

THE LIMITED PARTNERSHIPS ACT 2008
Pursuant to Section 255 of the Companies Act 1993
(In accordance with Section 92 of the Limited Partnerships Act 2008)

LIQUIDATORS' SECOND REPORT TO CREDITORS & SHAREHOLDERS
OF
BITCOINICA LIMITED PARTNERSHIP (IN LIQUIDATION)

Limited Partnership Number: 2558460

1. INTRODUCTION

Anthony John McCullagh, Chartered Accountant and Stephen Mark Lawrence, both insolvency practitioners of PKF Corporate Recovery & Insolvency (Auckland) Limited, were jointly and severally appointed as Liquidators of the Bitcoinica Limited Partnership ('LP') on 1 November 2012 pursuant to section 89(1) of the Limited Partnerships Act 2008 ('Act') by an order of the High Court in Auckland.

Any creditor who wishes to challenge the Liquidators fees as set out in this report may do so by an application with leave of the court under section 284(1) Companies Act 1993 (in accordance with section 92 of the Act). Any such application filed must be served on the Liquidator.

2. RESTRICTIONS

This report has been prepared pursuant to section 255 of the Companies Act 1993 and in accordance with section 92 of the Act based on information contained in the records and information supplied to us from Bitcoinica LP, its partners and other officers. We have not carried out an audit of the records. Accordingly, we retain the right to amend particulars if we consider it necessary in light of information which becomes available to us after the date of this report. The Liquidators shall not be responsible for the reliance of any person on information contained in, or derived or omitted from this report.

3. ACTION UNDERTAKEN SINCE OUR LAST REPORT

The LP owned and managed the 'Bitcoinica' online platform for the trading of foreign currency and bitcoins. We understand that the LP acquired the intellectual property and business from Wendon Group Incorporated ('Wendon') on 24 April 2012. The LP has four limited partners, Wendon, Patrick Strateman, Donald Norman and Amir Taaki ('Limited Partners'). Wendon received a 75% ownership stake in the LP, and the other three limited partners collectively hold the remainder 25%.

The general partner of the LP is a New Zealand registered company Bitcoinica Consultancy Limited (in Liquidation) (formerly named Core Credit Limited) ('BCL'). While the Companies Office records the sole director as being Christopher Heaslip, Mr Heaslip claims to have resigned as a director. We understand that it was intended for Messrs Strateman, Norman and Taaki to become directors and shareholders of the general partner upon completion of the sale of the Bitcoinica business to the LP. We understand that they took over management of Bitcoinica, but it appears that the Companies Office did not accept the notices appointing them as directors. Mr Strateman and Mr Norman claim to have not signed the consents to act as directors in any event.

On 10 May 2012 an unknown person accessed Bitcoinica's server and stole 18,547 bitcoins. We understand that this person also deleted the database containing customer records and account balances. As a result, Bitcoinica ceased trading immediately and the Limited Partners set about recreating the customer database with a view to refunding its customers.

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We understand that the LP consolidated all of the remaining bitcoins and currency into its account with an independent bitcoin exchange Mt.Gox. Then between 11 May 2012 and 13 July 2012 a portion of claimed balances were returned by the LP to some customers.

On 9 July 2012 Bitcoinica's account with Mt.Gox was breached and a further 40,000 bitcoins and USD91,875 was stolen. From information that we have been provided, it appears that Mr Taaki was responsible for the release of confidential information that led to both of the thefts.

We understand that Bitcoinica's founder who had continued to consult to the business, Mr Zhou Tong, was asked to assist the Limited Partners in recovering some of the stolen funds and bitcoins. Mr Tong was successful in recovering USD100,190 and 19,879 bitcoins from an unidentified party, and we understand that those amounts remain in the accounts frozen by Mt.Gox.

According to records that we have collected, Mt.Gox should still hold 64,485 bitcoins and USD134,000 in various Bitcoinica related accounts. We understand that these accounts remain frozen and under the control of Mt.Gox, but we have been unable to verify the balances or whether the funds are still intact.

It became apparent that the LP should be wound up, to facilitate the recovery of the remaining bitcoin and cash assets for distribution to creditors (i.e. Bitcoinica customers). We understand that the Limited Partners would not collectively agree to put the LP into voluntary liquidation, therefore Wendon made application to the High Court of New Zealand for the LP to put into liquidation. Orders were made on 1 November 2012 appointing Anthony McCullagh and Stephen Lawrence as liquidators of the LP.

On 10 January 2013 the general partner, BCL, was put into liquidation by a special resolution of its shareholder, Christopher Heaslip. Insolvency practitioners Iain McLennan and Peri Finnigan, of McDonald Vague (Auckland), were appointed as liquidators for the purpose. McDonald Vague have agreed to assist us in our efforts to recover assets for the benefit of the LP's creditors.

We note that as a result of the liquidation of BCL, the limited partnership was terminated. However certain provisions of the Limited Partnership Agreement survive termination, including the requirement for the liquidators of the LP to recover and distribute the LP's assets to its creditors.

4. ACTION UNDERTAKEN SINCE OUR APPOINTMENT

Upon our appointment we wrote to the Limited Partners enclosing our standard business questionnaire, and requesting that we be provided with the books and records of the LP. We were advised by all parties that no records existed, and we did not receive a completed questionnaire.

We have received some assistance from Mr Strateman, who has provided us with a list of customers and their claims. As noted above, this list has been recreated following the deletion of the customer database and may not be complete or accurate. We sent notice of our appointment to all known customers and we have received a large number of creditor claims and ongoing correspondence as a result. We have yet to commence the customer claims verification process, but we will do so if or when we are in a position to make a distribution to creditors in the liquidation.

We are aware that a group of four investors have commenced legal proceedings in the Superior Court of California against the LP, BCL, Mr Strateman, Mr Taaki, Mr Norman and Intersango Limited. We have written to the plaintiff's lawyers and advised that the liquidators disclaim any interest in the proceedings. We requested that the LP be withdrawn from the proceedings on the basis that it is now in liquidation. Any judgement awarded to the plaintiff's in excess of their customer claims against the LP will not be recognised by the liquidators without an order of the High Court in New Zealand.

We wrote to Mt.Gox requesting information that would assist us in understanding how Bitcoinica's funds and bitcoins were held by Mt.Gox, as well as confirmation of cash and bitcoin balances held on in various accounts on the LP's behalf. Despite protracted correspondence, Mt.Gox has declined to release this information to us. Mt.Gox advised, through its solicitors Baker & McKenzie (Melbourne, Australia), that it cannot disclose the "*private and confidential information sought without first ensuring that it is doing so with the proper authority of the relevant accountholders*".



Despite being provided with evidence of our appointment as liquidators, as well as further confirmation of our authority by the Limited Partners and McDonald Vague, Mt.Gox continues to require specific account information, some of which we have so far been unable to locate.

We have received copies of the original email correspondence from the Limited Partners (and their representatives) to Mt.Gox requesting the freezing and protection of Bitcoinica's accounts. Nevertheless, Mt.Gox has stated that "[it] is aware of several accounts that may or may not be owned by Bitcoinica LP, but despite efforts made to identify the owner of these accounts in the past, MtGox has so far been unable to confirm that Bitcoinica LP was (and remains) the holder of any MtGox accounts".

If we are unable to provide Mt.Gox with the information requested, then it is likely that we will need take legal action to access Bitcoinica's accounts.

5. SECURED CREDITORS

Ator Limited, a company associated with Wendon, holds a General Security Agreement ('GSA') over all present and after acquired personal property of the LP. The security interest created by the GSA was registered on the Personal Property Securities Register ('PPSR') on 27 March 2012.

We have received no formal claim from Ator Limited in the liquidation. In any event, Ator Limited has agreed to subordinate any claim it has in the liquidation after the claims from Bitcoinica's trading customers.

6. PREFERENTIAL CREDITORS

Wendon, as the applicant creditor in the liquidation proceedings, was awarded costs of \$6,701.00 by the High Court. We have received no formal claim from Wendon in respect of this amount, and Wendon has advised that it wishes to subordinate its claim after the claims of Bitcoinica's trading customers.

7. UNSECURED CREDITORS

Bitcoinica Customer Claims

The Liquidators have received claims from 201 Bitcoinica customers totalling \$1,588,294.

It is unknown at this stage what funds, if any, will be available for distribution to unsecured creditors.

Other Creditors

Wendon, the applicant creditor in the liquidation proceedings, has agreed to subordinate any claim it has in the liquidation after the claims from Bitcoinica's customers. We have not received a formal claim from Wendon to date. We have received no other non-customer creditor claims.

8. PROPOSALS FOR COMPLETING THE LIQUIDATION

We are continuing to correspond with the Limited Partners and other parties with a view to collecting information that will assist us in gaining control of the LP's cash and bitcoin assets held with Mt.Gox. If we are unable to locate this information it is likely that we will need take legal action against Mt.Gox in order to access Bitcoinica's accounts. This would be a costly exercise and we hope that it will not be necessary. However, should we be left with no other alternative then we will require funding from creditors to take legal action. In this event, we will write to all creditors to request a contribution to a legal fund.

9. STATEMENT OF REALISATIONS AND DISTRIBUTIONS

A Statement of the Liquidators' Realisations and Distributions for the period 1 November 2012 to 1 May 2013 is **attached**.


10. ESTIMATED DATE OF COMPLETION

Do to the issues regarding the recovery of the LP's assets, we are unable to give an estimate for the date of completion of this liquidation at this time.

11. OTHER INFORMATION

Please direct all enquiries regarding this liquidation to bitcoinica@pkfcr.co.nz. For economic reasons we are unable to respond individually to the large volume of correspondence that we continue to receive from Bitcoinica's customers. As we have previously advised, we will report to creditors once any significant progress has been made in the liquidation.

SIGNED



STEPHEN LAWRENCE
JOINT & SEVERAL LIQUIDATOR

4-6-2013
DATED



BITCOINICA LP
(IN LIQUIDATION)

STATEMENT OF REALISATIONS AND DISTRIBUTIONS
FOR THE PERIOD FROM 1 NOVEMBER 2012 TO 1 MAY 2013
Pursuant to Section 255 of the Companies Act 1993

	\$
Particulars of Realisations	
Cash at Bank	100,872
Interest Received	139
	<u>\$ 101,011</u>
Particulars of Distributions	
RWT	46
Legal Fees	18,164
Liquidators Fees	37,812
	<u>\$ 56,022</u>
Closing Balance	<u><u>\$ 44,989</u></u>

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