

CAUSE NO: ⁴⁷⁹ OF 2008

IN THE GRAND COURT OF THE CAYMAN ISLANDS

IN THE MATTER OF THE COMPANIES LAW (2007 REVISION)

AND IN THE MATTER OF LANCELOT INVESTORS FUND, LTD.
(HEREINAFTER REFERRED TO AS "THE COMPANY")

PETITION

TO THE GRAND COURT

THE HUMBLE PETITION of BNP PARIBAS BANK & TRUST CAYMAN LTD (The Bare Trustee for the Second Petitioner) of P.O. Box 10632, Piccadilly Centre, 4th Floor, Elgin Avenue, George Town, Grand Cayman KY1-1006, Cayman Islands ("the First Petitioner") and ARIS MULTI-STRATEGY OFFSHORE FUND, LTD a Cayman Islands exempted company of M & C Corporate Services Limited, Ugland House, South Church Street, P. O. Box 309, George Town, Grand Cayman KY1-1104, Cayman Islands ("the Second Petitioner") (collectively referred to as "The Petitioners") shows that:-

Background

- 1 The Company is an open-ended investment company incorporated as an exempted company under the laws of the Cayman Islands.
- 2 The registered office of the Company is situated at Walkers SPV Limited, Walker House, Mary Street, P. O. Box 908GT, George Town, Cayman Islands.
- 3 The share capital of the Company is US\$50,000 divided into 5,000,000 redeemable participating shares of US\$0.01 each.

4 The principal objects for which the Company was established are to carry on the business of an investment company and for that purpose to acquire and hold, either in the name of the Company or in the name of any nominee various assets including shares stocks debentures, debenture stock, bonds, notes, obligations and securities issued or guaranteed by any company wherever incorporated or carrying on business.

The Petitioners

5 The Petitioners invested on behalf of their clients in the said Company by acquiring the following shares:-

- 6,374.1348 PS-1 Voting Participating Shares (US Dollars) valued as of 31st July 2008 at US\$13,310,224.80.
- 2,647.6739 Voting Participating Shares (US Dollars) valued as of 31st July 2008 at US\$5,528,771.50.
- 2,464.3862 Class C - Voting Participating Shares (US Dollars) valued as of 30th June 2008 at US\$5,097,793.31.

6 According to the financial statements for the Company dated 5th January 2008, the Company had assets of US\$1,139,842,696.00. A number of other investors will support this Petition.

The Company

7 The following appointments were made by the Company since its incorporation, namely:

- (1) As at December 2003, the directors were Gregory Bell, Vincent King and Benjamin Miller. As at March 2006, the directors were Thomas DeMaio, Vincent King, Benjamin Miller and Trevor Sutherland.
- (2) The investment manager of the Company appointed pursuant to an Investment Management Agreement is Lancelot Investment Management, LLC ("LIM").

(3) The administrator of the Company appointed pursuant to an Administration Agreement is Swiss Financial Services (Bahamas) Ltd.

8 The Company is required by its Articles of Association to redeem participating shares at the redemption price calculated as the price equal to the Net Asset Value per share at the redemption dates (which were monthly) on receipt of 60 days' notice . The directors had power to suspend redemptions.

9 The Petitioners and other investors invested in the Company pursuant to and in reliance, *inter alios*, on Information Memoranda produced by the Company dated December 2003 and/or March 2006 which stated that the Company had been formed for the following purposes or to pursue the following investment strategy:-

(1) All of the Company's assets were to be invested through the purchase of short-term trade finance notes from other entities ("Notes") issued by Lancelot Investors Fund, L.P. ("Lancelot U.S.A."), a private investment fund organised as a limited partnership under the laws of the State of Delaware, USA. LIM is the general partner of Lancelot U.S.A.

(2) The investment objective of the Company was "to achieve consistent and reliable investment returns while minimising the risk of permanent impairment to capital. The Investment Manager seeks to achieve [the Company's] investment objective by investing [the Company's] assets through the purchase of short term trade finance notes from other entities ("Notes").

(3) "The Notes will be acquired by [the Company] from [Lancelot U.S.A.] and also may be acquired from other affiliated or unaffiliated entities from time to time...It is anticipated that the Notes sold by [Lancelot U.S.A.] to the [Company] will evidence loans made to one or more independently controlled special purpose vehicles ("the SPVs") which engage in the business of acquiring goods and selling such goods to major retailers."

(4) "Each SPC will use the proceeds from such Notes to finance the acquisition of goods ... which such SPV sells to a retailer."

(5) “[The Company] will purchase Notes only in circumstances where the SPV has a pre-existing, binding agreement with a Retailer to sell the Underlying Goods to such Retailer on a future date (“a Purchase Order”). As a result of such Purchase Orders, [the Company] will assume little or no inventory risk with respect to the Underlying Goods.”

(6) “With respect to each Note purchased by the [Company], the [Company] will require collateral generally equal to 150% of the value of the Note. [The Company] will have a security interest in the Underlying Goods which will be protected through the use of a proof of encumbrance filing under Article 9 of the Uniform Commercial Code...As further protection, the [Company] generally will purchase Notes only in circumstances where the SPV has purchased credit insurance with respect to the particular retailer.”

10 In the premises, on the true construction of its memorandum, the main object for which the Company was formed was to pursue the specific opportunity of acquiring and holding the Notes issued by Lancelot U.S.A. which were themselves backed by the interests in genuine purchases and sales of excess inventory secured by liens and insurance as described in the Information Memoranda and as set out above.

The Fraud

11 LIM has admitted to the Petitioners and others in the course of conversations and meetings and in discussions in September 2008 (as to which see below) that:-

(1) The SPV to which Lancelot U.S.A. made loans for the acquisition and sale of goods as described in the Information Memorandum was called Petters Company Inc (“PCI”).

(2) all of the monies or substantially all of the monies provided by the Company to Lancelot U.S.A. in return for the Notes issued by Lancelot U.S.A. to the Company were used by the Fund to make loans to PCI.

11 (3) Lancelot U.S.A. has no assets other than the right to receive repayment from PCI
12 and/or associated companies of loans made to it.

13 The shares in PCI were held directly or indirectly by one Thomas Petters, a resident of
14 Minnesota and/or by another body corporate called Petters Group Worldwide Inc
15 (“PGW”) the shares of which are also owned and controlled by Mr. Petters. Mr. Petters
16 together with others also controls the management of PCI and PGW.

17 Mr. Petters and his associates also own and control the shares and management of two
18 other companies Nationwide Resources Inc (“NIR”) or Enchanted Family Buying
19 Company (“Enchanted”).

20 The issue of short term notes acquired by Lancelot U.S.A. was part of a fraudulent
21 scheme devised by PGW, PCI, NIR, Mr. Petters and others to induce investors to provide
22 funds. In particular:-

(1) Mr. Petters and others created numerous fictitious sales confirmations purportedly
23 from NIR or Enchanted in the pretence that the latter were vendors of excess
24 inventory.

(2) The vast majority of the sales orders issued by NIR or Enchanted did not relate to
25 any merchandise purchased or ordered by either of them and neither were able to
26 deliver any of the merchandise.

(3) Mr. Petters and others also caused PCI to issue purchase orders in respect of the
27 excess inventory which NIR and Enchanted had purported to sell when PCI was
28 not expecting to take delivery of any goods and knew the sales by NIR and
29 Enchanted were not genuine.

(4) Mr. Petters and others also caused PCI to issue purchase orders in respect of
30 purported further onward sales of the non-existent goods to buyers such as “BJ
31 Wholesale” and “Sam’s Club” when no such onward sale had taken place.

(5) PCI then fraudulently pledged the non-existent merchandise as security for the
32 investments.

- (6) Mr. Petters and his associates caused PCI to obtain insurance in respect of the non-existent goods by arranging for representatives of insurance companies to tour warehouses containing electronic goods owned by other companies, while falsely representing that the goods were those sold to PCI.
- (7) The short-term notes issued by PCI in respect of these transactions were not secured on any goods and were not supported by any genuine sales or purchase orders which would ever be fulfilled by delivery of merchandise.
- (8) In many instances, funds from the Company and Lancelot U.S.A. were sent directly to NIR or Enchanted. In turn, those companies directed the funds to PCI (less a commission) without any merchandise changing hands.
- 15 This fraudulent scheme came to light after 24th September, 2008 when agents from the US Federal Bureau of Investigations executed search warrants at PCI's offices as well as the homes and vehicles of various employees and agents of PCI. The evidence in support of the warrant was made public on 26th September 2008.
- 16 The Company notified the Petitioners and others that it had suspended further redemptions by letter dated 27th September 2008.
- 17 The Company has substantially lost all of its funds and neither the Petitioners nor other investors have any prospect of being repaid all of their funds or any portion of those funds within the ordinary timescale envisaged by them and the Company at the time they subscribed.
- 18 There is no realistic hope that the Company will ever be profitable.
- 19 The Company has never held and/or does not hold valid or real investments. These Notes it acquired from Lancelot U.S.A. and the receivables held by Lancelot U.S.A. against PCI were wholly worthless.

20 Further or, alternatively, the Company does not hold the investments it was authorised by its objects clause to acquire and hold in that none of the Notes issued by Lancelot U.S.A. were backed by genuine sales or purchase orders.

21 The opportunity to acquire valuable Notes was in fact never genuinely available to the Company and/or never materialised and/or has proved worthless and/or cannot be pursued without further capital which none of its members will contribute.

22 For the reasons set out above the Company can no longer carry out the business for which it was formed and the substratum of the Company has failed.

23 The members of the Company have a legitimate interest that the affairs of the Company, the conduct of its directors and the responsibility for LIM's investment in the fraudulent scheme be investigated by an independent liquidator.

24 In all the premises, it is just and equitable to wind up the Company.

YOUR PETITIONERS THEREFORE HUMBL Y PRAY THAT:

- (1) the Company, **LANCELOT INVESTORS FUND, LTD.**, may be wound up the Court under the provisions of the Companies Law (2007 Revision); or
- (2) should the Court make an Order winding up the Company, that Geoffrey E. Varga and Neil Morris of George Town, Grand Cayman (to hold their offices jointly and severally) be appointed Joint Official Liquidators of the Company;
- (3) the Joint Official Liquidators are authorised jointly and severally to exercise any of the powers listed in section 109 of the Companies Law (2007 Revision) without the further sanction or intervention of the Court;
- (4) the Joint Official Liquidators be authorised to do any act or things considered by them to be necessary or desirable in connection with the liquidation of the Company and the winding up of its affairs;

