Zwoop Limited – Clarification of the Events Leading to the Administration of Zwoop Limited

From: Quentin Markin (Stikeman Elliott LLP)
Date: Saturday, January 12, 2019

James Cook
Reporter
The Telegraph
London, United Kingdom

Dear Mr. Cook,

Re: Clarification of the Events Leading to the Administration of Zwoop Limited

I am legal counsel to Mr. Friedland and to Ivanhoe Capital. I have now had the opportunity to read with interest – and concern – your two articles published in The Telegraph on 11 January 2019: “Zwoop, the tech start-up backed by billionaire Robert Friedland, slides into administration” and “Tech start-up backed by mining tycoon collapses amid funding row.”

I had hoped that Mr. Gadotti would have been honest and forthcoming in his discussions with you regarding the administration of Zwoop. That clearly has not happened as your articles omit entirely Mr. Gadotti’s malfeasance, theft and mismanagement in this matter. I fully expect that this is the result of Mr. Gadotti misleading you, as he has done with Mr. Friedland, Zwoop, and its employees and creditors.

I want to get three key clarifying points across in order to ensure that you have the full set of facts relating to how Zwoop ended up in administration.

1. First, Mr. Gadotti took more than US$2 million from Zwoop’s bank accounts through a series of false and fictitious transactions over an approximate two-year period. I’m not entirely aware of where the money went (nor is Mr. Friedland), although Mr. Gadotti has alluded to the fact some may have been used to repay personal debts or for unrelated business matters. That money only came from Mr. Friedland’s investments in Zwoop, and nowhere else. Mr. Gadotti has admitted all of this in writing, including the amount he took.

2. Second, Mr. Friedland continued to fund Zwoop throughout all of 2018, even though its cash was being depleted at a rate faster than budgeted. We now know why. Even when Mr. Gadotti’s theft came to light, Mr. Friedland continued to fund Zwoop and continued to help it carry on as a viable enterprise. However, the damage caused by Mr. Gadotti’s actions, as well as his mismanagement, was too great and too little time was left to be able to financially stabilize the company.

3. Third, none of this would have happened had Mr. Gadotti not misappropriated Zwoop’s funds for his own use. The administration is the direct result of his actions. The employees, as well as Mr. Friedland and all the creditors of Zwoop, have only one location at which to lay blame: That is clearly and squarely at the feet of Mr. Gadotti.

On 5 October 2018 Mr. Gadotti entered into a Deed of Restitution with Zwoop and Mr. Friedland’s holding company Newstar Advantage. In that document, Mr. Gadotti acknowledged his misappropriation of US$2,030,202 from Zwoop. As well, in it, Newstar agreed to help Mr. Gadotti make restitution to Zwoop by buying what I believe was one of his few valuable assets – his then equity interest in Zwoop – for US$1,000,000. That money was sent straight back to Zwoop as part restitution, but Mr. Gadotti still owes Zwoop US$1,030,202. This is the largest receivable Zwoop has – a fact the administrator in Hong Kong, Mr. Simon Blade of Control Risks, is aware of. I have included a copy of the Deed.
Of note is that when he was first confronted in September 2018, Mr. Gadotti said that the amount taken was about US$700,000; then it rose to more than US$1,000,000, and it kept climbing. Subsequent investigations found it to be much more. It may be even higher than US$2,030,202, as Mr. Gadotti did take some effort to cover his fictitious and false transactions. This explains why my client “hugged” Mr. Gadotti at the original meeting. While significant, at the time we did not know the full extent of Mr. Gadotti’s theft, nor the effort he put into creating fictitious accounts, fake transactions and artificial payables in order to syphon money out of Zwoop for his personal benefit.

All of that means that Mr. Gadotti’s statements in your article that “[t]here were some disagreements over how the money was spent or if some things were authorized or not, but this has been cleared” is utterly false. There were no disagreements. None of this was ever authorized. It has not been “cleared”. Mr. Gadotti used Zwoop as his personal piggy-bank, stole the money and made significant efforts to cover his tracks. Our investigations have also shown that this started shortly after Mr. Friedland first invested in October 2016. Mr. Gadotti still owes more than US$1M to Zwoop. The entirety of Mr. Gadotti’s quote in your article is a lie.

While the funds he invested in Zwoop were being methodically syphoned away by Mr. Gadotti, Mr. Friedland continued to invest on the strength of the technology, and what he thought was a strong, credible and ethical leader in Mr. Gadotti. He advanced a loan to Zwoop in February 2018 for US$3,000,000 and in June 2018 for US$1,400,000. These were subsequently converted to equity in November 2018 to relieve some of the debt pressure on Zwoop and to be able to help it work through the crisis caused by Mr. Gadotti without resorting to administration.

In addition, Ivanhoe Capital did acknowledge in the Deed of Restitution that it “may” pay up to a further US$1,000,000 to Mr. Gadotti for his shares, which monies would have been directed to Zwoop as part of the restitution. However, as the scale and scope of the theft was coming to light, and as the extravagant expenditures and commitments made by Mr. Gadotti came into focus, it became evident that a significant amount of new money would be needed to keep Zwoop out of administration and to fund its product to a stage where it would have been viable and would have attracted new, third-party investors.

At some point, as the old adage notes, it would have been throwing more good money after bad.

The misuse of Zwoop’s money by Mr. Gadotti was not the only factor that led to its administration. How Mr. Gadotti ran Zwoop also exacerbated matters. Zwoop was run by Mr. Gadotti with operational costs that were extraordinarily high for a start-up company that had no revenue and no near-term revenue prospects. He had made commitments based on his unfounded view that Mr. Friedland would fund the company in perpetuity. As a result, Mr. Gadotti entered into expensive contracts with marketing agencies months, even years, before there was any product to launch. He committed to an amount to pay for a data stream, at a fixed cost, that even after the launch of the Zwoop product would not have been needed. All of these costs were being incurred without discussing them with the board of directors or Mr. Friedland, and at a time during 2018 when Mr. Gadotti hardly set foot in the office in Hong Kong.

While this was occurring, I, as well as the last directors of Zwoop and Mr. Friedland, believe that Mr. Gadotti was misleading Zwoop’s employees during this entire period by continuing to state that Ivanhoe Capital and Mr. Friedland would still be investing as they had done in the past, even though there was no commitment to do so. These false claims were being made by Mr. Gadotti while he was busily taking the company’s funds – that would have been used to pay employees and creditors – for his own use, and to pay his own personal debts.

Had Mr. Gadotti not taken the US$2,030,202 (and possibly more) and had he operated Zwoop in the efficient manner required of a start-up, Zwoop would have had the funds necessary to carry on for at least a further six months (well into 2019), and to a point where it was envisioned that the product would be advanced enough to attract new, third-party investors. As a result, Mr. Gadotti’s selfish actions and poor management led directly to the administration. Simply put, but for his theft and extravagant expenditure practices, Zwoop would not be in
administration today and “his” employees would still have jobs, would still be developing a world-beating product, and would still be getting paid.

For my penultimate point, I’ll refer you to an email Mr. Gadotti sent to Mr. Friedland on 17 September 2018, and which I attach (with email addresses removed). This is not an email of an innocent man. This is not an email where discussions were held about budgeting disagreements. This is not an email about corporate authorizations. It is an outright admission of theft by Mr. Gadotti. However, even in a weepy, email confession, Mr. Gadotti still could not help but mislead. He claimed the amount to be repaid was US$1,278,250, some US$750,000 below the figure ultimately settled on and which we still believe understates the actual amount.

I do trust that these details help to fill in much of the information about the story of Zwoop that your discussions with Mr. Gadotti did not bring to light. I do fully expect that you will promptly publish a corrective article that fully sets out the facts of how Mr. Gadotti’s selfish actions brought down the business he founded and harmed his employees and friends, and how Mr. Friedland (much like yourself) was duped and misled by Mr. Gadotti effectively throughout their entire relationship.

Now, in conclusion, I do have to address some of your sensational and incorrect statements about Mr. Friedland, particularly the matter of Galactic Resources. It is a matter of record that mining experts concurred with the U.S. Environmental Protection Agency’s expressed view that there was no major, uncontrolled release of cyanide solution from the Summitville Mine into adjacent waterways, contrary to numerous, inaccurate published reports. Untreated acidic drainage from historic, abandoned mine workings below the Summitville minesite was identified as the principal cause of reported downstream fish losses. Water in the Alamosa River caused no harm to people, animals or crops. This view was shared by the U.S. Government’s Agency for Toxic Substances and Disease Registry (ATSDR), which also acknowledged that “other abandoned mines and naturally occurring acid metal seeps may also degrade water quality of streams and groundwater affected by the mine site”.

The New York Times, the Associated Press and the Denver Post, among others, have corrected their earlier erroneous reports on this matter. We expect that The Telegraph also will acknowledge the truth.

And finally, with respect to Mr. Friedland’s parole on an LSD-related offence (which occurred during his student years), you should have stated, for balance, that the conviction was set aside in 1973 and legally expunged in 1986.

I can only presume that these events from more than 30 years ago were included to help set the stage for The Telegraph’s story that implies Mr. Friedland is culpable in the Zwoop situation. He is not.

On behalf of myself and Mr. Friedland, we do demand to see corrections made to these facts regarding Mr. Friedland and Zwoop, and we do expect that you will update the Zwoop developments with an article that correctly accounts for the events that led to the administration and Mr. Gadotti’s role in actively deceiving Mr. Friedland, Zwoop’s creditors, its employees, and now yourself. Given the false and incomplete information that The Telegraph has published, it now is essential that the relevant facts be placed on The Telegraph’s public record without any delay to accurately inform your readers. Should this not occur, we reserve the right to issue our own public statement and to make all the relevant documents a matter of public record through the website of Ivanhoe Capital or other means. This will ensure the entire and correct story of Zwoop is told.

Regards,
Quentin Markin
Stikeman Elliott LLP
DEED OF RESTITUTION

THIS RESTITUTION DEED is made as of October 5, 2018.

AMONG:

FOCAL POINT HOLDINGS LIMITED, an International Business Company incorporated in the Republic of Seychelles with IBC registration number 156978, with registered office in Vistra Corporate Services Centre, Suite 23, 1st Floor, Eden Plaza, Eden Island, Mahe, Seychelles

("Focal Point")

AND:

NEWSTAR ADVANTAGE LTD., a corporation with a registered office at Craigmuir Chambers, Road Town, Tortola, VCG1110, British Virgin Islands

("Newstar")

AND:

ZWOOP LIMITED, a company incorporated and registered in Hong Kong with company number 2381782, whose registered office is at 26th Floor, No. 69 Jervois Street, Sheung Wan, Hong Kong

(the "Company" or "Zwoop")

AND:

ALESSANDRO GADOTTI, an individual with Hong Kong Identification Card number R669160(8) and residing at Flat A, 17/F., Cadogan, 37A Cadogan Street, Kennedy Town, Hong Kong.

("Gadotti")

WHEREAS:

A. Gadotti is a former officer and director of Zwoop.

B. While Gadotti was an officer and director of Zwoop, he misappropriated or misused, for his own personal use or for non-Company uses, Company funds in the amount of USD$2,030,202 (the "Misappropriated Funds").

C. Focal Point is a company owned, controlled and directed by Gadotti and in which he has the controlling beneficial interest.
D. Focal Point has sold all of its ordinary shares in Zwoop, totaling 5,900,000 ordinary shares (the "Purchased Shares"), for gross proceeds of USD$1,000,000 to Newstar (the "Proceeds").

E. By this Deed, Focal Point and Gadotti will irrevocably direct Newstar to pay the Proceeds to Zwoop as part restitution to Zwoop of the Misappropriated Funds, and Gadotti will acknowledge his obligation to make restitution for the balance of the Misappropriated Funds.

NOW THEREFORE THE PARTIES DO HEREBY AGREE AS FOLLOWS:

ARTICLE 1
ACKNOWLEDGEMENT OF GADOTTI

1.1 Gadotti acknowledges that as a result of his misappropriation of the Misappropriated Funds, that he is indebted to Zwoop in the amount of USD$2,030,202, being the amount of the Misappropriated Funds, which amount is currently due and payable and will remain due and payable until repaid in full to Zwoop.

1.2 Gadotti acknowledges and agrees to make part restitution for the Misappropriated Funds by hereby irrevocably directing, and causing Focal Point to, instruct Newstar to pay the Proceeds directly to Zwoop and this shall be Newstar's good and sufficient authority for so doing.

1.3 Following the payment of the Proceeds over to Zwoop, Zwoop and Gadotti acknowledge that the amount of the Misappropriated Funds will then be USD$1,030,202, which amount is due and payable and will remain due and payable until repaid in full to Zwoop.

ARTICLE 2
DISCRETIONARY POST COMPLETION ADJUSTMENT AND CONFIRMATION OF SALE

2.1 Newstar acknowledges that it may pay up to a further USD$1,000,000 as post completion adjustment ("Post Completion Adjustment") for the purchase by it of the Purchased Shares in its sole and unfettered discretion, which will be considered following the completion of a technical audit being conducted of Zwoop and its assets (the "Technical Audit").

2.2 If some or all of the Post Completion Adjustment is paid by Newstar, Gadotti acknowledges and agrees to make part restitution for the Misappropriated Funds by hereby irrevocably directing, and causing Focal Point to, instruct Newstar to pay all of the Post Completion Adjustment received (if any) directly to Zwoop and this shall be Newstar's good and sufficient authority for so doing.

2.3 Following the payment of the Post Completion Adjustment (if any) over to Zwoop, Zwoop and Gadotti acknowledge that the amount of the Misappropriated Funds will then be reduced by the amount of the Post Completion Adjustment (if any) paid over to
Zwoop, which remaining amount will then be due and payable and will remain due and payable until repaid in full to Zwoop.

2.4 For greater certainty, Gadotti shall remain liable and responsible for restitution to Zwoop of the difference of all of the Misappropriated Funds less the Proceeds and Deferred Consideration paid if any, as finally determined following completion of the Technical Audit.

2.5 Focal Point and Newstar shall sign the Confirmation of Sale, which is annexed to this Restitution Deed as "Annexure A", which is to be submitted to the Inland Revenue Department of Hong Kong for the sole purpose of adjudication of stamp duty regarding the transfer of the Purchased Shares. The parties herein agree that this Restitution Deed shall govern and be applicable to the payment of the Proceeds in any event.

ARTICLE 3
RELEASE; PROCEEDINGS

3.1 Gadotti does hereby irrevocably for himself and for his respective heirs, administrators, employees, agents, representatives, insurers, related and affiliated entities, and successors and assigns, as applicable, remise, release and forever irrevocably discharge Zwoop and its subsidiaries and affiliates, and its and their heirs, administrators, employees, agents, representatives, advisors, consultants, directors, officers, employees, shareholders, insurers, related and affiliated entities, successors and assigns, as applicable, of and from any and all actions, causes of actions, proceedings, suits, damages, liabilities, costs, interest, defaults, claims and demands of any and every kind whatsoever, at law or in equity, or under any statute, contract, agreement or deed, which he, they or any one or more of them ever had, now has, or hereafter can, shall or may have in relation to Zwoop and its affiliates and subsidiaries (collectively, the "Released Claims" and the parties noted above the "Protected Parties"). It is understood and agreed that the foregoing is intended to cover, and does cover, not only all known Released Claims, but also Released Claims not now known or anticipated, but which may later develop or be discovered, including all the effects and consequences thereof, as well as any party that is not a Protected Party at the date hereof but subsequently becomes a Protected Party after the date of this Restitution Deed.

3.2 Gadotti does hereby irrevocably agree not to make any claims or demands or commence, initiate or threaten to commence or initiate any actions or other proceedings of any nature in any court, forum or venue against any Protected Party.

3.3 If Gadotti should hereafter make any claims or demands or commence, initiate or threaten to commence or initiate any actions or other proceedings against the Protected Parties or any of them, this Restitution Deed may be raised as an estoppel and/or pled as a full and complete defence and bar to any such claim, demand, action or proceeding.

3.4 Gadotti agrees for himself and his respective heirs, administrators, employees, agents, representatives, insurers, related and affiliated entities, and successors and assigns, as applicable, that he and they will not, at any time, denigrate, through adverse or disparaging communication, whether written or oral, and whether true or not, any
Protected Party, or any of their operations or businesses, and whether made privately or publicly.

3.5 Gadotti irrevocably acknowledges and agrees that a breach by him of this Restitution Deed will cause substantial and irreparable harm to the Protected Parties, or any of them, which could not be adequately compensated for by damages, and in the event of such a breach Gadotti hereby consents to a preliminary and permanent injunction issued against him as applicable him as applicable from any breach or further breach of this Restitution Deed in addition to, and not in substitution for, any other remedy which a Protected Party may have in respect of such a breach.

ARTICLE 4
GENERAL

4.1 Article, section, schedule and paragraph headings shall not affect the interpretation of this Restitution Deed.

4.2 A person who is not a party to this Restitution Deed shall not have any rights under the Contracts (Rights of Third Parties) Ordinance (Cap 623 of the law of Hong Kong) to enforce any terms of this Restitution Deed.

4.3 If any provision of this Restitution Deed (or part of a provision) is found by any court or administrative body of competent jurisdiction to be invalid, unenforceable or illegal, the other provisions shall remain in force.

4.4 If any invalid, unenforceable or illegal provision would be valid, enforceable or legal if some part of it were deleted or modified, that provision shall apply with whatever modification is necessary to give effect to the commercial intention of the parties.

4.5 Each Party shall promptly execute and deliver all such documents, and do all such things, as the other party may from time to time reasonably require for the purpose of giving full force and effect to the provisions of this Restitution Deed.

4.6 This Restitution Deed may be executed in any number of counterparts, each of which shall be deemed to be an original and which, when executed, shall be an original and which together shall have the same effect as if each party had executed the same document.

4.7 This Restitution Deed and any dispute or claim arising out of or in connection with it or its subject matter shall be governed by and construed in accordance with the laws of Hong Kong.

4.8 The Parties irrevocably agree that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute or claim that arises out of or in connection with this Restitution Deed or its subject matter.

4.9 Each Party acknowledges and confirms that it has been advised to obtain and has been afforded the opportunity to seek and obtain such independent legal advice concerning
the terms and provisions of this Restitution Deed as such party has considered to be necessary or advisable. In the event that any such party chooses to execute and deliver this Restitution Deed without the benefit of such independent legal advice or with limited amounts thereof, such party hereby waives the benefit of such independent legal advice.

[Signature page follow]
Annexure A

Confirmation of Sale

The undersigned hereby confirm that 5,900,000 ordinary shares in Zwoop Limited, a company incorporated and registered in Hong Kong with company number 2381782, whose registered office is at 26th Floor, No. 69 Jervois Street, Sheung Wan, Hong Kong, were transferred with the following terms:

Transferor: FOCAL POINT HOLDINGS LIMITED, an International Business Company incorporated in the Republic of Seychelles with IBC registration number 156978, with registered office in Vistra Corporate Services Centre, Suite 23, 1st Floor, Eden Plaza, Eden Island, Mahe, Seychelles

Transferee: NEWSTAR ADVANTAGE LTD., a corporation with a registered office at Craigmuir Chambers, Road Town, Tortola, VG1110, British Virgin Islands

Shares transferred: 5,900,000 ordinary shares in ZWOOP LIMITED, a company incorporated and registered in Hong Kong with company number 2381782, whose registered office is at 26th Floor, No. 69 Jervois Street, Sheung Wan, Hong Kong

Consideration: US$1,000,000

Post Completion Adjustment: Up to US$1,000,000 as post completion adjustment may be payable in the sole and unfettered discretion of the Transferee, which will be considered following the completion of a technical audit being conducted on Zwoop Limited and its assets

Date:

The Transferor: FOCAL POINT HOLDINGS LIMITED

For and on behalf of

The Transferee: NEWSTAR ADVANTAGE LTD.

For and on behalf of

_________________________  ___________________________
Director                        Director
This document has been executed as a DEED and is delivered and takes effect on the date stated at the beginning of it.

**Focal Point Holdings Limited**

Executed as a DEED by  
FOCAL POINT HOLDINGS LIMITED  
acting by its sole director  
ALESSANDRO GADOTTI

**Newstar Advantage Ltd**

Executed as a DEED by  
NEWSTAR ADVANTAGE LTD.  
acting by its director  
ICC Corporate Services Ltd.

**Zwoop Limited**

Executed as a DEED by  
ZWOOP LIMITED  
acting by  
SCOTT MITCHELL MOORE, a director; and  
SILVANA HLEAP, a director

Executed as a DEED by  
ALESSANDRO GADOTTI

______________________  Director

______________________  Witness
This document has been executed as a DEED and is delivered and takes effect on the date stated at the beginning of it.

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Executed as a DEED by 

FOCAL POINT HOLDINGS LIMITED

acting by its sole director

ALESSANDRO GADOTTI

_________________________ Director

**Newstar Advantage Ltd**

Executed as a DEED by

NEWSTAR ADVANTAGE LTD.

acting by its director

ICC Corporate Services Ltd.

_________________________ Director

**Zwoop Limited**

Executed as a DEED by

ZWOOP LIMITED

acting by

SCOTT MITCHELL MOORE, a director; and

SILVANA HLEAP, a director

_________________________ Director

_________________________ Witness
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**Focal Point Holdings Limited**

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FOCAL POINT HOLDINGS LIMITED
acting by its sole director
ALESSANDRO GADOTTI

_________________________ Director

**Newstar Advantage Ltd**

Executed as a DEED by
NEWSTAR ADVANTAGE LTD.
acting by its director
ICC Corporate Services Ltd.

_________________________ Director

**Zwoop Limited**

Executed as a DEED by
ZWOOP LIMITED
acting by
SCOTT MITCHELL MOORE, a director; and
SILVANA HLEAP, a director

_________________________ Director

_________________________ Witness

Error: Unknown document property name.
This document has been executed as a DEED and is delivered and takes effect on the date stated at the beginning of it.

Focal Point Holdings Limited

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SILVANA HLEAP, a director

Executed as a DEED by
ALESSANDRO GADOTTI

_________________________ Director

Director

_________________________ Director

_________________________ Witness
see below for further discussion. R

Begin forwarded message:

From: Alessandro Gadotti
Date: 17 September 2018 at 10:37:49 PM GMT+8
To: Robert Friedland, Scott Moore
Subject: Reconciliation data

Hi Robert,

Attached the reconciliation file.
Sorry it took long, I had trouble sleeping for the past few days.
I know you said you forgive me, but the hardest part is to forgive myself.
When we meet I want to explain..

I’ve divided the transactions into two categories
  - The ones that need to be repaid
  - The ones that may look suspicious but they are actually real
The File has also some notes on all the other transactions (apart payroll)

Also, I have divided all between the transaction related to this accounting period and the ones in the previous accounting period

I know on the phone I told you between 750K and 1M but it's actually a bit more.

<table>
<thead>
<tr>
<th></th>
<th>TX To be repaid</th>
<th>Suspicious TX but Real</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,278,250</strong></td>
<td><strong>300,840</strong></td>
</tr>
<tr>
<td>This Accounting Period</td>
<td><strong>1,161,234</strong></td>
<td><strong>236,408</strong></td>
</tr>
<tr>
<td>Previous Accounting</td>
<td><strong>117,016</strong></td>
<td><strong>64,433</strong></td>
</tr>
</tbody>
</table>

The file has all the details. I may have over-estimated the ones in the first category because I have included some that are real reimbursements.
There may be some non-material TXs on which I'm in doubt.

I hope we can see each other soon and solve this matter, letting the company grow as it deserves.
It's a fantastic company, with an incredible product, and fabulous people.. let's make of it the next Amazon.

Thank you again for your help, you are by far the best person I met in my life. I've been driven by desperation, but I should have handled this differently.

I have no words to say how ashamed, sorry, sad, stupid and idiotic I feel ...

I hope the success of Zwoop can compensate all of us for my shortcomings... and I hope we will all be very happy about that.. for now, I cannot stop feeling horrible...

I'm so so sorry, I'm so so sorry
Alex - in London