



Account Balance Adjustment Explained

INTRODUCTION

As you know, Digital Surge creditors this past week voted to approve the Digital Surge Directors' Deed of Company Arrangement (DoCA).

We thank customers for their engagement and involvement throughout this process, and for the support we saw in favour of the DoCA.

This has been an extremely difficult and upsetting time for our creditors and our team. We're now focused on providing the best possible outcome for all creditors in line with our rescue package.

Our rescue package provides users with the opportunity to recover the full amount of creditor claims and preserve as much as possible of their digital asset holdings.

We'd also like to acknowledge KordaMentha's hard work throughout this process and their efforts to maximise returns to creditors.

However, following last week's creditors' meeting, it has become apparent further clarification is required regarding the upcoming rebalancing process that will return creditors a portion of their claim at the date administrators were appointed.

We have therefore prepared the following explainer document that goes through four different examples with more details to show how the balance adjustment will work.

KordaMentha has also released the minutes of the meeting last week and an FAQ which is available at <https://kordamentha.com/creditors/digital-surge-pty-ltd>.

HOW DID WE GET HERE?

Digital Surge entered voluntary administration on the 08/12/2022 due to the collapse of FTX and the funds being unavailable caused us to no longer maintain a 1:1 reserve. We put together a rescue package that proposed to reduce everyone's outstanding account balance based on the available funds we have remaining.

On the appointment date of KordaMentha (08/12/2022) the total value of all customer balances (crypto + fiat) was \$64,800,000 and the available assets (crypto + fiat) represented a value of \$29,160,000. This is a 45% availability of funds.

According to the Corporations Act 2001, which governs the Voluntary Administration process, customers claims are crystallised on the date of appointment at their AUD value. This means that total customer claims were locked in at \$64,800,000. The Corporations Act does not recognise asset holdings, but rather the AUD value of those assets owed to creditors at the date of appointment. This means if you had 1 BTC in your account on appointment, your claim against Digital Surge is locked in at approximately \$25,000.

Therefore, if crypto prices didn't move during the Voluntary Administration, all customers would have access to 45% of their crypto and fiat holdings. This is the amount that was held by Digital Surge on the appointment date.

However, during the voluntary administration, the price of the cryptocurrency market increased which increased the amount of funds we have available to distribute to customers. Both the underlying crypto we have available as well as the prices of crypto in each customer's individual portfolio has changed. This led to confusion as to what each customer's crypto balance will look like after the rebalancing process.



WHAT HAS CHANGED?

Each customer was required to submit a proof of debt based on the value of their portfolio on the 08/12/2022. At the same time the total value of all customer balances (\$64.8M) was recorded.

The debt that customers are owed has not increased or decreased, however the underlying assets we have available have mostly increased in value, which has had an impact on both the AUD amount and asset allocation of the distribution to customers.

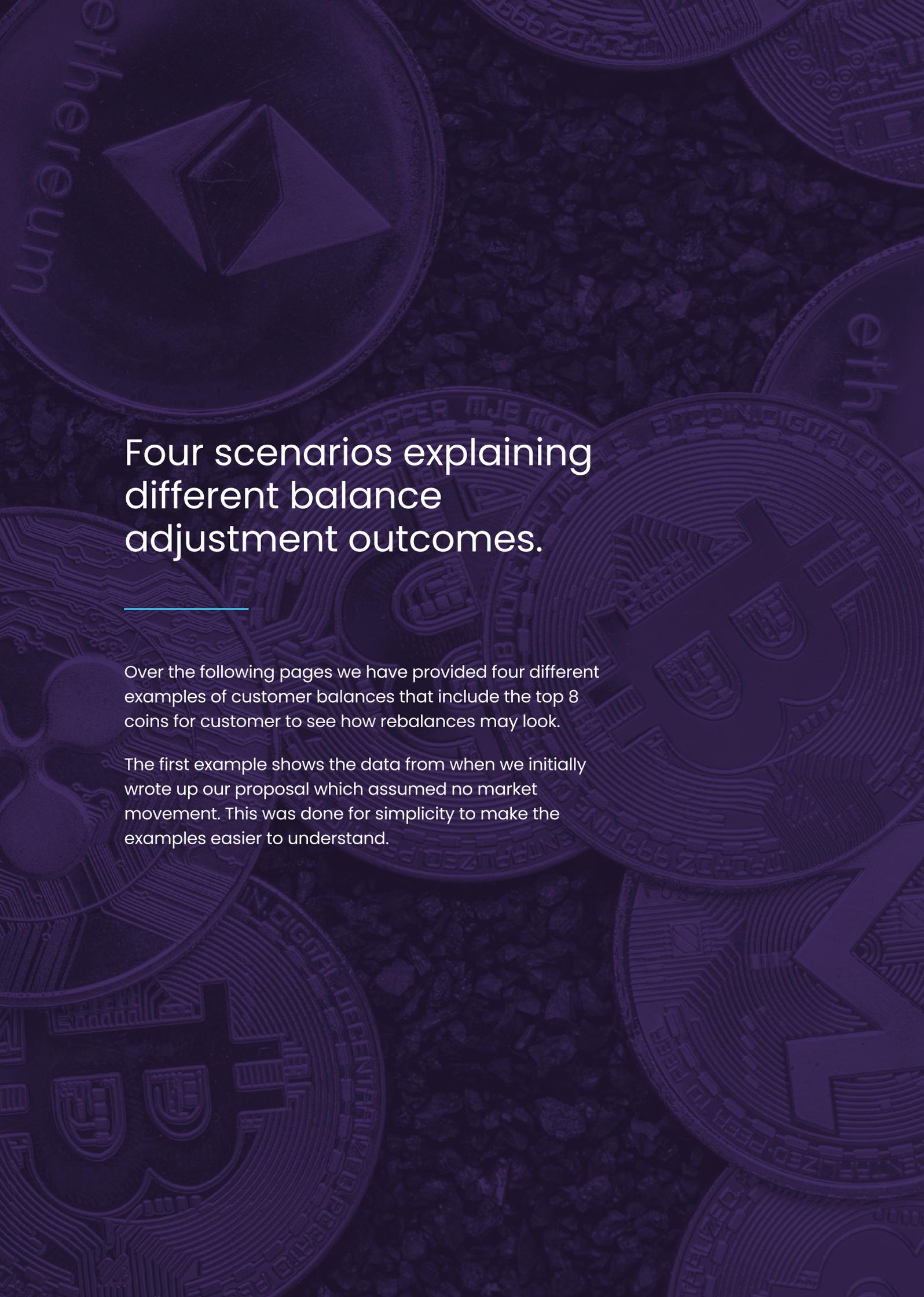
From an AUD perspective, everyone will be getting a higher initial return than what we initially forecasted, which is great news. However, as the market has continued to change the amount of assets returned to customers will not be locked in until we do the actual rebalancing process. The amount of assets returned to creditors will equate to the % return (in AUD) that we can provide equally to all creditors.

HOW DID WE ARRIVE AT OUR ESTIMATED RETURNS?

We have given a conservative estimate of 45% as we believe this will provide a small buffer and allow customers to have a better understanding of what will be immediately available.

The % that customers will get back is based in AUD terms compared to the AUD value of their claim. If there was no underlying crypto movement, the same % would be returned to customers in crypto.

However, as the market has increased by approximately 22% (at the time of this announcement) customers will see an overall increase in AUD terms of 22% (if they were repaid today). On a per coin basis this will be different as it depends on each individual coin's price change against our overall asset increase.



Four scenarios explaining different balance adjustment outcomes.

Over the following pages we have provided four different examples of customer balances that include the top 8 coins for customer to see how rebalances may look.

The first example shows the data from when we initially wrote up our proposal which assumed no market movement. This was done for simplicity to make the examples easier to understand.

No Market Change, accurate as of the 8/12/2022

Example Customer Balance &
rebalance based on 8/12/2022

No market change

Post 45% Rebalance

Assets	Balance	Price 08/12/2022	Value	Value	Balance
AUD	1	\$1.00	\$1.00	\$0.45	0.45 AUD
BTC	1	\$25,062.57	\$25,062.57	\$11,278.16	~0.45 BTC
ETH	1	\$1,836.06	\$1,836.06	\$826.23	~0.45 ETH
BNB	1	\$424.46	\$424.46	\$191.01	~0.45 BNB
XRP	1	\$0.57	\$0.57	\$0.26	~0.45 XRP
ADA	1	\$0.46	\$0.46	\$0.21	~0.45 ADA
DOGE	1	\$0.14	\$0.14	\$0.06	~0.45 DOGE
SOL	1	\$20.14	\$20.14	\$9.06	~0.45 SOL
MATIC	1	\$1.33	\$1.33	\$0.60	~0.45 MATIC
	Total		\$27,346.75		\$12,306.04

Total Customer Balance	\$64,800,000.00
Total Funds Available	\$29,160,000.00
Ratio of Funds Available	45%

In this scenario, the customer's balance AUD value represented \$27,348.24. With their balance adjusted down to 45% (to match the ratio of funds available) the customer would immediately have \$12,306.04 worth of crypto which is reflected in each balance showing 0.45.

22% Market Decrease across all assets evenly

Example Customer Balance & rebalance based on hypothetical market conditions

Hypothetical 22% market drop from 8/12/2022

Post 35% Rebalance

Assets	Balance	VA Price	Current price	% change	Value	Balance
AUD	1	\$1.00	\$1.00	0%	\$0.35	0.35 AUD
BTC	1	\$25,062.57	\$19,498.68	-22%	\$8,771.90	~0.45 BTC
ETH	1	\$1,836.06	\$1,428.46	-22%	\$642.62	~0.45 ETH
BNB	1	\$424.46	\$330.23	-22%	\$148.56	~0.45 BNB
XRP	1	\$0.57	\$0.45	-22%	\$0.20	~0.45 XRP
ADA	1	\$0.46	\$0.36	-22%	\$0.16	~0.45 ADA
DOGE	1	\$0.14	\$0.11	-22%	\$0.05	~0.45 DOGE
SOL	1	\$20.14	\$15.67	-22%	\$7.05	~0.45 SOL
MATIC	1	\$1.33	\$1.04	-22%	\$0.47	~0.45 MATIC
Total						\$9,571.36

Total Customer Balance	\$64,800,000.00
Total Funds Available	\$22,680,000.00
Ratio of Funds Available	35%

In this scenario, we have forecasted a 22% market drop from the 08/12/2022 prices. It shows that the initial funds available within AUD terms is \$9,571.36, representing a return of 35% of customers balance on 8 December 2022, and as each crypto asset has dropped equally, the available amount in crypto terms stays at 0.45.

In this scenario, all asset prices have evenly dropped 22% which has not occurred. If some assets drop at a higher % than the overall 22%, customers will still receive the same \$AUD value, but the overall amount of the coin will increase.

22% Market Increase across all assets evenly

Example Customer Balance & rebalance based on hypothetical market conditions

Hypothetical 22% market increase from 8/12/2022

Post 55% Rebalance

Assets	Balance	VA Price	Current price	% change	Value	Balance
AUD	1	\$1.00	\$1.00	0%	\$0.55	0.55 AUD
BTC	1	\$25,062.57	\$30,626.46	+22%	\$13,784.41	~0.45 BTC
ETH	1	\$1,836.06	\$2,243.67	+22%	\$1,009.84	~0.45 ETH
BNB	1	\$424.46	\$518.69	+22%	\$233.45	~0.45 BNB
XRP	1	\$0.57	\$0.70	+22%	\$0.32	~0.45 XRP
ADA	1	\$0.46	\$0.57	+22%	\$0.25	~0.45 ADA
DOGE	1	\$0.14	\$0.18	+22%	\$0.08	~0.45 DOGE
SOL	1	\$20.14	\$24.61	+22%	\$11.08	~0.45 SOL
MATIC	1	\$1.33	\$1.63	+22%	\$0.73	~0.45 MATIC
Total						\$15,040.71

Total Customer Balance	\$64,800,000.00
Total Funds Available	\$35,640,000.00
Ratio of Funds Available	55%

In this scenario, all asset prices have increased at the exact same % as our underlying assets. If this was to occur, then customers would receive the 0.45 of their crypto as mentioned.

However, the underlying asset price constantly changes and is not within our control. What we can do is provide the % of assets based on the \$AUD value of what we have available.

Market Increase overall 22% unevenly (current market conditions)

*Example Customer Balance
as of 02/02/2023 market
prices & funds available*

Current market conditions (22% increase as of 02/02/2023)

Post 55% Rebalance

Assets	Balance	VA Price	Current price	% change	Value	Balance
AUD	1	\$1.00	\$1.00	0%	\$0.55	0.55 AUD
BTC	1	\$25,062.57	\$33,039.92	+32%	\$13,784.41	0.417 BTC
ETH	1	\$1,836.06	\$2,323.49	+27%	\$1,009.84	0.435 ETH
BNB	1	\$424.46	\$438.43	+3%	\$233.45	0.532 BNB
XRP	1	\$0.57	\$0.60	+5%	\$0.32	0.526 XRP
ADA	1	\$0.46	\$0.53	+14%	\$0.25	0.481 ADA
DOGE	1	\$0.14	\$0.13	-13%	\$0.08	0.633 DOGE
SOL	1	\$20.14	\$34.53	+71%	\$11.08	0.321 SOL
MATIC	1	\$1.33	\$1.42	+6%	\$0.73	0.517 MATIC
Total						\$15,040.71

Total Customer Balance	\$64,800,000.00
Total Funds Available	\$35,640,000.00
Ratio of Funds Available	55%

In this scenario, the overall crypto funds we have available has increased from \$29.16 million to \$35.64 million, an increase of 22%. This represents in AUD terms a balance of 55% available.

As each cryptocurrency price has changed, the actual amount of the coin now does not perfectly line up with the original amount of 0.45 or even 0.55, as it is based on the AUD value of that asset.

On some assets that have seen their price decrease from the 08/12/22, customers will get more of the actual assets (e.g., in scenario #1 customers will get 0.45 AUD and, in scenario #4, customers will get 0.55 AUD. Similarly with DOGE coin, this has increased from 0.45 up to 0.633).

On other assets that have moved up in % compared to our overall asset available %, the amounts have gone slightly down. **However, the overall value of the initial amount to be returned has increased by 22%.**

This value increase is the same for **everyone** on the platform, which is the only just and equitable way to do it. The immediate initial value of the funds available to customers has increased from \$12,306.04 up to \$15,040.71, which is a 22% increase.

STILL HAVE QUESTIONS?

It has always been our intention to do right by our customers, however we understand that since the creditors' meeting there have been more questions which has caused some frustration.

We appreciate that account rebalancing will be different for everyone, and that customers will have specific questions with regards to their circumstances.

If you would like clarification on the rebalancing process, or have any other questions, you can contact contact@digitalsurge.com.au.

Thank you again for your vote of confidence. We are committed to providing the best possible outcome for all creditors in line with our rescue package.

Dan Rutter and Joshua Lehman

