5 million. The following financial year, revenue has grown by 290% to \$4.4 million. The team has grown from 4 FTE's in January 2021 to 15 by year end.
September 2021	Launch of Android and IOS App	After popular demand we launched both Android and IOS version of the Digital Surge platform. This saw a sudden and constant increase in new user signups.
October 2021	Initial partnership with Esuperfund Pty Ltd (‘e-super’)	Partnered with Australia's largest SMSF administrator, e-super, to provide a simple and trusted way for their customers to gain crypto exposure. As a result, over the next few months more than 1,000 SMSF accounts were created.
March 2022	Won Exchange for Value category in Finder Awards 2022	Finder conducted an independent comparison of the market and declared Digital Surge as the crypto exchange that provides the best value to customers.
April 2022	Launched ‘DS Earn’	Introduced a safe and secure way for customers to earn interest on 11 coins, without any lock in period.
May 2022	Pivoted to focus on partner lead SMSF accounts	Digital Surge's focus on serving the needs of SMSF accounts, particularly in regards to compliance and tax reporting helped carving a niche in the ever growing crowded crypto space. As a result, the company pivoted to focus primarily on partnerships with financial service providers, such as SMSF administrators, wealth managers, accountants, etc.
August 2022	Launched the new Order Routing System	The new order routing system connects to multiple markets, analyses the best route from one asset to another and executes the best trade, which may incur 5 hops from one asset to another on multiple markets. As a result, Digital Surge was able to offer even more competitive rates to customers, while increasing its bottom line.
September 2022	Launched ‘Swap’	Allow customers to natively swap from crypto-to-crypto without traversing through AUD.
September 2022	Integrated into BGL	Completed integration with BGL that allows direct data feed from Digital Surge into their Simple Fund & Simple Invest 360 platform used by advisors and accountants throughout Australia.

Date	Event	Details
September 2022	FTX integration explored	Initial meetings with FTX AU CEO to discuss onboarding of Digital Surge as a broker.
October 2022	Developed dedicated partner portal	Created dedicated partner portal that allows partners a simple and easy way to manage their client's Digital Surge accounts.
October 2022	FTX KYC	Digital Surge KYC approved as a broker on the 30 October 2022.
November 2022	FTX technical integration & account funding	Technical integration of FTX with Order Routing System.
November 2022	FTX collapse	FTX globally is insolvent.
8 December 2022	Voluntary Administration	The Company enters Voluntary Administration.

Annexure 3 – Company financial information

Information contained below has been extracted from the Company's accounting software. This information is unaudited and has not been reviewed by the Administrators.

Table 1 - Pre-appointment profit & loss statement

	FY21 \$000	FY22 \$000	YTD23* \$000	Notes
Revenue				
Operating Income	932	3,310	983	1
Other operating income	230	1,113	844	2
Less cost of goods sold	(18)	(805)	(238)	
Gross profit	1,144	3,618	1,589	
Expenses				
Operating expenses	(735)	(1,867)	(587)	3
Other expenses	(56)	(325)	(69)	
Finance costs	(0)	(2)	(1)	
Wages & salaries	(158)	(1,377)	(1,066)	
Overheads	(13)	(154)	(76)	
External service providers	(40)	(148)	(117)	
Travel	-	(20)	(6)	
Total expenses	(1,002)	(3,895)	(1,923)	
EBITDA	142	(276)	(334)	
Depreciation & amortisation	(53)	(1)	-	
Tax expenses	(16)	-	-	
Interest Expense	-	0	-	
Net Profit	73	(277)	(334)	
DSX Pty Ltd subscription fees	325	896	293	
Adjusted Net Profit	398	618	(40)	

*YTD is the period 1 July 2022 to 30 November 2022

Notes:

1. Fees collected including broker fees, pay fees, POLi fees, trading fees and withdrawal fees.
2. Includes rebates and margin collected on digital assets transactions.
3. Includes DSX Pty Ltd monthly fixed licence fee and percentage of gross revenue over \$300k threshold fee. Note this has been removed to show profit ex-licence fee.

Table 2 – Pre-appointment balance sheets

	30-Jun-21	30-Jun-22	30-Nov-22
	\$000	\$000	\$000
Current assets			
Cash	282	394	542
Accounts Receivable	-	4	0
Fees & Margin Receivable	89	-	-
Client Funds - AUD	689	13,017	9,555
Client Funds - Crypto	26,179	39,607	57,214
Loan to DigiCo Pty Ltd	1,942	1,942	1,942
Total current assets	29,180	29,207	29,351
Office Equipment	52	52	53
Less: Accumulated Depreciation	(52)	(52)	(52)
Rental Bond	88	88	88
Other	1	(0)	(0)
Loan to DSX Pty Ltd	10	(35)	(57)
Total non-current assets	100	53	33
Total assets	29,280	55,017	69,285
Current liabilities			
Accounts Payable	33	12	2
GST	14	27	11
Income Tax Payable	16	(5)	(15)
Liability - Client Funds	28,751	52,623	66,769
PAYG Withholdings Payable	37	126	122
Signup Bonuses Payable	4	2	-
Superannuation Payable	-	1	-
Total current liabilities	28,856	52,787	66,889
Non-current liabilities			
Directors Loans	151	-	-
DigiCo Loan	200	550	1,050
Total non-current liabilities	351	550	1,050
Total liabilities	29,208	53,337	67,939
Net assets	72	1,679	1,346

Note: DigiCo Pty Ltd has an All Pap PPSR registration over the Company.

Annexure 4 – Disclaimer

This disclaimer relates to the Confidential Information provided to you ('the Recipient') on behalf of the Company ('the Discloser').

The Confidential Information is provided to the Recipient solely for the purpose of assisting the Recipient and their professional advisors in deciding whether to proceed with a further investigation of the business and associated assets and in considering whether to acquire an interest in same. The Confidential Information is provided on the express understanding that it is to be used for only that purpose. Further, the Confidential Information is not intended to provide any recommendation either expressly or by implication with respect to the proposed sale.

The Confidential Information may not be appropriate for some persons and it is not possible for the Discloser to have regard to the investment objectives, financial situation and particular needs of each person who reads or uses the Confidential Information.

The Confidential Information and material contained in this document has been provided to the Discloser from numerous sources. The Discloser does not make or give an express or implied guarantee, representation or warranty concerning:

1. the accuracy or completeness of the Confidential Information, or
2. the future performance of Digital Surge or business assets.

The Confidential Information includes certain statements, calculations and projections that reflect various assumptions. Those assumptions may or may not prove to be correct and for that reason, the Discloser does not accept any responsibility or liability in relation to the accuracy of those statements, estimates, calculations and projections and the Recipient must make and rely on their own assessment. Specifically, the Discloser does not warrant or represent that the Confidential Information has been audited.

The Recipient must make their own independent investigations and rely upon their own enquiries as to the accuracy and completeness of any of the Confidential Information. The Recipient should seek appropriate professional advice in reviewing the Information and evaluating whether to purchase.

All warranties, conditions, liabilities or representations in relation to the Confidential Information, advice or other service constituted by this Confidential Information are hereby expressly negated and excluded to the maximum extent by law. The Recipient agrees, to the fullest extent permitted by the law, that they shall not seek to sue or to hold the Discloser, any employees, agents or advisors of and to the Discloser liable in any respect whether in contract, negligence, equitable relief, statutory relief or otherwise by reason of provision of the Confidential Information.

Any reliance placed by Recipients on the Confidential Information shall be at their own risk and the Discloser shall not be liable for any indirect or consequential loss whatsoever or howsoever arising.

The Discloser is not liable to reimburse or compensate the recipient or any of their representatives for any costs or expenses incurred in conducting their review, submitting a registration of interest or detailed proposal, making an offer or otherwise in connection with the proposed sale.

In furnishing the Confidential Information, the Discloser does not undertake any obligation to provide the Recipient with access to any additional information.