2019 Hfx. No. 484742

Supreme Court of Nova Scotia

IN THE MATTER OF: *Companies' Creditors Arrangement Act*, R.S.C. 1985 c C-36, as amended

AND IN THE MATTER OF: A Plan of Compromise or Arrangement of Quadriga Fintech Solutions Corp., Whiteside Capital Corporation and 0984750 B.C. Ltd.

PRE-FILING REPORT OF THE PROPOSED MONITOR

January 31, 2019

January 31, 2019

STIKEMAN ELLIOTT LLP
Barristers & Solicitors
5300 Commerce Court West
199 Bay Street
Toronto, Canada M5L 1B9

Elizabeth Pillon LSO#: 35638M
Tel: (416) 869-5623
Email: lpillon@stikeman.com

Lee Nicholson LSO#: 66412I
Tel: (416) 869-5604
Email: leenicholson@stikeman.com
Fax: (416) 947-0866

Lawyers for the Proposed Monitor, Ernst & Young Inc.

2019 **Hfx. No.**

Supreme Court of Nova Scotia

IN THE MATTER OF:	*Companies' Creditors Arrangement Act*, R.S.C. 1985 c C-36, as amended
AND IN THE MATTER OF:	A Plan of Compromise or Arrangement of Quadriga Fintech Solutions Corp., Whiteside Capital Corporation and 0984750 B.C. Ltd.

PRE-FILING REPORT OF THE PROPOSED MONITOR

January 31, 2019

INTRODUCTION

1. Quadriga Fintech Solutions Corp. Whiteside Capital Corporation and 0984750 B.C. Ltd. (collectively, the "**Applicants**") have brought a motion before this Honourable Court (the "**Court**") to commence proceedings under the *Companies' Creditors Arrangement Act*, R.S.C., 1985, c. C-36 (the "**CCAA**"), seeking an Order (the "**Initial Order**") containing a stay of proceedings in respect of the Applicants, the appointment of Ernst & Young Inc. ("**EY**") as monitor (the "**Proposed Monitor**") and various other relief.

2. The main operating company is 0984750 B.C. Ltd. d/b/a Quadriga CX and Quadriga Coin Exchange ("**Quadriga**" or the "**Company**"). Quadriga is a wholly owned subsidiary of Whiteside Capital Corporation which in turn is wholly owned by Quadriga Fintech Solutions Corp. ("**Fintech**"). Fintech is widely held and is a reporting issuer in British Columbia.

3. Quadriga operates an online cryptocurrency exchange platform (the "**QCX Platform**")

whereby parties interested in buying, selling or exchanging various cryptocurrencies are able to complete such transactions on the QCX Platform. Commentary with respect to how the QCX Platform operates is outlined below in this pre-filing Report of the Proposed Monitor (the “**Report**”) and the affidavit of Jennifer Robertson sworn January 30, 2019 (the “**Robertson Affidavit**”) filed in support of the Applicants’ application for CCAA protection.

4. As set out further below, the Proposed Monitor understands that Quadriga is experiencing a liquidity crisis and has been unable to satisfy withdrawal requests from users. Additionally, Quadriga has been unable to locate a significant amount of cryptocurrency following the death of the Applicants’ founder and Chief Executive Officer, Gerald Cotten (“**Mr. Cotten**”).

5. As a result of the liquidity crisis combined with the lost (temporarily or permanent) traditional currency (“**Currency**” or “**Cash**”) and cryptocurrency, the Applicants have decided to seek the relief provided for in the CCAA.

6. This Report is intended to provide the Court with information relevant to the Applicants’ application for an Initial Order under the CCAA, based on the information that has been made available to the Proposed Monitor. The Report is presented under the following headings:

   (a) Terms of Reference and Disclaimer;

   (b) EY Qualification to Act as Monitor;

   (c) Background and Overview of the QCX Platform;

(d) Liquidity Crisis and Instability of Quadriga;

(e) Need for CCAA Protection;

(f) Post-Filing Cash Management and Accounting Function;

(g) Cash Flow Forecast;

(h) Interim Financing;

(i) Upcoming Restructuring Measures;

(j) Financial Thresholds Contemplated; and

(k) Overall Comments and Conclusions.

TERMS OF REFERENCE AND DISCLAIMER

7. In preparing this Report and making the comments in this Report, the Proposed Monitor has been provided with limited records and financial information from the Applicants (the "**Information**") and has engaged in discussions with the Applicants' directors, senior management team ("**Management**") and the Applicants' legal advisors.

8. The Proposed Monitor has reviewed the Information on a preliminary basis for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the *Chartered Professional Accountants Canada Handbook*, and accordingly the Proposed

Monitor expresses no opinion or other form of assurance in respect of the Information.

9. Some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

10. The Proposed Monitor has assumed the integrity and truthfulness of the Information and explanations provided to it, within the context in which it was presented. The Proposed Monitor's understanding of factual matters expressed in this Report concerning the Applicants and their business is based on the Information, and not independent factual determinations made by the Proposed Monitor. The Proposed Monitor anticipates that as part of any CCAA proceedings in respect of this matter, the Proposed Monitor will be required to investigate certain matters further in order to confirm the Information and other facts. If appointed, the Proposed Monitor will report further to the Court and stakeholders on the Proposed Monitor's investigation.

11. The Proposed Monitor has requested that Management bring to its attention any significant matters which were not addressed in the course of its specific inquiries. Accordingly, this Report is based solely on the Information (financial or otherwise) provided by the Applicants.

12. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian dollars.

EY'S QUALIFICATION TO ACT AS MONITOR

13. As regards the proposed appointment of EY as monitor in these proceedings, EY hereby

confirms:

(a) that it fulfills the requirement of section 11.7(1) of the CCAA;

(b) that neither EY nor its affiliates, directors and officers is subject to the restrictions referred to in section 11.7(2) of the CCAA; and

(c) that it has consented to act as Monitor in these proceedings if the Court determines to appoint it as Monitor.

14. The Proposed Monitor has retained Stikeman Elliott LLP to act as its independent counsel in these CCAA proceedings.

BACKGROUND AND OVERVIEW OF THE QCX PLATFORM

Cryptocurrency Industry

15. By way of background information for the benefit of the Court, the Proposed Monitor has outlined a description of cryptocurrency which is relevant to understanding the Applicants' business and operations. Cryptocurrency is a digital asset designed to work as a type of currency that uses cryptography, typically blockchain technology, to secure financial transactions and verify the transfer of units. Blockchain technology allows these transactions to occur through a decentralized ledger without need for verification by a central authority. Each transaction on a blockchain is recorded as a "block" which contains, amongst other things, an encrypted hash of the previous block, time stamp and transaction data. Once recorded, the data in any given block cannot be altered retroactively without alteration of all subsequent blocks which would require cooperation from the entire network. As such, the system provides confidence to users that transactions may be safely

recorded without future alteration.

16. Cryptocurrencies can be used to acquire commercial goods or services, or exchanged on secondary markets or platforms for traditional currencies, or other cryptocurrencies.

17. Bitcoin was the first cryptocurrency that is based on blockchain technology with its network being created in 2009. Similar cryptocurrencies have since been created on different networks such as Bitcoin Cash, Ethereum, Ethereum Classic, Dash, Ripple and Litecoin.

18. In 2017, various cryptocurrencies experienced significant price growth and increased popularity. For example, on January 1, 2017, the price of one bitcoin was approximately US$975. By the end of the year one bitcoin had traded for over US$19,000. Other cryptocurrencies experienced similar price gains. Cryptocurrencies also received significant media attention attracting the interest of the general public.

19. The current price of one bitcoin is approximately $4,552.[1]

Operation of the QCX Platform

20. The Proposed Monitor understands that Quadriga operated a cryptocurrency exchange platform that allowed users to store, buy and sell various cryptocurrencies on the QCX Platform. The QCX Platform was launched in December 2013 on the website: www.quadrigacx.com.

21. The QCX Platform allowed users to deposit Cash or cryptocurrency with Quadriga. After depositing Cash or cryptocurrency with Quadriga, the user's QCX Platform account would

[1] Closing price on January 29, 2019 from Canadian Bitcoin Index (www.cbix.ca).

be credited with the appropriate currency. The user could then place buy or sell orders on the QCX Platform. If a counterparty for the order was found via the QCX Platform, a trade would occur such that the seller's cryptocurrency account would be debited and their cash account (or the appropriate cryptocurrency account, if the seller is trading cryptocurrencies) would be credited. The buyer's account would be credited and debited for the reciprocal amounts. Following the trade, Quadriga would owe the seller Cash (or the appropriate cryptocurrency) for the amount of the sale and owe the buyer cryptocurrency for the amount of coins purchased. Quadriga charged both the buyer and seller a fee for each transaction on the QCX Platform.

22. The Proposed Monitor understands that the deposits, trades and withdrawals were recorded in a secure database controlled by Quadriga. Users could view their own account information through the QCX Platform. The Proposed Monitor further understands the database was backed up frequently by Quadriga and the Company continues to hold the database with users' account information (including the amount of Cash and/or cryptocurrency owed to each user).

23. Based on discussions with Management, the Proposed Monitor understands Quadriga used payment processors to receive Currency and disburse Currency associated with the trades and or other general operating obligations requiring the use of traditional Currency. The payment processors used by Quadriga include POSconnect Inc., VoPay International Inc., Billerfly Labs Inc., among others (collectively "**Third Party Processors**"). The Proposed Monitor understands that Quadriga used Third Party Processors because of the general difficultly Quadriga faced in obtaining bank accounts with Canadian banks.

24. Further, Quadriga used “wallets” to hold cryptocurrencies deposited by users. A “wallet” is an application that stores public and private keys which interact with one or more blockchains to enable the user to send and receive cryptocurrencies. A wallet also enables a user to monitor their cryptocurrency balance. The public key may be distributed to other users to identify their wallet. Only the private key is required to be kept private for security reasons as it is used to authorize the transfer of a cryptocurrency on the appropriate blockchain. Quadriga had “hot” and “cold” wallets which terms are used to describe different types of security. “Hot” wallets are connected to the internet in order to quickly fulfill withdrawal requests. In contrast, “cold” wallets are not connected to the internet and are usually stored physically such as on a USB stick or electronic hardware that is not connected to the internet. The primary benefit of “cold” wallets is that they are not susceptible to hacking.

25. The Proposed Monitor understands that the QCX Platform has approximately 363,000 registered users of which 92,000 currently have account balances owing to them for either Cash or cryptocurrency.

LIQUIDITY CRISIS AND INSTABILITY OF QUADRIGA

26. The Monitor understands that a number of factors have contributed to the current instability, liquidity and solvency concerns being faced by Quadriga.

Cash Management Issues

27. Quadriga’s cash management system did not have a centralized corporate bank account, but instead used Third Party Processors, through whose accounts corporate funds were transferred to satisfy operational costs as well as transfers to and from customers. The lack

of a centralized cash management system contributed to uncertainty and lack of control over the Applicants' Cash and ability to access funds.

28. Due to this issue, Quadriga has been facing significant liquidity issues over the last year. The Proposed Monitor understands that a significant issue arose when CIBC froze a significant amount of Quadriga's funds (the "**Affected Funds**") held in an account of a Third Party Processor, in January 2018. The Affected Funds totalled approximately $25.7 million. Without access to the Affected Funds, Quadriga was unable to satisfy withdraw requests of users resulting in significant delays for users receiving funds from Quadriga.

29. As described in the Robertson Affidavit, the Affected Funds were subject to an interpleader motion brought by CIBC before the Ontario Superior Court of Justice (the "**Ontario Court**"). Ultimately, the Affected Funds were paid by CIBC into the Ontario Court. The Ontario Court subsequently distributed the funds to Costodian Inc. ("**Costodian**") (a company related to Billerfly Inc.) in trust for Quadriga in the form of bank drafts. To date Costodian and Quadriga have been unable to find a bank to accept the bank drafts in order to access the Affected Funds. The Proposed Monitor understands that these bank drafts are currently held by Costodian.

Death of Gerald Cotten

30. Mr. Cotten was Quadriga's founder, Chief Executive Officer and sole director prior to his passing on December 9, 2018. As set out in the Robertson Affidavit, Mr. Cotten was primarily responsible for managing Quadriga and held a significant amount of institutional knowledge regarding the QCX Platform and Quadriga's business. With Mr. Cotten's passing, Quadriga did not have the proper governance to manage the business. In order to

partially address this concern, an application was brought before the Supreme Court of British Columbia to permit Fintech to hold a shareholder meeting on an expedited basis to appoint new directors to the Board of Fintech. On January 25, 2019, Jennifer Robertson, Thomas Beazley and Jack Martel were appointed as directors of Fintech, and in turn following subsequent shareholders' resolutions of Fintech and Whiteside, were also appointed directors of Whiteside and Quadriga.

Solvency Concern – Missing Cryptocurrency and Cash

31. As set out in the Robertson Affidavit, the Proposed Monitor understands that following the death of Mr. Cotten, Quadriga's employees attempted to access cryptocurrency within Quadriga's "cold" wallets. Upon undertaking the search, Quadriga was unable to access the cold wallets and/or discovered that the cold wallets contained minimal cryptocurrency units.

32. With the amount of cryptocurrency missing (the "**Missing Coins**"), even with the Affected Funds, and funds to be repaid by Third Party Processors, Quadriga is unable to satisfy its obligations to users with the amount of deposits currently recorded in the QCX Platform database. As set out in the Robertson Affidavit, the Proposed Monitor understands the Missing Coins are valued at approximately $190 million based on current market prices of the various cryptocurrencies.

33. Further, the Proposed Monitor understands that Quadriga's users collectively have account Cash balances totalling approximately $70 million but does not have funds on hand to satisfy those amounts. The Affected Funds only represent a portion of the Cash obligations owing by Quadriga to the users.

Website Shutdown

34. After the new Board was appointed on January 25, 2019, the Company considered shutting down the QCX Platform in anticipation that the Applicants would file for CCAA protection. The new directors concluded it was appropriate to temporarily suspend the QCX Platform in order to prevent users from transferring further Cash and cryptocurrency to Quadriga. The website and platform were ultimately taken down on January 28, 2019 after making the appropriate arrangements. Until that date, the QCX Platform continued to accept both Cash and cryptocurrency deposits from users.

35. The Proposed Monitor believes it is appropriate to continue with the suspension of QCX Platform during the CCAA proceedings until the situation has stabilized and further information is available. Should the Applicants, together with the Proposed Monitor, conclude it would be beneficial to restart the QCX Platform, the Company will return to Court for authorization to do so.

NEED FOR CCAA PROTECTION

36. With an inability to access the Affected Funds and funds held by Third Party Processors, and locate and/or access the Missing Coins, the Applicants are insolvent on a balance sheet and going-concern basis. The Monitor understands that Quadriga owes approximately 92,000 users (the "**Affected Users**") in excess of $260 million representing both Cash account balances and cryptocurrency notionally held by Quadriga.

37. Since the website was shut down, certain Affected Users have expressed various concerns and frustration online. Certain Affected Users have also made efforts to organize in order to bring a lawsuit against the Applicants to recover amounts owed to them by Quadriga.

The Proposed Monitor is of the view that there needs to be an immediate stay of proceedings against the Applicants in order to permit an investigation of the Missing Coins, determine amounts owed to Affected Users and determine the assets of the Applicants available for distribution. The current *status quo* is untenable and the issues facing Quadriga need to be addressed as part of a collective process supervised by the Court with the participation of all stakeholders. A CCAA proceeding is an appropriate forum to determine next steps while keeping various options open for the Company to address its obligations and/or maximize the recovery for the Applicants' stakeholders.

POST-FILING CASH MANAGEMENT AND ACCOUNTING FUNCTION

38. As noted above, historically, the Applicants have relied upon the services of multiple independent payment processing companies to receive payments and process payments on the Applicants behalf. The Applicants do not have bank account(s) in their name. Furthermore, the Proposed Monitor has been advised that the Applicants do not have accounting systems or accounting records available to it. Directions to release payments through the payment processing companies historically were coordinated by Mr. Cotten who was, prior to his passing, the controlling mind of the business. The Proposed Monitor is advised that Mr. Cotten's payment instructions were typically issued via e-mail. The Applicants did not have an accounting group and payment inflows and outflows were not systematically tracked.

39. One of the roles of the monitor within a CCAA proceeding is to review proposed payments to ensure pre-filing obligations not otherwise approved by the Court are not released and to review and provide comments upon the Applicants' post-filing cash flows and periodically

comment on budget to actual variances within same. The Applicants' treasury and accounting systems either do not exist or are not capable of recording and producing even the most basic of accounting summaries for the Proposed Monitor to review and comment upon.

40. Subject to the approval of the Court, the Proposed Monitor has agreed to establish a trust bank account in the name of the Proposed Monitor (the "**Post-Filing Account**") to receive funds on hand and, to the extent funds are available, pay post-filing operating disbursements approved by the Company, including professional fees. An accounting of all post-filing receipts and disbursements will be maintained and reported upon by the Proposed Monitor throughout these CCAA proceedings.

41. The Proposed Monitor has not consented to process standard operating trade receipts and trade disbursements through its trust account should the trading platform be re-established at some date in the future. In the event that the Court authorizes Quadriga to restart the QCX Platform, the Proposed Monitor will comment upon same at that time and articulate for the Court how the Applicants' treasury functions will be addressed under that scenario.

CASH FLOW FORECAST

42. The Applicants have prepared a statement of projected cash flow (the "**Cash Flow Forecast**"), on a weekly basis, for the 13 weeks ending April 28, 2019. The Cash Flow Forecast is accompanied by the representations of the Applicants as prescribed, and by notes outlining the significant assumptions made in preparing the Cash Flow Forecast. The Cash Flow Forecast, the representations of the Applicants and the notes outlining the

assumptions are appended to this Report as Appendix "A".

43. The Cash Flow Forecast is presented on a consolidated basis for all of the Applicants however, the primary operating entity is Quadriga.

44. The Cash Flow Forecast, including the notes attached thereto for the 13-weeks ending April 28, 2019, has been prepared by the Applicants for the purpose described in the notes accompanying the Cash Flow Forecast, using probable and hypothetical assumptions set out in the said notes.

45. The Proposed Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied by the Applicants. Since hypothetical assumptions need not be supported, the procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Cash Flow Forecast. The Proposed Monitor wishes to stress that the available information produced was very limited and not standard.

46. Subject to the limitations identified above, based on this review, nothing has come to the Proposed Monitor's attention that causes it to believe that, in all material respects:

(a) the hypothetical assumptions are not consistent with the purpose of the projection;

(b) as at the date of this Report, the probable assumptions developed by the Applicants are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or

(c) the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

47. Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The Cash Flow Forecast has been prepared solely for the purpose described in the notes accompanying the Cash Flow Forecast, and readers are cautioned that it may not be appropriate for other purposes. Furthermore, notwithstanding the Proposed Monitor's efforts to review and assess the Cash Flow Forecast for reasonability, the unique circumstances, lack of financial reporting resources and absence of historical accounting information has caused this to be a challenging process.

48. The Cash Flow Forecast assumes the recovery of and ability to access for operating and CCAA costs, the Drafts and various amounts held by Third Party Processors. If those amounts are not recovered as anticipated, the Applicants will have to revisit whether DIP financing will be necessary for these CCAA proceedings.

INTERIM FINANCING

49. The Proposed Monitor notes that Ms. Robertson agreed to provide interim financing totalling $300,000 to the estate. Approximately $150,000 of this amount was used prior to the filing date for professional costs to assist with the preparation of the filing and costs associated with process in British Colombia to appoint new directors.

50. The Proposed Monitor notes that the Robertson Affidavit discloses that Ms. Robertson was granted security over the assets of Quadriga in respect of the $300,000 financing on January 29, 2019.

UPCOMING RESTRUCTURING MEASURES

Initial Asset Recovery

51. If appointed, the Proposed Monitor will assist the Applicants in identifying and securing the return of the assets belonging to Quadriga for the benefit of Applicants' stakeholders, including the Affected Users. There are two initial sources of funds that the Proposed Monitor believes will be initially recoverable by the Applicants: (a) the Affected Funds; and (b) funds held on behalf of the Applicants by Third Party Processors.

52. As described above and in the Robertson Affidavit, Costodian is currently in possession of the bank drafts representing the Affected Funds (collectively the "**Drafts**"). The Applicants and Costodian have been unable to deposit the Drafts originating from transactions processed through the QCX Platform. The Proposed Monitor anticipates in the early stages of these CCAA proceedings seeking an Order from this Court to assist with depositing the Drafts and authorizing use of the Affected Funds to fund these proceedings, including the proposed investigation and asset realization efforts described below.

53. The Monitor also understands that various Third Party Processors are holding funds on behalf of the Applicants. The Proposed Monitor understands that certain Third Party Processors are prepared to transfer amounts they hold on behalf of Quadriga whereas other Third Party Processors have refused to communicate with Quadriga. One Third Party Processor has already issued bank drafts totalling approximately $5.8 million to 700964

N.B. Inc., a company owned by a member of Management. Those drafts were subsequently delivered to counsel to the Applicants, Stewart McKelvey. The Proposed Monitor intends to assist with all efforts to recover the funds in the possession of Third Party Processors which may be deposited in the Post-Filing Account for the benefit of the estate.

Securing of QCX Platform Information

54. The Proposed Monitor intends to attempt to secure the QCX Platform database information independently from the Applicants. The Proposed Monitor believes the information will assist with a future claims process which will be necessary in these CCAA proceedings. Further, the Proposed Monitor will assist in securing the books and records, if any and as they exist, including copying the online records so that future forensic investigations may be undertaken as necessary.

Investigation of the Missing Coins

55. The Proposed Monitor will also seek to retain cryptocurrency forensic advisors to assist with the Applicants' efforts in attempting to locate the Missing Coins and determine appropriate steps and options with respect to any other investigation that should be completed. The Proposed Monitor will report to the Court on investigation options before undertaking a further forensic investigation.

Sale of the QCX Platform

56. The QCX Platform has been operating since 2013. The QCX Platform is reportedly one of the more recognizable platforms in Canada with a broad user base. The QCX Platform itself has been developed and refined since its inception and is a proven platform capable of processing high volumes of cryptocurrency transactions for a broad base of users. As

such, the QCX Platform may be a saleable asset of considerable value to potentially address the Applicants' obligations to Affected Users and other creditors.

57. The Proposed Monitor understands that the Applicants have been approached by certain parties interested in purchasing the QCX Platform. Discussions with these parties have not been advanced given the uncertainty facing the Company. However, the Applicants intend to aggressively pursue such negotiations post-filing with the assistance of the Proposed Monitor. Efforts and progress in relation to such activities will be communicated to the Court as information becomes available.

Chief Restructuring Officer

58. Consideration for the engagement of a chief restructuring officer ("**CRO**") with specialized restructuring skills and familiarity with CCAA proceedings was discussed prior to the filing for creditor protection. The Applicants have elected not to engage a CRO at this stage, however, a list of potential candidates has been assembled. The Applicants intend to reassess its needs and may elect to supplement the skills and knowledge of Management through the engagement of a qualified independent resource as these CCAA proceedings progress.

Representation for the Affected Users

59. The primary affected creditors within these proceedings are the Affected Users who the Applicants owe Cash and cryptocurrency cumulatively valued in Canadian dollar equivalency at $260 million. The Proposed Monitor understands the claims of Affected Users range from very small amounts to very large balances with the largest Affected User claim reportedly valued at approximately $70 million.

60. The Proposed Monitor anticipates that the rights and interests of the Affected Users may need to be protected by representative counsel ("**Rep Counsel**"). Rep Counsel may also assist with efficient administration of these CCAA proceedings. The Proposed Monitor will report to the Court further on the issue at a later date after consultation with the Applicants.

FINANCIAL THRESHOLDS CONTEMPLATED IN THE INITIAL ORDER

61. The draft Initial Order provides for a number of charges and financial thresholds that are described below.

Administration Charge

62. The Administration Charge as described in the draft Initial Order provides for an amount of $2.0 million for the Monitor, the Monitor's counsel and the Applicants' legal counsel, as security for the professional fees and disbursements incurred both before and after the making of the Initial Order in respect of these proceedings, in addition to the retainers already provided. The Administration Charge threshold has been established based on the various professionals' previous history and experience with large restructurings of similar magnitude and complexity. The Proposed Monitor believes that such a charge is required and reasonable under the circumstances.

D&O Charge

63. The Initial Order provides for a directors and officers' charge (the "**D&O Charge**") in an amount of $100,000 to secure the indemnity for the Applicants' directors and officers provided in the Initial Order. Pursuant to the proposed Initial Order, the Applicants' directors and officers shall be indemnified in respect of all liabilities and obligations which may arise on or after the date of the Initial Order provided that the liability relates to his or

her capacity as director and/or officer and is not attributable to a gross negligence or wilful misconduct of the part of the director or officer.

64. The Applicants do not pay employee source deductions and are still investigating whether HST will be payable by the Applicants during the proceedings. The purpose of the Directors' Charge is to protect against the remote contingency that newly appointed directors may incur liability during these CCAA proceedings. In light of the limited quantum of the Directors' Charge, the Proposed Monitor believes that such charge is reasonable under the circumstances.

OVERALL COMMENTS AND CONCLUSIONS

65. The nature, cumulative claim value and number of affected stakeholders, combined with challenges associated with gaining access to the Affected Funds, the limited accounting resources of the Applicants and efforts required to locate the Missing Coins for the benefit of the Applicants' stakeholders, presents an extraordinary set of case facts. The Proposed Monitor believes that the Applicants' proposed approach to managing these challenges by seeking a stay of proceedings under the CCAA is appropriate in the circumstances. The CCAA provides a vehicle of stability and transparency to address the unique situation facing both the Applicants and their stakeholders including, the Affected Customers who are cumulatively owed approximately $260 million (represented in Cash and cryptocurrency).

66. The Proposed Monitor has only recently become involved in this case. However, based on the Proposed Monitor's review to date, the Applicants have displayed diligence and good faith in pursuing these CCAA proceedings. If appointed, the Proposed Monitor will report

further on the issues described in this Report and any other issues that may come to the Proposed Monitor's attention.

67. In view of the foregoing and the information EY has received since its recent engagement, EY considers that the Applicants motion to obtain a stay under the CCAA is necessary and appropriate in the circumstances.

All of which is respectfully submitted this 31st day of January, 2019.

ERNST & YOUNG INC.
In its capacity as the proposed monitor
in the matter of the proposed compromise and
arrangement of Quadriga Fintech Solutions Corp; Whiteside
Capital Corporation and 0984750 B.C. Ltd.

____

George Kinsman, CPA, CA, CIRP, LIT
Senior Vice President

<u>Appendix "A" – Cash Flow Forecast</u>

[Attached]

2019 Hfx No.

Supreme Court of Nova Scotia

IN THE MATTER OF:	**The Companies' Creditors Arrangement Act, R.S.C. 1985 c C-36 as am.**
AND IN THE MATTER OF:	**A Plan of Compromise or Arrangement of Quadriga Fintech Solutions Corp., Whiteside Capital Corporation and 0984750 B.C. Ltd.**
	Applicant

REPORT ON CASH FLOW STATEMENT
(Section 10(2)(b) of the *Companies' Creditors Arrangement Act* "CCAA")

Quadriga Fintech Solutions Corp., Whiteside Capital Corporation and 0984750 B.C. Ltd. (collectively the "Company") has prepared the attached statement of projected cash flow of the Company as of 29 January 2019 (the "Cash Flow Statement") consisting of a 13 week cash flow for the period 28 January 2019 through 28 April 2019.

The Cash Flow Statement has been prepared for the purposes of an Application of the Company pursuant to the CCAA.

The hypothetical assumptions contained in the Notes to the Cash Flow Statement are reasonable and consistent with the purpose of the projections described in the Cash Flow Statement and the Notes to the Cash Flow Statement, and the probable assumptions are suitably supported and consistent with the plans of the Company and provide a reasonable basis for the projections.

Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projections have been prepared solely for the purposes described above, using the probable and hypothetical assumptions set out in the Notes. Consequently, readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

Dated 29 January 2019

Jennifer Robertson

Quadriga Fintech Solutions Corp.;
Whiteside Capital Corporation and
0984750 B.C. Ltd.

Per: Jennifer Robertson

QUADRIGA

Cash Flow Forecast for the period of 28 January 2019 to 28 April 2019

Unaudited - see Notice to Reader

All figures in nominal C$, unless otherwise noted

		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Period		**Week 1**	**Week 2**	**Week 3**	**Week 4**	**Week 5**	**Week 6**	**Week 7**	**Week 8**	**Week 9**	**Week 10**	**Week 11**	**Week 12**	**Week 13**
Date - beginning of period		28-Jan-19	04-Feb-19	11-Feb-19	18-Feb-19	25-Feb-19	04-Mar-19	11-Mar-19	18-Mar-19	25-Mar-19	01-Apr-19	08-Apr-19	15-Apr-19	22-Apr-19
Date - end of period	Notes	03-Feb-19	10-Feb-19	17-Feb-19	24-Feb-19	03-Mar-19	10-Mar-19	17-Mar-19	24-Mar-19	31-Mar-19	07-Apr-19	14-Apr-19	21-Apr-19	28-Apr-19
SUMMARY														
Opening available cash balance		–	**$2,515**	**$455,341**	**$355,341**	**$205,341**	**$30,901,770**	**$30,631,958**	**$30,481,958**	**$30,381,958**	**$30,281,958**	**$30,155,396**	**$30,055,396**	**$29,955,396**
Receipts														
Collection of funds on hand from payment processors	1	$15,000	$579,388	–	–	–	–	–	–	–	–	–	–	–
Advance from Shareholder	2	$150,000	–	–	–	–	–	–	–	–	–	–	–	–
Bank Drafts - CIBC	3	–	–	–	–	$25,272,089	–	–	–	–	–	–	–	–
Bank Drafts - Other	3	–	–	–	–	$5,824,340	–	–	–	–	–	–	–	–
Total receipts		**$165,000**	**$579,388**	–	–	**$31,096,429**	–	–	–	–	–	–	–	–
Disbursements														
Independent Contractors	4	$32,485	$20,000	$20,000	$20,000	$20,000	$161,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000
Amazon Web Services (server hosting)		–	–	–	–	–	–	–	–	–	–	–	–	–
Sendgrid (email provider)		–	–	–	–	–	–	–	–	–	–	–	–	–
IP address lookup		–	$25,000	–	–	–	$25,000	–	–	–	$25,000	–	–	–
Freshdesk (support system)		–	$720	–	–	–	$720	–	–	–	$720	–	–	–
Fastmail (email services)		–	$50	–	–	–	$50	–	–	–	$50	–	–	–
DomainSure		–	$792	–	–	–	$792	–	–	–	$792	–	–	–
Cloudflare		–	–	–	–	–	$2,250	–	–	–	–	–	–	–
Repayment of shareholder advances	5					$300,000								
Miscellaneous		$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000
Professional fees														
Monitor's fees	6	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000
Monitor counsel	6	$75,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000
Company counsel	6	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000
Cryptocurreny consultants	7				$50,000			$50,000						
Total disbursments		**$162,485**	**$126,562**	**$100,000**	**$150,000**	**$400,000**	**$269,812**	**$150,000**	**$100,000**	**$100,000**	**$126,562**	**$100,000**	**$100,000**	**$100,000**
Net cash flow		**$2,515**	**$452,826**	**($100,000)**	**($150,000)**	**$30,696,429**	**($269,812)**	**($150,000)**	**($100,000)**	**($100,000)**	**($126,562)**	**($100,000)**	**($100,000)**	**($100,000)**
Closing available cash balance		**$2,515**	**$455,341**	**$355,341**	**$205,341**	**$30,901,770**	**$30,631,958**	**$30,481,958**	**$30,381,958**	**$30,281,958**	**$30,155,396**	**$30,055,396**	**$29,955,396**	**$29,855,396**

Jennifer Robertson

Jennifer Robertson
President

Jan 31, 2019
Date

QUADRIGA
Cash Flow Forecast for the period of 28 January 2019 to 28 April 2019
Unaudited - see Notice to Reader
Notes to the Cash Flow Projection

Management of Quadriga have prepared this forecasted cash flow statement based on probable and hypothetical assumptions detailed in the notes below.

The forecast has been prepared solely for the Company's CCAA filing to determine liquidity requirements. Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material. Consequently, readers are cautioned that it may not be appropriate for other uses.

Note 1: The Company has a number of Third Party Payment Processors including 700964 N.B. Inc, Billerfly, Custodian who hold cash on behalf of Quadriga. Demands for the return of Quadriga funds have been initiated. 700964 N.B. Inc. has confirmed that it will be returning approximately $375,000 to the Company. Amounts recoverable from the other payment processors are unknown at this time.

Note 2: Interim funding arrangements with the majority shareholder to a maximum amount of $300,000 have been secured to fund the early stages of the CCAA proceedings.

Note 3: The Company holds bank drafts (payable to third party payment processors on behalf of Quadriga) cumulatively totalling in excess of $30 million. The Company intends to bring forward a motion on notice to affected parties, seeking an Order to faciliate the deposit of such funds into the Court Appointed Monitors account to fund the CCAA process and or the Companies plan of arrangement.

Note 4: Independent contractor fee's associated with key management roles including data base management, client verification and customer support services. The Company owes $141,000 for services rendered to its chief technology officer for services rendered in 2018. The Company believes the payment of this pre-filing obligation (week 6) is necessary to secure the continued service of this critical resource. The payment will be subject to the approval of the Court.)

Note 5: The Company intends to repay interim funding advanced by its majority shareholder upon receipt and access to the Bank Draft funds.

Note 6: Professional fees payable to the Monitor, its counsel and the Applicants counsel - billed on a weekly basis. The majority shareholder has advanced Stewart McKelvey and EY $50,000 each as a retainer for professional services. A retainer for the Monitors counsel will be required in week 1.

Note 7: The Company anticipates a 3rd party independent cryptocurrency specialist will be engaged to assist with the tracing, identification and potential retrieval of missing cryptocurrency.