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.

FIRST REPORT OF THE MONITOR

February 12, 2019

February 12, 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 Monitor, Ernst & Young Inc.

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.

FIRST REPORT OF THE MONITOR

February 12, 2019

INTRODUCTION

1. On February 5, 2019 (the "**Filing Date**"), Quadriga Fintech Solutions Corp., Whiteside Capital Corporation and 0984750 B.C. Ltd. ("**Quadriga**" or the "**Company**") (collectively, the "**Applicants**") were granted protection from their creditors by the Nova Scotia Supreme Court (the "**Court**") under the *Companies' Creditors Arrangement Act* (the "**CCAA**"). Pursuant to an Order of Justice Wood dated February 5, 2019 (the "**Initial Order**"), Ernst & Young Inc. ("**EY**") was appointed as the monitor (the "**Monitor**") of the Applicants in these CCAA proceedings. The Initial Order provides for a stay of proceedings in respect of the Applicants until March 7, 2019. A comeback motion to extend the stay of proceedings in respect of the Applicants and hear any motions to amend or vary the Initial Order was scheduled by the Court for March 5, 2019.

PURPOSE

2. The purpose of the first report of the Monitor (the "**First Report**") is to provide the Court

with an update in respect of the following:

(a) Activities of the Monitor since its appointment; and

(b) Commentary on the motions of Bennett Jones LLP and McInnes Cooper (collectively "**Bennett/McInnes**"), Miller Thomson LLP and Cox & Palmer LLP (collectively, "**Miller/Cox**") and Osler, Hoskin & Harcourt LLP and Patterson Law (collectively, "**Osler/Patterson**" and together with Bennett/McInnes and Miller/Cox, the "**Applying Rep Counsel**"), each seeking an appointment as Representative Counsel ("**Rep Counsel**") in these CCAA proceedings.

TERMS OF REFERENCE

3. In preparing this First Report, the Monitor has relied upon unaudited financial information, the Company's books and records, financial information prepared by the Company (the "**Information**") and discussions with the Applicants' directors, senior management team, consultants ("**Management**") and legal advisors. The 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 Monitor expresses no opinion or other form of assurance in respect of the Information.

4. The 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 Monitor.

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

6. Capitalized terms not defined in this First Report are as defined in the Pre-Filing Report of the Proposed Monitor dated January 31, 2019 (the "**Pre-Filing Report**").

ACTIVITES OF THE MONITOR

Notice to Creditors

7. On the Filing Date, this Court issued the Initial Order upon application by the Applicants which, among other things, declared that the Applicants are debtor companies under the CCAA and granted certain relief in respect of the Applicants. The Initial Order also directed and empowered the Monitor to perform certain activities for the benefit of the administration of these CCAA proceedings.

8. Pursuant to the terms of the Initial Order, the Monitor arranged to place a notice of these proceedings in the Globe and Mail (print and electronic editions) on February 9, 2019 and February 16, 2019. A copy of the notice published in the Globe & Mail on February 9, 2019 is appended as **Appendix "A"** to the First Report.

9. The Applicants coordinated to electronically post a copy of the Initial Order on the Applicants' website at www.quadrigacx.com. The Monitor coordinated to electronically post copies of the Initial Order on the Monitor's case website at www.ey.com/ca/quadriga (the "**Monitor's Website**") and the Quadriga subreddit site at www.reddit.com/r/quadrigacx, each within the required time frame specified in the Initial Order. In addition, the Monitor e-mailed the prescribed notice to 1,658 known creditors

having estimated claims exceeding $10,000 (of which 11 e-mails were returned as undeliverable communications). A copy of the Notice to Creditors is attached as **Appendix "B"** to the First Report.

10. In addition, the Monitor has prepared a list of creditors in accordance with section 23(1)(a) of the CCAA. Subsequent to the Monitor filing the Pre-Filing Report in these CCAA proceedings an amended listing of creditors was produced by Management. The Monitor is reconciling the differences between the two lists produced by Management to determine any differences. Pursuant to the terms of the Initial Order and to address privacy concerns, the list of creditors will not be publicly filed unless ordered otherwise by the Court.

11. The Monitor has made various materials relating to these CCAA proceedings available on the Monitor's Website including all motion materials filed by Applying Rep Counsel. The Monitor intends to promptly post orders of the Court, motion materials and its own reports on the Monitor's Website throughout these CCAA proceedings.

12. A toll free hotline number (1-855-870-2285) and a dedicated Monitor's e-mail account (quadriga.monitor@ca.ey.com) have been established to allow creditors and other interested parties to contact the Monitor to obtain additional information concerning the CCAA proceedings. As of the date of this First Report, the Monitor has received nearly 500 inquiries from Affected Users. The Monitor anticipates posting an FAQ document on the Monitor's Website to address common questions that have been received by the Monitor to date.

Liquidity of the Applicants

13. The Monitor established the Disbursement Account (as defined within the Initial Order)

and received $150,000 from Ms. Jennifer Robertson providing immediate access to funds to address operating obligations of the Applicants.

14. The Monitor and the Applicants' counsel notified nine (9) separate third party payment processors known to have provided services to the Applicants to advise of the Initial Order and request that any funds, including bank drafts, and information and documents regarding such funds in their possession be delivered forthwith to the Monitor.

15. The Monitor has not received any funds from third party payment processors to date. The Monitor and the Applicants are continuing to attempt to work cooperatively with certain of these payment processors in order to secure funds and information in their possession. One third party payment processor has alleged it has the right to continue to hold funds in its possession pursuant to the terms of its agreement with the Applicants. It may be necessary for the Applicants and Monitor to return to the Court for additional assistance in enforcing the terms of the Initial Order and securing the return of funds from third party payment processors. The Monitor will update the Court and stakeholders as to the progress of these efforts and the need for additional Court assistance, if required.

16. As noted in the Robertson Affidavit, one payment processor is currently in possession of five separate bank drafts totalling approximately $25.2 million. Counsel for the Applicants and the Monitor have been in contact with legal counsel for this payment processor. There are various issues to address, however, discussions between the parties have been positive to date. The second group of bank drafts originally held by a third party payment processor, have now been relocated and are in the possession of Stewart McKelvey who is currently cataloguing the bank drafts in its possession. The Applicants and Monitor are working with the issuing banks and the Monitor's bank to determine the necessary

documentation and/or endorsements required to facilitate the transfer and negotiation of the bank drafts for deposit into the Disbursement Account.

Cryptocurrency Retrieval

17. The Monitor was advised that Quadriga held the following cryptocurrency balances (with approximate Canadian currency equivalent aggregating to $902,743) within its hot wallets on its servers as at the Filing Date:

    (a) Bitcoin: 154.12008035 @ $4,550.25 = $701,285

    (b) Bitcoin Cash SV: 0.01353067 @ $80.55 = $1

    (c) Bitcoin Cash: 33.31348647 @ $153.88 = $5,126

    (d) Bitcoin Gold: 2,032.65853677 @ 12.58 = $25,570

    (e) Litecoin: 822.26686907 @ $44.95 = $36,961

    (f) Ether: 951.49917091 @ $140.62 = $133,800

18. On February 6, 2019, Quadriga inadvertently transferred 103 bitcoins valued at approximately $468,675 to Quadriga cold wallets which the Company is currently unable to access. The Monitor is working with Management to retrieve this cryptocurrency from the various cold wallets, if possible.

19. The Monitor has made arrangements to transfer the remaining cryptocurrency (Bitcoin 51.12008035; Bitcoin Cash SV 0.01353067; Bitcoin Cash 33.31348647; Bitcoin Gold 2,032.65853677; Litecoin 822.26686907; and Ether 951.49917091) into a cold wallet which will be retained by the Monitor pending further order of this Court.

Electronic Devices

20. The Monitor has identified and secured various Quadriga electronic devices reportedly owned or used by Mr. Cotten within the Quadriga operation. The majority of the Quadriga devices retrieved and now controlled by the Monitor were obtained from a consultant, Mr. Chris McBryan, Insp (retired) of McKalian Sensors Inc. who was previously engaged by Quadriga to access the devices and locate the missing cryptocurrency. The devices taken into custody from Mr. McBryan include two (2) active laptops, two (2) older model laptops, two (2) active cell phones, two (2) older "dead" cell phones and three (3) fully encrypted USB keys. These devices are currently secure in a safety deposit box rented by the Monitor.

21. The Monitor's forensic group is currently working with Mr. McBryan to better understand actions that have been taken in respect of the devices and what information has been obtained from the devices to date to determine what forensic next steps will be employed.

22. In addition, the Monitor was made aware of and took steps to retrieve Mr. Cotten's desktop computer from his home office at his residence in Nova Scotia. No forensic activities have as of yet been performed on the desktop computer.

Quadriga Platform Data Base

23. The Quadriga platform operates from a series of third party servers located in various jurisdictions. The Monitor is working with the Company to confirm the exact locations of the Quadriga servers and make arrangements to preserve the server information and the associated data which will be retained by the Monitor pending further order of this Court. In addition, the Monitor is working with Management to develop an understanding of the operation of Quadriga's exchange platform, the accounts (hot and cold wallets and other

exchanges) used by Quadriga to store cryptocurrency and confirm efforts performed to date by Management to find and access the cold wallets.

24. The Applicants and the Monitor will continue with their efforts to access Mr. Cotten's devices, find and access any Quadriga cold wallets that exist, and locate any other cryptocurrency belonging to Quadriga and report back to the Court in respect of these activities.

REPRESENTATION FOR THE AFFECTED USERS

25. As previously noted in the Pre-Filing Report, the primary affected creditors within these proceedings are users of Quadriga's exchange platform (the "**Affected Users**") who the Applicants have estimated are owed cash and cryptocurrency cumulatively valued in Canadian dollar equivalency at approximately $260 million. The claims of the Affected Users range from very small amounts to very large balances.

26. The Monitor has reviewed the motion materials filed by Applying Rep Counsel in support of their respective motions to be appointed Rep Counsel for the Affected Users. In addition to motion materials filed by Applying Rep Counsel, two other law firms delivered correspondence to the Monitor in connection with the motion to appoint Rep Counsel. Copies of the letters delivered to the Monitor by the other law firms are attached as **Appendix "C"** to the First Report.

27. To assist the Court in the review of the motion, the Monitor has prepared a brief summary of the factors and issues typically taken into consideration by other Canadian courts in past proceedings on such motions. The Monitor also considered these issues in the unique

circumstances of this proceeding and provides its views below.

Procedures to Appoint Representative Counsel

28. In the Pre-Filing Report the Monitor noted the potential need for representative counsel in these CCAA proceedings given the number and nature of the Affected Users. On the same day that the Applicants' sought the Initial Order, Bennett/McInnes filed a motion to be appointed as Rep Counsel in respect of the Affected Users. The Court adjourned the motion until February 14, 2019 allowing other firms to seek appointment as Rep Counsel in these CCAA proceedings. The Monitor notes that the process for the appointment of Rep Counsel in these CCAA proceedings has proceeded on an expedited timeline and has proceeded in a fashion different than other CCAA cases that the Monitor has reviewed.

29. The Monitor notes that the process historically followed by Canadian courts in appointing representative counsel is for the Court to be given the opportunity to consider a motion brought forward together with the Applicants and Monitor which outline:

(a) whether such an appointment is necessary in the particular case, and at the particular stage of the proceedings;

(b) the credentials and experience of the proposed representative counsel;

(c) the proposed group which is to be represented, and commonality of interest of the group members;

(d) the proposed composition of the representative committee;

(e) the scope of the representative counsel's proposed mandate; and

(f) the manner in which the representative counsel should be paid.

Factors to be Considered

30. A review of relevant case law suggests that when deciding whether to appoint representative counsel, Canadian courts have given significant weight to the following three factors:

(a) *The vulnerability and resources of the group seeking representation*. While impecuniosity is often a factor in determining vulnerability, it is not determinative. However, in cases where representative counsel or estate funding for it was denied, the members of the group were well-resourced and there was no evidence of any financial inability of group members to retain their own (or joint) counsel.

(b) *The facilitation of the administration of the proceedings and efficiency*. Courts frequently appoint representative counsel in an effort to create more efficient and less costly proceedings. Often, this means unifying large groups of claimants so that their common interests can be protected and the proceedings run efficiently. Similarly, the Courts have appointed representative counsel in cases where the Monitor had already assumed "very extensive responsibilities", and so it was unrealistic to expect that it could be fully responsive to the needs and demands of the represented group in an efficient and timely manner; and

(c) *The avoidance of a multiplicity of legal retainers*.

31. The Monitor notes that the Courts have denied representative counsel appointments, ordered that claimants must opt-in to representation (as opposed to opt-out of it) or limited

the scope of the representative counsel's mandates or fees to be paid in circumstances where the proposed representative counsel was not seen as adding any value to the estate (simply duplicating the Monitor's role or not having a clear role to play), and where the proposed representatives were sophisticated investors, many of whom demonstrated no vulnerability or a need to receive funding from the debtor to protect their interests. Similarly, the Courts have limited the mandates for representative counsel to represent the class members in respect of their common issues only and not any individual claimant's claims.

32. The Monitor is aware of only limited circumstances where multiple law firms applied to be representative counsel. In those cases, the Courts considered the underlying experience of the proposed counsel, as well as considering which law firm proposed to represent the most inclusive class of claimants and how many claimants have already retained that firm to represent them.

33. The reasonable fees and expenses of representative counsel, as well as financial and other advisors, are frequently funded by the CCAA debtors' estates. In such cases, the Courts frequently grant the representative counsel a charge to secure its fees and disbursements. One of the main factors the Courts tend to consider is the ability of the proposed class members to pay for counsel themselves. Representative counsel orders may include a permanent or time-limited monetary cap on fees and expenses (and on such charge).

The Role of Representative Counsel in these CCAA Proceedings

34. The Monitor is of the view that in these CCAA proceedings, the following issues could

benefit from the appointment of Rep Counsel:

(a) Communicating with and disseminating pertinent information about the CCAA proceedings to the Affected Users;

(b) Securing the Affected Users' collective view on various issues in the CCAA proceedings;

(c) Advocating on behalf of Affected Users before the Court on various issues that arise in the CCAA proceedings;

(d) Disseminating information to Affected Users for the purposes of a future claims procedure, if any; and

(e) Negotiating and assisting with voting in respect of a potential future plan of arrangement, if any.

35. The Monitor notes that it is early stages in these CCAA proceedings and the Monitor is actively pursuing investigations in respect of the Applicants' assets and business. Currently, the Monitor is focused on addressing the following issues on an expedited timeframe:

(a) Locating and securing the Applicants' assets;

(b) Forensic investigations into, among other things, determining the location of the missing cryptocurrency;

(c) Accessing the Applicants' "cold wallets" as located; and

(d) Retention of experts to assist with the above.

36. In order to avoid duplication of efforts and cost, it may be appropriate for the Court to limit the mandate of any representative counsel to communicating and disseminating information to the Affected Users, and securing and communicating the collective view on preliminary issues in these CCAA proceedings, without prejudice to their right to bring a motion at a later date to increase the scope of their mandate. Given the limited resources of the Applicants' estate at this time, the Monitor believes it may be premature for a more significant mandate. Further, the Monitor intends to consult with Rep Counsel, if appointed, with respect to the above to ensure they receive up to date information on the activities of the Monitor.

Terms of the Proposed Rep Counsel Appointment Order

37. Should the Court be of the view that Rep Counsel should be appointed in these CCAA proceeding, the Monitor considers the following aspects of the Order to be of particular importance in this case. The Monitor notes that not all of these issues appear to be fully addressed in the materials submitted by the Applying Rep Counsel and further submissions may be required to fill the gaps in information presently before the Court.

(a) *Composition of the Affected User Committee*. At these early stages of these CCAA proceedings, the Monitor does not yet have full visibility into the various interests of the Affected Users and whether a single committee and representative counsel can represent all such interests. However, given the premature stage of these CCAA proceedings and limited funding currently available for the Applicants' estate, the Monitor believes only a single representative counsel is appropriate at this time.

The representation of diverse, and potentially conflicting, interests of the Affected Users, could be addressed in the size and diversity in composition of the committee of Affected Users (the "**Affected Users' Committee**") that will instruct Rep Counsel. If a formal conflict arises at a future time in respect of legal issues or claims, Rep Counsel and/or the Monitor can advise the Court and if appropriate, alternative arrangements may be made to address the conflict, for example, through the appointment of conflict counsel to address a discrete legal issue.

(b) *Governance of the Representative Committee*. The Monitor is aware that representative counsel will often implement by-laws or terms which govern the manner in which they will solicit and receive instructions from their group. The Court may wish to have further information in respect of the contemplated terms of such governance. However, the Monitor is not aware of other orders granted by other Canadian courts requiring formal approval of the underlying governance terms.

(c) *Opt-In or Opt-Out Basis*. The "opt-out basis" suggested in the draft orders submitted to the Court is more common in representative counsel orders granted by Canadian courts. In certain circumstances, an opt-in process is utilized which would require an Affected User to take a positive step to confirm they wished to be represented by the named Rep Counsel. The Monitor notes that in this case the groups of Affected Users have demonstrated a divergence in their choice of counsel to date. However, given the breadth and disparity of the Affected Users, the Monitor believes it would beneficial for the process and administration of these

CCAA proceedings if Rep Counsel represented the greatest number of Affected Users. Further, certain Affected User may not be up to date on the CCAA proceedings and will not become aware of an opt-in process. In these CCAA proceedings, the Monitor believes Rep Counsel should be appointed on an opt-out basis. Any privacy concerns that individuals may be have about providing personal information to opt-out can be addressed by limiting disclosure to the Monitor, the Applicants and Rep Counsel (and not the Affected Users' Committee).

(d) *Privacy considerations*. The Applicants and Monitors have been approached by various Affected Users expressing concerns regarding possible disclosure of their personal information during the CCAA proceedings. The Monitor notes that the motion materials filed by the Applying Rep Counsel also speak to this consideration. The Monitor suggests that wherever possible, the terms of the order appointing Rep Counsel should limit the dissemination of private information of Affected Users to Rep Counsel only.

(e) *The mandate of the representative counsel*. As noted above, due to the very early stages of these CCAA proceedings and the investigations currently being undertaken by the Monitor in respect of the Applicants' assets, it may be appropriate to temporarily limit the mandate of Rep Counsel appointed at this time to communicating and disseminating information to the Affected Users and advocating on behalf of Affected Users before the Court on preliminary issues raised in these CCAA proceedings.

(f) *Funding of the representative counsel*. It appears to the Monitor that many Affected

Users are investors with means who were able to invest large sums of money in a highly speculative industry. However, many Affected Users have modest amounts owed to them by the Company and others allege that they had a significant amount of their net worth deposited with Quadriga. Given the disparity of the Affected Users and the potential that certain Affected Users are unable to secure individual representation in these CCAA proceedings, the Monitor believes it is appropriate that Rep Counsel is funded by the Applicants' estate in these CCAA proceedings. However, given the limited resources of the Applicants and potential for a mandate with limited scope, it may be appropriate for the Court to place permanent or time-limited caps on the fees of Rep Counsel, if appointed.

Qualifications and Quantum of Claim Support of Applying Rep Counsel

38. The Monitor notes that each Applying Rep Counsel has outlined the estimated number of individuals and holdings which have expressed support for their appointment as Rep Counsel.

(a) Bennett/McInnes: 141 Affected Users with claims approximating $13,017,901.23.

(b) Miller/Cox: 210 Affected Users with claims approximating $13,474,446.82.

(c) Osler/Patterson: 76 Affected Users with claims approximating $13,149,317.22.

39. With respect to selecting between Bennett/McInnes, Miller/Cox and Osler/Patterson for the role of Rep Counsel, the Monitor is of the view that each of the Applying Rep Counsel are more than adequately qualified and experienced to act as Rep Counsel in these CCAA

proceedings.

40. With respect to the members of the Affected Users' Committee, the Monitor is unable to gauge the appropriateness of the proposed members given the limited information available to date. The Monitor proposes that the identity of the members on the Affected User Committee should either be approved by the Court at a later date or determined by Rep Counsel at a later date in consultation with the Monitor after providing notice to the Affected Users that Rep Counsel is seeking to establish an Affected Users' Committee. The Monitor believes additional information is required to evaluate proposed members of the Affected Users' Committee with respect to their holdings, interests and qualifications relative to other Affected Users. The Monitor believes the Affected Users' Committee should attempt to reflect the diversity of composition of the Affected Users and as noted above, the Court may wish to provide guidance or instruction to Rep Counsel on the composition of the Affected Users' Committee.

CONCLUSION

41. At the hearing of the Initial Order, at the request of the Bennett/McInnes moving parties, the Court scheduled this motion to permit potential counsel the opportunity to apply for the role of Rep Counsel of the Affected Users in these CCAA proceedings. While the Monitor appreciates that the ultimate selection is a decision for the Court, in an effort to assist the Court with its decision, the Monitor has outlined some factors and issues for consideration by the Court, based on the Monitor's earlier experiences with similar representative counsel orders in other CCAA proceedings and the Monitor's review of precedent orders.

42. On the merits of the motions brought by the Applying Rep Counsel, the Monitor believes it

would be appropriate to appoint Rep Counsel in these CCAA proceedings to represent the broad group of Affected Users. The Monitor also believes that each of the Applying Rep Counsel are well qualified and experienced to act as Rep Counsel and will adequately represent the interests of the Affected Users.

All of which is respectfully submitted this 12th day of February 2019.

ERNST & YOUNG INC.
In its capacity as the Court-appointed 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

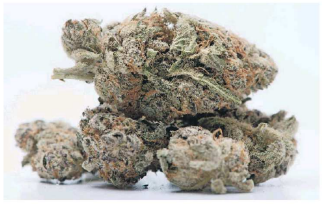
Appendix "A" – Globe & Mail Notice

[Attached]

Fired Namaste CEO seeks injunction to retain role

Sean Dollinger alleges he was wrongly dismissed, but the firm has already hired an interim chief executive

CHRISTINA PELLEGRINI
CANNABIS INDUSTRY REPORTER



Activist short-sellers have recently targeted cannabis tech firm Namaste Technologies Inc. GRAEME ROY/THE CANADIAN PRESS

The recently fired chief executive officer of **Namaste Technologies Inc.** is contesting his dismissal, alleging in a lawsuit filed this week that he was hastily and improperly removed from the cannabis company he co-founded in 2014.

Sean Dollinger is alleging that he was wrongly ousted from his roles as CEO and director of Vancouver-headquartered Namaste after repeated, but unsubstantiated threats from other directors that Namaste's auditor, PricewaterhouseCoopers LLP, would resign if Mr. Dollinger wasn't dismissed, according to court documents filed Tuesday with an Ontario court. He says he was told that his termination was "the lesser of two evils."

Mr. Dollinger is fighting back. He is asking a judge to issue an injunction stopping the board or any committee of the board from terminating his employment. He wants the courts to declare that he is, in fact, still CEO and a director of Namaste, a company that sells cannabis accessories in more than 20 countries and is licensed to sell medical cannabis produced by other growers in Canada.

For its part, Namaste has already moved on. It named a new interim CEO to replace Mr. Dollinger and is now weighing a sale after it says an interested buyer emerged.

Since Mr. Dollinger's firing Monday until midday Friday, shares of Namaste had taken a nosedive, losing more than $140-million in value. Meni Morim, Namaste's interim CEO, then tried to calm the market by assuring investors and employees that it's business as usual. In a letter to shareholders posted Friday afternoon, Mr. Meni said the company has a "strong, talented management team in place" that is focused on running and growing the business.

The stock had been down 10 per cent Friday and spiked after the letter was published to finish the trading session up 11 per cent to $1.13. The company's stock is now worth $247-million.

That said, the court filings paint the picture of a frenetic weekend at Namaste leading up to Mr. Dollinger's firing, revealing a tense battle for control and an ongoing fight over whether proper corporate governance procedures were followed.

Namaste is one of several marijuana companies that have been targeted by activist short-sellers who have criticized governance practices and company valuations amid a steep rally in share prices. Other firms that have been attacked include Aphria Inc., Aurora Cannabis Inc., Tilray Inc. and Cronos Group Inc.

Mr. Dollinger filed his application with the courts on Tuesday, a day after Namaste said in a press release that it was firing him after an internal investigation found alleged wrongdoing related to recent deal-making. The probe was conducted by a special committee of two directors – whom Mr. Dollinger has also named in his lawsuit – after a short-seller took aim at Namaste in two reports alleging fraud and self-dealing. Namaste's special committee, which was advised by Miller Thomson LLP and Ernst & Young LLP, found that Mr. Dollinger had allegedly breached his fiduciary duty to the company and improperly enriched himself.

Darren Seed, a spokesman for Namaste, said the company can't comment on the matter because it is before the court. Mr. Dollinger said he was travelling Friday and was not available for an interview prior to publication. A PwC spokesman said in an e-mail the firm doesn't comment on clients or work it performs on their behalf. An e-mail to Jay Hoffman, a lawyer at Miller Thomson who advised Namaste's special committee, wasn't returned.

In its Monday press release, Namaste said it would be filing a lawsuit against Mr. Dollinger for damages and disgorgement of any profits the company says Mr. Dollinger improperly earned. Mr. Seed said a lawsuit hasn't been filed, as of early Friday.

In mid-October, Namaste struck a special committee to review claims made by an activist short-seller against the company and some senior employees, including Mr. Dollinger. At first, it was a committee of one board member – Branden Spikes. A second director – Laurens Feenstra – was added last month. Mr. Spikes said in an e-mail that Mr. Dollinger's "version of events is false."

The matter came to a head last Friday, when the special committee said it was ready to present its findings to the other directors. According to court documents, Mr. Dollinger says he was told after the meeting that the special committee had decided to terminate his employment, but would give him 96 hours to decide whether he'd rather resign instead. Mr. Hoffman, the lawyer for the special committee, originally gave Mr. Dollinger until Tuesday to decide, but Namaste's press release announcing his firing was published early Monday morning. E-mails were being sent from both sides of the dispute late Sunday night and into the morning.

In the court filing, Mr. Dollinger argues that the special committee doesn't have the authority to fire him and remove him from the board. He also claims that half of that board meeting last Friday was held with too few directors to meet the company's definition of quorum. He says he and two other directors were bullied into agreeing to recuse themselves from the second half of the meeting. Mr. Dollinger also claims that another board meeting was held Sunday that suspended the authority of the special committee. The two directors on the special committee dispute this.

Namaste hasn't fully explained why Mr. Dollinger was fired. It did take issue with one transaction the company completed in 2017 to sell two Web domains that served the U.S. market for US$400,000. That sale allowed the company to list its shares on the TSX Venture Exchange. (The TSXV doesn't permit cannabis companies that violate U.S. federal laws from listing their stock on the exchange, even if the companies comply with state law.)

Among the allegations published in a report last year, activist short-seller Citron Research claimed that the U.S. entity – named Dollinger Enterprises US Inc. – was sold to a related party when Mr. Dollinger said on a conference call it was an arm's-length buyer from Europe. Mr. Dollinger denies Citron's allegations, calling them "spurious and without merit."

NAMASTE TECHNOLOGIES (N)
CLOSE: $1.13, UP 11¢

Bump in job growth not expected to sway central bank on rates

JULIE GORDON OTTAWA

The Bank of Canada looks set to leave interest rates unchanged next month despite bumper jobs numbers in January that far exceeded market expectations and highlighted the strength of the Canadian economy, analysts said.

Statistics Canada reported on Friday that employers added 66,800 jobs in January, far more than the gain of 8,000 that analysts forecast in a Reuters poll, while the unemployment rate ticked up to 5.8 per cent as more people sought work.

It was the second month of outsized gains in the past three, although economists said mediocre wage growth and the dismal oil and gas sector would hold back any action by the central bank the next time it decides on interest rates on March 6.

"That provides reason for the Bank of Canada to keep any tightening at a gradual pace," said Paul Ferley, assistant chief economist at the Royal Bank of Canada.

The economy shed 32,300 goods sector positions, mostly in agriculture and construction. Those losses were offset by the addition of 99,200 services sector jobs in January, mostly in wholesale and retail trade, as well as professional, scientific and technical services.

Part-time job gains outpaced full-time, 36,000 versus 30,900, and youth between the ages of 15 to 24 led employment growth.

REUTERS

TRUE PATRIOT LOVE FOUNDATION

NICK BOOTH

True Patriot Love Foundation, a leading charity supporting military and Veteran families in Canada, is pleased to welcome Nick Booth as CEO. Nick is former CEO of The Royal Foundation.

truepatriotlove.com

Appendix "B" – Notice to Creditors

[Attached]

Building a better working world

Dieppe
11 Englehart Street
Dieppe, NB E1A 7Y7
Tel: +1 506 853 3097
Fax: +1 506 859 7190

Fredericton
527 Queen Street
Suite 110
Fredericton, NB E3B 3T2
Tel: +1 506 455 8181
Fax: +1 506 455 8141

Halifax
RBC Waterside Centre
1871 Hollis Street
Suite 500
Halifax, NS B3J 0C3
Tel: +1 902 420 1080
Fax: +1 902 420 0503

Saint John
Red Rose Tea Building
5th floor
12 Smythe Street
Saint John, NB E2L 5G5
Tel: +1 506 634 7000
Fax: +1 506 634 2129

St. John's
Fortis Place
5 Springdale Street
Suite 800
St. John's, NL A1E 0E4
Tel: +1 709 726 2840
Fax: +1 709 726 0345

Ernst & Young Inc.
Atlantic Canada
ey.com

To the creditors of:

February 6, 2019

Quadriga Fintech Solutions Corp. Whiteside Capital Corporation and 0984750 B.C. Ltd. d/b/a Quadriga CX and Quadriga Coin Exchange (collectively the "Companies" or the "Applicant")

RE: Proceedings under the *Companies' Creditors Arrangement Act*

Please be informed that on February 5, 2019, on a motion made by Quadriga Fintech Solutions Corp. Whiteside Capital Corporation and 0984750 B.C. Ltd., the Supreme Court of Nova Scotia, pursuant to the *Companies' Creditors Arrangement Act* ("**CCAA**"), issued an order ("**Initial Order**") declaring that the Applicants are debtor companies to which CCAA applies, appointing Ernst & Young Inc. as Monitor and granting certain relief, inter alia, a stay of proceedings, to the Applicant while the CCAA proceedings are ongoing.

Pursuant to section 23(1)(a) of the CCAA, a copy of the Initial Order must be made available to the creditors and, accordingly, you may obtain a copy of the said Initial Order, together with other information pertaining to the proceedings under the CCAA, from the Monitor's website at www.ey.com/ca/quadriga. If you are unable to access the website or have further inquiries, you may contact the Monitor at:

Ernst & Young Inc.
Monitor of Quadriga
RBC Waterside Centre
1871 Hollis Street Suite 500
Halifax, Nova Scotia B3J 0C3

Tel: 855-870-2285
Fax: 902 420 0503
Email: quadriga.monitor@ca.ey.com

Yours very truly,

ERNST & YOUNG INC.
Acting in its capacity as Court
appointed Monitor of Quadriga Fintech Solutions Corp.
Whiteside Capital Corporation and 0984750 B.C. Ltd.

Appendix "C" – Letters Received by the Monitor

[Attached]

Goodmans LLP

Barristers & Solicitors

Bay Adelaide Centre - West Tower
333 Bay Street, Suite 3400
Toronto, Ontario M5H 2S7

Telephone: 416.979.2211
Facsimile: 416.979.1234
goodmans.ca

Direct Line: +1 (416) 849-6017
boneill@goodmans.ca

February 7, 2019

Maurice Chiasson, Q.C./C.R.
Suite 900, Purdy's Wharf Tower One
1959 Upper Water Street
P.O. Box 997
Halifax NS B3J 2X2

Elizabeth Pillon
5300 Commerce Court West
199 Bay Street
Toronto, Ontario M5L 1B9

Dear Sirs/Mesdames:

Re: Quadriga CCAA Proceedings

We write to you in your respective capacities as counsel to Quadriga, and counsel to the court-appointed Monitor for Quadriga's CCAA proceeding, to express our interest in serving as representative counsel for the affected creditors of Quadriga and, more importantly, to suggest to the Debtor and Monitor an alternative process for the formation of the creditors' committee for this case, and thereafter, the selection of representative counsel for same, in each case under a more open and inclusive process than appears to be currently contemplated.

We believe that our firm is uniquely and highly qualified to serve as representative counsel and that the role of representative counsel in this case is an important one for the creditors now involved in this highly particular and developing situation, which concerns the first significant bankruptcy or restructuring of a cryptocurrency business in Canada.[1]

We understand that a motion has been filed by a law firm seeking to be appointed as the representative counsel to a certain set of five creditors, and that a hearing has been scheduled to

---

[1] Among other notable creditor representations, our firm has represented creditors' committees in the following cases: (i) representation of the Pan Canadian Investors Committee in Canada's $32 billion asset back commercial paper crisis and restructuring; (ii) representation of the creditors' committee in the $6 billion Sino-Forest restructuring (including litigation matters in respect of numerous fraud issues); and (iii) representation of the ad hoc committee of second lien lenders in the CCAA proceedings in respect of NewPage Port Hawkesbury. Our firm also represented Co-Op Atlantic as a debtor in its CCAA proceedings, which had a broad effect on many stakeholders across the Maritimes and worked to complete a successful CCAA plan and resolution of key business issues. For the past seventeen years, Chambers has listed Goodmans as the leading restructuring practice in Canada.

consider that motion on February 14th at which time those creditors would be designated as the "Official Committee of Affected Users" for this case, and their counsel would be appointed as the Representative Counsel for all creditors.

Based on the circumstances of this CCAA case, we believe that there has been not been sufficient notice of this selection process and that greater visibility and opportunity should be given both (i) to other creditors who may wish to come forward and serve on any creditors' committee to be appointed in this case and (ii) to other qualified and experienced law firms who may wish to present their credentials and rates to that committee, the Monitor and the Court. We note that, based on the information provided in the Monitor's Pre-Filing Report, the Debtor has at least 92,000 account holders with cash or cryptocurrency balances totalling in excess of $260 million. This suggests a large and diverse creditor base that may not be well represented by the five creditors listed in the current motion, who appear to collectively hold less than 1.5% of that debt.

We would like to suggest that the following alternative process be presented by the Debtor and/or the Monitor to the CCAA Court on February 14th for a more fulsome and proper process for (i) the formation and membership of a creditors' committee for this case and (ii) the selection of representative counsel for same. The process could be as follows:

1. The Debtor or Monitor would announce by way of a press release and post on the Monitor's website that a committee of affected creditors will be formed in these CCAA proceedings and that any and all creditors interested in serving on that committee can contact the Monitor to be considered for membership on that committee.

2. Following a more broad dissemination of that process and opportunity, the Monitor will have greater input and information from creditors interested to serve on the committee and, in consultation with the Debtor and its advisors, can select an appropriately representative set of creditors to serve on the committee. Conducting the process in this manner may disclose that there are indeed different kinds and types of creditors to be considered and represented in these CCAA proceedings, before any one set of counsel and creditor types is approved by the Court, on relatively short notice and in the absence of any apparent urgency to do so (especially, now that the Monitor is on the scene).

3. Once the committee members have been selected and the committee formed, any interested and qualified firms would then be invited to prepare presentations to the creditors' committee to be considered for the role of representative counsel to that committee.

4. The members of the committee, in consultation with the Monitor and its advisors, can then select the law firm best suited to serve as representative counsel, and thereafter, the selection made by the committee can be presented to the Court for approval, with the support and recommendations of the Debtor and the Monitor, as the case may be.

Proceeding in this manner could have several advantages (with appropriate timelines to be set for the above steps by the Debtor, the Monitor and the Court):

1. it will give a fair and proper opportunity for any and all interested creditors to come forward and express their interest in this case and the selection of their counsel, with greater visibility and additional time for that process to unfold (we note that there does not appear to be an urgent need for representative counsel to be put in place, especially now that the Monitor has been appointed and is on the scene). Indeed, it may be that there are several different kinds of creditors involved here, and this step would allow for that potential to be properly explored in advance of a single choice being made;

2. it will give the parties with an economic interest in this case – i.e., the creditors themselves – a better opportunity to canvass their choices for counsel and to make a more informed decision among and from the firms that submit their credentials, rates and rate structures; and

3. it does not require the CCAA court to make that decision for the creditors, on short and limited notice to other creditors, as the current approach does. To the contrary, it gives all creditors a better opportunity to make that decision for themselves.

The issues that will be involved in this case are significant and a great many creditors (at least 92,000 of them) will be affected by this proceeding. We believe that their views can be given greater consideration and greater voice through the alternative process outlined above, as compared to the "first to the post" process that appears to be contemplated by the law firm's motion for immediate appointment as counsel, and designation of certain creditors as the creditors' committee for this case. We believe that a more open and inclusive process, such as the one we have outlined above, will provide a better process and greater benefit for all parties involved here.

As you know, our firm is highly qualified and experienced in CCAA matters, and in representing creditors' committee in unique and difficult circumstances such as these, and we make these submissions to you based on our experience and in the interests of a better process for all parties involved in this important preliminary and foundational step in these CCAA proceedings.

Yours truly,

Goodmans LLP

Brendan O'Neill
BO/lds
cc: Robert J. Chadwick

6908847

PALIARE ROLAND
BARRISTERS

Ken Rosenberg
T 416.646.4304 Asst 416.646.7404
F 416.646.4301
E ken.rosenberg@paliareroland.com
www.paliareroland.com

File 10289

February 8, 2019

VIA EMAIL

Elizabeth Pillon
Stikeman Elliott LLP
5300 Commerce Court West
199 Bay Street
Toronto Ontario M5L 1B9

Dear Liz:

Re: QuadrigaCX insolvency – future potential litigation

Thank you for speaking with me in your role as Monitor's counsel about this very interesting CCAA proceeding. As we discussed, we foresee the potential for significant litigation arising in this case if the cold wallet funds cannot ultimately be accessed or are not sufficient to fully satisfy creditors claims, depending on fluctuating bitcoin values, etc. The successful pursuit of same will require a coordinated approach by all of the stakeholders who stand to gain from any litigation recovery. In our experience, this is most often best accomplished through the court appointment of a litigation investigator / trustee who can act independently and objectively in the best interest of the insolvent estate and all of its creditors. At the appropriate time, we welcome the opportunity to discuss the value Paliare Roland could bring to that process.

Representative counsel role

We understand there is to be a motion on February 14, 2019 to determine if there is a need for the appointment of representative counsel to assist the thousands of account investors, who have been left wondering if they will ever recoup some or all of their investment, in the restructuring. We have decided not to participate in that "carriage" motion, as it is apparent that there are already a number of law firms seeking that appointment, and one more is unlikely to assist that process.

Litigation investigator role

However, we do see a potential role for Paliare Roland in any future litigation that might become necessary. If and when appropriate, we believe that PRRR is uniquely situated to fulfil the role of a litigation investigator, and ultimately as counsel to a litigation trustee, because of our experience in similar cases and our freedom from the inevitable conflicts of interest that will surely plague the larger more full service firms who are vying for representative counsel status. Most fraud and tracing litigation involves large institutions such as banks, accounting firms, insurers, etc. PRRR has no legal or business conflicts which might restrict

us from pursuing all potential sources of recovery. Because PRRR is free of such conflicts of interest, there is no risk that PRRR would be unable to pursue, or be forced to withdraw or limits its role, part way into an investigation or litigation should a large institutional defendant surface. The same may not be said for many (if not all) larger full service law firms.

Paliare Roland experience

We have a number of partners who act for clients involved in disputes in the bitcoin and blockchain space. Moreover, PRRR's experience in commercial litigation, insolvency, fraud and tracing cases, and in acting for class action plaintiffs, gives us a unique skillset that is especially tailored to the nature of the litigation which may arise in this case.

Paliare Roland lawyers have acted for decades in many of the leading Canadian insolvency cases. These have included large insolvency matters involving serious allegations of fraud and mismanagement, including Sino Forest and Hollinger. We pioneered the successful "pro rata" theory adopted by both the Canadian and U.S. courts in Nortel, resulting in a significant win for Canadian creditors. We've brought successful bidders to the table and taken a lead role in the restructuring of a number of files such as Stelco and subsequently the U.S. Steel insolvencies, Nortel, Sears, and many others. We regularly act as insolvency counsel to class action plaintiffs, where there are many thousands of clients, suing companies that ultimately become insolvent and file for CCAA protection – the recent Lac Megantic case is such an example which resulted in a meaningful settlement for class members tragically affected by the rail disaster.

In our class action work we manage effective communications with thousands of class members. Current examples include an action by Shoppers Drug Mart associates across Canada (other than Quebec) against Shoppers Drug Mart, an action challenging foreign exchange practices at two investment dealers in *MacDonald v. BMO Trust Compa*ny, and an action against a Toronto based auditor for lost investments in a Chinese hog operation in *Excalibur Special Opportunities Fund LP* v. *Schwartz Levitsky Feldman*. We have developed significant experience establishing dedicated email accounts and toll-free phone lines, and regularly updated websites and webcasts for class members. We manage large databases of contact information, and leverage newspaper ads, press releases, and other creative means to reach and stay in touch with the thousands of stakeholders whose interests we represent.

Most closely on point, perhaps, we are currently integrally involved on behalf of the Superintendent of Financial Services in the ongoing Sears insolvency, where we have worked with a creditors' committee to devise the construct for the court appointment of an independent litigation investigator, and subsequently a litigation trustee, to investigate and pursue the universe of potential litigation paths designed to produce the greatest recovery for creditors. We continue to work closely with the Litigation Trustee and his counsel and other similarly

situated creditors to coordinate our efforts to recover very significant funds from implicated third parties. We foresee the potential for a similar arrangement in the QuadrigaCX case, working with the Monitor and creditors' counsel.

Finally, we intend to involve and work with the Halifax law firm Nijhawan McMillan Petrunia Barristers as local counsel as appropriate. Nasha Nijhawan was an associate with Paliare Roland before returning to Halifax a number of years ago. She and her colleagues have considerable experience in commercial litigation and other practice areas in the Nova Scotia courts.

Next steps

We know that you have much on your hands at the moment at the inception of this insolvency. We would like the opportunity, at the appropriate time, to further discuss with you the concepts described above, and how our relevant experience and conflict free status could be of real assistance to the Monitor, and most importantly to the court and the stakeholders, in the investigation and pursuit of possible litigation avenues and strategies to maximize creditor recoveries.

We leave it to your discretion as to if and when this letter might be shared with the court, with whomever is appointed as representative counsel, and / or with the service list.

I look forward to speaking with you more about this when it is appropriate and convenient for you.

Yours very truly,
PALIARE ROLAND ROSENBERG ROTHSTEIN LLP

Ken Rosenberg
KR:l

c Nasha Nijhawan