



Financial Advisory

Crocus Investment Fund

Receiver's Report #5

September 12, 2005

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1.0 Background

On June 28, 2005, pursuant to an application made by the Manitoba Securities Commission ("MSC") under Section 27 of *The Securities Act*, the Court of Queen's Bench (the "Court") made an Order appointing Deloitte & Touche Inc. ("Deloitte" or the "Receiver") as Receiver and Manager of the Crocus Investment Fund ("Crocus" or the "Fund"). The Receiving Order appointed Deloitte as Receiver over all of Crocus's current and future assets, undertakings and properties and granted the Receiver powers to carry out its duties as outlined in the Order.

Crocus, a Labour-Sponsored Venture Capital Corporation (formerly referred to as a Labour Sponsored Income Fund or "LSIF"), was created with the enactment of *The Crocus Investment Fund Act* (the "Crocus Act") and was launched with the purpose of raising capital through the sale of common shares. The proceeds of sale were intended to be invested in eligible Manitoba businesses.

The primary investment objectives of the Fund as stated in the Crocus Investment Fund Prospectus ("Crocus Prospectus") were to achieve long-term capital appreciation and promote employee ownership or participation in management. An additional focus in the Fund's investment decisions was maintaining capital retention and economic stability in the Province, job retention and creation, and ownership of Manitoba businesses by Manitobans.

Common shares of the Fund ("Class A shares") were available for purchase by individuals, with the purchase of shares generally being made through RRSPs. The Fund offered shares for purchase between 1992 and December 2004 when trading of the shares was suspended. Individuals purchasing common shares were potentially eligible for Manitoba and Federal tax credits, each equal to 15% of the aggregate purchase price of the shares, to a maximum of \$5,000, subject to certain regulations. There was an eight year hold period requirement for all investors (with

limited exceptions) which meant that individual shareholders of Crocus were restricted from redeeming their shares during the eight year hold period.

As at June 28, 2005 there were approximately 33,700 Class A shareholders who had cumulatively invested approximately \$185.2 million in the Fund. The Class A shareholders were previously entitled to elect two persons to the Crocus Board of Directors.

In addition to the Class A shareholders, there are other shareholder classes in Crocus as follows:

- 1) The Class L shareholder is the Manitoba Federation of Labour ("MFL") which was a founding shareholder and which contributed \$200 in capital to Crocus. The Class L shareholder was previously entitled to elect a majority of the Crocus Board of Directors.
- 2) The Class G shareholder is the Government of the Province of Manitoba (the "Province") which was also a founding shareholder and which contributed \$2.0 million to the Fund. As a result of its ownership of Class G shares, the Province was previously entitled to elect one director to the Board of Directors.
- 3) The Class I shareholders consist of the Manitoba Government Employees Union, the Workers Compensation Board of Manitoba, United Health Services Corporation and Fonds de solidarite des travailleurs du Quebec. The Class I shareholders contributed varying amounts of capital to Crocus and as at June 28, 2005 had a collective investment in the fund totalling approximately \$0.8 million. The Class I shareholders were collectively entitled to elect one person to the Board of Directors of Crocus.

2.0 Chronology of Events

The following is a chronology of significant events from December, 2004 to the present:

December 10, 2004 – Crocus announced that it had initiated an organizational review and comprehensive assessment of the value of its portfolio. In addition, Crocus announced that it requested and received regulatory approval to halt sales and suspend redemptions of its shares during the review. Crocus indicated that the decision to undertake the review and assessment was precipitated by the underperformance of the Fund and in light of new developments with key holdings in the portfolio.

December 16, 2004 - The Office of the Auditor General (“OAG”) advised Crocus that it would be conducting a limited examination of the Fund.

December 23, 2004 – In an open letter to the Manitoba Legislature, Crocus advised that its share price was \$10.45 when trading was halted on December 10, 2005. Crocus also advised that the Fund would co-operate with the OAG in its limited examination and that it had engaged valuation teams from accounting firms to assist in the voluntary portfolio valuation review that had been undertaken by Crocus.

February 7, 2005 – The OAG advised Crocus of its intention to expand the scope of its examination of the Fund to address objectives in the following areas: Board governance; management of the portfolio and general operations; compliance with the Crocus Act; and compliance with *The Securities Act*. The OAG’s examination was generally intended to address the time period from October 1, 2000 to September 30, 2004. On February 9, 2005 Crocus issued a press release confirming that it would cooperate fully with the expanded investigation of the OAG.

April 5, 2005 – The MSC issued a Notice of Hearing and Statement of Allegations against the Board of Directors of Crocus. The Statement of Allegations alleged among other things that the Crocus Prospectus did not contain full plain and true disclosure concerning the Class A share price and that the Board of Directors of Crocus failed to comply with their obligations regarding: establishing procedures for the valuation of shares; ensuring timely valuations; and failing to seek a suspension of trading when they were aware of a change which may have a material effect. Additional allegations were made against certain individual board members.

April 5, 2005 – Crocus announced that its Board of Directors approved a reduction of approximately \$46 million in the Fund's net asset value as a result of external valuations completed by four independent national accounting firms. Crocus also advised that when the reduction was coupled with operating losses and other expenses, the Fund's share value would be slightly below \$7.00.

May 12, 2005 – Crocus announced personnel changes to its Board of Directors.

May 25, 2005 – Crocus announced additional personnel changes to its Board of Directors which, in conjunction with the earlier changes, effectively replaced the former Board of Directors.

May 30, 2005 – The OAG released a report outlining serious weaknesses in the Fund's operations and governance. Referencing a decline in the value of the Fund's portfolio, the OAG indicated that the carrying value of the Fund's venture investment portfolio appeared to have been overstated at August 31, 2004 and that it was likely that the portfolio value was overstated at earlier dates, resulting in overvalued shares. The OAG was of the view that:

- The Crocus Board of Directors lacked appropriate oversight and governance and did not operate as effectively as was necessary given the operational and financial risks with the governance of an LSIF;
- Investment processes and procedures were significantly flawed;

- The Fund misled investors in a significant way by failing to properly disclose and publicly communicate the reason for the receipt of \$10 million from a Quebec LSIF in 2002;
- By not managing or addressing its operating losses on a timely basis, the Fund was headed for financial difficulties and risking non-compliance with its legislated liquidity requirements;
- There was significant abuse of the Fund's travel and expense policy;
- The Fund did not operate in compliance with respect to certain sections of the Crocus Act.

The OAG also advised that its report would be forwarded to an independent prosecutor from the Ontario Ministry of the Attorney General to determine whether the matter should be referred to the RCMP for a criminal investigation.

June 13, 2005 – The Board of Directors of Crocus announced that the Fund would not offer further Class A shares for sale and that Crocus would look for the best way to realize maximum value for shareholders from the Fund's portfolio and other assets. The Board cited damage to the Fund's reputation, high net operating costs, poor investment performance, the threat of litigation, and other factors that made it irresponsible for the Board to ask Manitobans to invest in the Fund at that time. The Board concluded that the financial interests of shareholders would be best served by working with interested parties to dispose of the assets in the portfolio in a manner that realized maximum value for shareholders.

June 14, 2005 – An independent prosecutor from the Ontario Ministry of the Attorney General completed a review of the OAG's report on Crocus and recommended that the matter be referred to the RCMP for a criminal investigation.

June 23, 2005 – The members of the Board of Directors of Crocus announced that they had resigned effective June 29, 2005. The Board cited as a key issue its inability to secure adequate Director and Officer (“D&O”) insurance. The Board advised that the Fund was able to negotiate an extension of the current D&O insurance coverage, and did receive offers for additional coverage, but the Board deemed the amount available to be insufficient given the potential future liability. The Board also advised that Crocus had requested that the Government of Manitoba consider indemnifying the Board and senior officers of the Fund but that the request for indemnity was declined.

June 28, 2005 – Upon application by the MSC, the Manitoba Court of Queen’s Bench appointed Deloitte & Touche Inc. as Receiver and Manager of Crocus. At the Court hearing to appoint the Receiver, the MFL appeared and indicated that it did not object to the appointment of the Receiver, but requested some time to consider whether other alternatives existed which would result in a better return for the shareholders of Crocus. The Court agreed to provide the MFL until July 13, 2005 to present a plan of action to the Court, but in the meantime, appointed the Receiver.

July 12, 2005 – A class action lawsuit was filed on behalf of certain of the Class A shareholders of Crocus claiming damages in the amount of \$200 million from various parties including former officers and directors of Crocus, the external auditor, the lead broker, the MSC and Crocus (the “Class Action”).

July 13, 2005 – A Court hearing was held before Justice Clearwater to consider the continuation of the receivership and the position of the MFL. The MFL indicated that it was not convinced that the receivership process was the best approach.

Notwithstanding the Court continued the Receiving Order but gave the parties the opportunity to further explore the issues. In addition, the Court agreed that the Receiver could make longer term employment commitments to the Crocus staff retained by the Receiver as well as formulate a plan to bring to the Court.

August 2, 2005 – The Receiver filed with the Court Receiver Report #2 requesting an Order approving amendments to the Articles of Crocus so as to comply with changes to the Crocus Act and *The Labour-Sponsored Venture Capital Corporation Act*. The Court granted the request and issued an Order dated August 10, 2005.

August 5, 2005 – The Receiver filed with the Court Receiver Report #3 requesting the Court's advice and direction respecting the legal fees claimed, through various indemnity arrangements with Crocus, by the former officers and directors named in the Class Action litigation as well as in the proceedings initiated by the MSC. At the date of preparing this Report, the Court has not heard this matter.

August 5, 2005 – The Receiver filed with the Court Receiver Report #4 requesting a variation to the initial Receiving Order to make clear the right of persons appointed by the Receiver to the Boards of Directors of subsidiary companies of Crocus and investee companies to be indemnified from the assets of Crocus. At the date of preparing this Report, the Court has not heard this matter.

3.0 Assets

Financial statements for Crocus have been prepared as at the date of receivership on June 28, 2005. The statements are internal and unaudited, and were prepared in a manner consistent with the financial information that was formally provided to Crocus shareholders. The statements are attached as Appendix 1 and reflect total assets of approximately \$87.2 million:

3.1 Short Term Investments

As at June 28, 2005, Crocus had \$23.3 million of cash, bonds and GIC's. The Receiver has secured these funds and has periodically drawn amounts as necessary to fund ongoing operations.

Approximately \$3.5 million of the \$23.3 million is on deposit with the Assiniboine Credit Union ("ACU") and is considered sequestered. The sequestration is pursuant to an agreement whereby Crocus guaranteed the advances made by ACU to certain investee companies within the Crocus portfolio. The guarantees to ACU are discussed more fully in the contingent liabilities section below.

3.2 Portfolio

As is noted above, in December 2004 Crocus announced a comprehensive assessment of the value of its portfolio. The assessment involved the external valuation of 13 of the 46 investments held by Crocus. The valuations were completed by national accounting firms. The external valuations represented 75% of the current book value of the portfolio. The remaining investments were valued internally by Crocus management and then reviewed by external valuers. The result of the valuation process was a write-down of approximately \$46 million from the December 10, 2004 Crocus book value. The write-down was recorded by Crocus in April 2005.

The June 28, 2005 gross book value of the 46 investees in the Crocus investment portfolio was approximately \$64.1 million, which is generally reflective of the value of the various investee companies as at December 31, 2004. Three investments have negative values ascribed to them totalling \$3.2 million indicating that the investment is carried at a nil value but that Crocus has guaranteed advances by third party lenders of the investees. Accordingly, the net book portfolio as at June 28, 2005 is \$60.9 million. Crocus's original cost for these 46 investments is \$90.6 million and is detailed in the financial statements (Appendix 1).

Appendix 2 compares the original cost of the investments to the current value of the investment portfolio on a sectoral basis. The graph reflects that the largest decrease in value in the Fund has been in the Science and Medical sector; with the largest increase being in the Financial Services sector.

The Receiver has discussed the portfolio in detail with former investment staff of Crocus retained by the Receiver and has also reviewed memos prepared by Crocus's counsel pertaining to various agreements between Crocus and its investee companies. Based on the Receiver's review to date, the following are additional comments regarding the make-up of the portfolio:

- Crocus has equity and debt investments in 46 investees. The top 7 investments make up \$46.8 million or 73% of the book value of the portfolio. The remaining 39 investments have a book value of \$17.3 million.
- All but 3 of the 37 equity investments are minority holdings. 26 of these minority investments are for less than 25% of the total equity of the investee company and 8 of these minority interests are for between 25% and 50% of the total equity of the investee company.
- 3 of the investee companies are public, 2 of which are not widely traded.
- 28 of the 46 investee companies have a right of first refusal of some kind which allows other shareholders of the investee to buy back the interest Crocus holds if Crocus should decide to sell such interest to another party.

These investee companies constitute \$55.3 million of the \$64.1 million or 86% of the book value ascribed to investee companies. The remaining 18 companies have no such rights.

- 15 of the 46 investee companies have confidentiality provisions within their agreements with Crocus which makes it difficult without the consent of the investee to disclose information to other parties, including potential purchasers. 14 of the same 15 companies also have some form of a first right of refusal provision. The 14 investee companies with both provisions constitute \$46.0 million of the \$64.1 million portfolio or 72%.
- 6 of the top 7 investments have both confidentiality and right of first refusal provisions.
- 11 of the 46 investments currently provide cash flow to Crocus via interest, dividends, management fees or share buybacks.

The above analysis is illustrated in graph form in Appendix 3 hereto.

Further details regarding the portfolio can be made available to the Court in a confidential supplement if required.

3.3 Other Assets

As at June 28, 2005, the total of the other major asset classes was approximately \$3.0 million consisting of Accounts Receivable of \$1.9 million, Capital Assets of \$0.8 million, Prepaid Expenses of \$0.2 million and Other Categories of \$0.1 million.

The Accounts Receivable consist of accrued interest on short term investments of \$0.4 million, accrued interest and management fees from investees of \$1.0 million, amounts due from shareholders for unpaid administration fees of \$0.4 million and other amounts due of \$0.1 million.

4.0 Liabilities

The June 28, 2005 financial statements reflect liabilities of \$1.6 million for trade accounts payable. In addition to this recorded liability, Crocus has certain contractual obligations as detailed below:

4.1 Accounts Payable

As at June 28, 2005 accounts payable and accrued liabilities totalled approximately \$1.6 million. This amount consists of balances due for professional fees (restructuring & legal), severance, payroll taxes and deductions.

Since the commencement of the receivership, the Receiver has authorized payment of certain of the accounts payable provided that the amount is properly supported and not in dispute. To date approximately \$840,000 of these accounts have been paid by the Receiver.

4.2 Lease Obligations

In 2001, Crocus entered into a lease ("lease" or "head lease") for approximately 20,700 square feet at 211 Bannatyne Avenue. The lease was for a 15 year term from 2001 to 2016 at a rate of \$18.00 per square foot. Commencing in the spring of 2005 Crocus began subletting the leased space with two sublets being completed and one sublet in progress at the time of the receivership. The Receiver has completed the sublet which was in progress resulting in a total of 11,500 square feet currently being sublet. For the present, the Receiver has retained the balance of the space for ongoing operations.

The sublet arrangements were for terms ranging from 3 to 6 years at rates between \$13.00 and \$17.00 per square foot which is less than the rate under the head lease. The shortfall is being funded from working capital. It is uncertain as to whether the Receiver is bound by the terms of the lease, however, it is clear that the landlord would have a claim against Crocus if the lease were terminated. As a result, for the

present, it is the intention of the Receiver to continue with the head lease and consider further sublets or other options as more space is available.

No provision has been made in the June 28, 2005 financial statements for the net present value of the difference in rental rates between the head lease and sublets.

4.3 Trailer Fees Payable

Crocus had paid referring brokers/agents a 5% commission upon the sale of shares and an additional 4% commission over 8 years. The commission is calculated as a percentage of the net asset value per share. The 4% over 8 years is referred to as a "trailer fee" and was paid on a quarterly basis provided that the shares were held over the 8 year hold period discussed below.

The last payment made to the brokers/agents was in March 2005 after which Crocus ceased making payments. Given the uncertainty regarding the Class A share price, the Receiver has also frozen further payments on account of trailer fees. Assuming a Class A share price of approximately \$6.00, the future liability to brokers/agents would approximate \$1.5 million as at June 28, 2005.

No provision for future trailer fees has been provided for in the Crocus financial statements.

5.0 Contingent Liabilities

The following is a list of known contingent liabilities; however, based on the review of investments within the portfolio to date, the Receiver cannot provide any assurances that all contingent liabilities have been identified.

5.1 Class Action Proceedings

On July 12, 2005 a statement of claim under *The Class Proceedings Act* was filed against Crocus, Crocus Capital Inc. and 21 other defendants. The claim seeks damages of \$150 million for oppression and negligence as well as punitive and exemplary damages of \$50 million. The "Class Members" as defined in the statement of claim include persons who dealt in the shares of Crocus between October 1, 2000 to December 10, 2004 and suffered a loss as a result thereof. The Receiver estimates that approximately one half of the current shareholders in dollar value may meet the Class Member definition. The statement of claim alleges amongst other things, the following:

- 1) That certain former Board members and officers or persons under their control priced the Fund at inflated values, overstated the Crocus share price valuations and issued or caused to be issued prospectuses which were materially false;
- 2) That two investment dealers, Wellington West Capital Inc. and Nesbitt Burns Inc., as agents for the Fund breached s. 141 of the *Securities Act* and s. 52(1) of the *Competition Act*.
- 3) That Crocus's auditor, PricewaterhouseCoopers LLP, breached its duty of care to the Class Members and negligently represented in its auditor's reports that the Fund's financial statements were materially accurate and that the share price valuation was reasonable.

- 4) That the MSC breached its duty of care to the Class Members to ensure that the Fund's prospectuses contained full, true and plain disclosure of all material facts and to undertake a reasonable and prudent investigation of complaints.

The Receiver is currently considering what position, if any, it will take respecting the Class Action claim against Crocus.

The Receiver is concerned that the Class Action litigation divides the Class A shareholders into two distinct groups: those who purchased shares prior to October 1, 2000, and those who purchased shares on or after October 1, 2000. The distinction has the potential to cause the assets of Crocus to be depleted at the expense of certain Class A shareholders while potentially improving the position of the Class Members by converting them into creditors, whose claims would rank in priority to the rights of the Class A shareholders who are not Class Members. While the Receiver recognizes that the interests of the shareholders may differ, it is the Receiver's view that a principal part of its mandate is to protect the interest of all Class A shareholders and as such the Receiver wants to consider the issue in greater detail when its response to the Class Action litigation is formulated.

5.2 Indemnification of Officers and Directors

As is noted above, prior to the appointment of the Receiver there had been an investigation of Crocus by the OAG as well as an investigation into the conduct of Crocus and its directors and officers by the MSC. In total, 17 former officers and directors were named in the investigations and proceedings. Prior to the appointment of the Receiver, Crocus had paid lawyers who represented directors and officers in the course of the investigations. Many of the former directors and officers have requested that their indemnification from the assets of Crocus continue and are relying upon certain By-Laws of Crocus as well as certain severance agreements which they indicate entitle them to indemnification. Counsel representing the proposed Class Members in the Class Action proceedings is opposed to the use of Crocus's assets to indemnify former officers and directors.

The Receiver outlined a proposed approach for the competing claims in Receiver's Report #3. This matter has yet to be heard by the Court.

5.3 Guarantees

Crocus guaranteed the indebtedness of certain advances to its investee companies from other lenders. As at June 28, 2005, the Receiver is aware of 8 guarantees outstanding with potential exposure to Crocus of approximately \$7.7 million.

During the portfolio valuation Crocus estimated that the likely exposure under the guarantees was approximately \$3.2 million and reduced the value of the portfolio accordingly.

6 of the 8 guarantees are for advances made to investees by ACU. Pursuant to an Assignment of Credit Union Deposits Agreement dated January 10, 2005, Crocus assigned a \$3.5 million term deposit with ACU to it in support of the guarantees.

The Receiver has engaged counsel to review the validity of the guarantees as well as the validity of the Agreement. The Receiver will attempt to mitigate exposure under all guarantees with a view to reducing the liability and thereby increasing the net asset value of the Fund.

5.4 Pension Plan

Prior to 2005, Crocus had funded a defined benefit pension plan for its employees that was sponsored by the Canadian Labour Congress ("CLC plan"). Effective January 1, 2005, the pension plan was changed to a defined contribution plan administrated through Great West Life ("GWL plan"). It had been the intention of Crocus to have the CLC plan transferred to the GWL plan but the transfer process was not initiated prior to the receivership. As a result the funds remain in two separate plans.

The Receiver has contacted the consulting actuary for the CLC plan who has advised that whether the transfer is completed or whether the Crocus portion of the CLC plan is wound up, a new actuarial valuation will be required as the last valuation

was done effective December 31, 2003. Depending on the outcome of future actuarial valuations, there may be additional liability to Crocus.

5.5 Severance Claims

The Receiver is aware of two additional potential severance claims by former employees which were not settled by Crocus prior to the appointment of the Receiver. The Receiver is currently investigating the merits, if any, of the claims.

5.6 Other

Crocus provided indemnities on behalf of certain of the investee companies. These indemnities were not reflected in Crocus's books and records. Since the date of the appointment of the Receiver, one indemnity to the extent of \$3.0 million has been brought to the Receiver's attention. The Receiver is attempting to ascertain whether further indemnities exist.

In addition, the Receiver has received notice of a recent claim against Crocus and an investee company brought by a former employee of the investee company.

6.0 Shareholdings / Unit Value

6.1 Details of Current Shareholdings

As at June 28, 2005, there were 33,662 individual Class A shareholders of Crocus. Appendix 4 stratifies the amount invested by the individual Class A shareholders. In summary, the largest class of investors are those who invested \$1,000 to \$5,000 in the Fund, representing 58% of all investors. The average investment in the Fund is approximately \$5,500 and the median investment is \$5,000. Cumulatively, 29,331 or 87% of the shareholders originally invested less than \$10,000 into the Fund.

As was outlined in the initial report of the Receiver, all shareholders have been notified by mail of the receivership and advertisements were placed in the Winnipeg Free Press and the Globe & Mail.

6.2 Historical Unit Value

Appendix 5 details Crocus's Class A net asset value per share ("pricing unit value") as at the year end (September 30) since the inception of the Fund. The graph in Appendix 5 is based on Crocus's published unit value and does not take into account the valuation issues raised by the OAG, MSC and others. Crocus shares reached their highest valuation point of \$15.39 on July 31, 2000 and never traded below the \$10.00 level. The graph in Appendix 5 also includes the current unit value as at June 28, 2005 discussed below.

6.3 Current Unit Value

At the beginning of the current fiscal year, October 1, 2004, Crocus's pricing unit value was \$10.61. When the shares ceased trading on December 10, 2004, the pricing unit value was \$10.45. On a basis consistent with Crocus pricing methodology, the pricing unit value is \$6.42 per unit as at June 28, 2005, however, this value includes unamortized deferred selling costs which are the remaining portion of the capitalized costs of selling the shares.

The practice of including the deferred selling costs in the pricing of the shares is allowed by the MSC but is not allowed under generally accepted accounting principles ("GAAP"). Under GAAP the net asset value per share is \$5.99 per unit ("GAAP unit value" or "current unit value"). In the present circumstances, the Receiver is of the view that the GAAP unit value more appropriately reflects the June 28, 2005 accounting value per share given that Crocus is unlikely to return to normal LSIF operations and as such the deferred selling costs have no benefit.

The current unit value of \$5.99 represents a decrease of \$4.62/unit since the beginning of Crocus' fiscal year on October 1, 2004. The decrease is summarized as follows:

Decrease in Fund Value	\$ (millions)	\$/unit
Loss from Operations	3.7	0.26
Restructuring Costs	1.1	0.08
Severance Costs	2.8	0.20
Valuation Costs	0.6	0.04
Portfolio write-down	36.2	2.53
Loss on Disposal of Investments	13.8	0.97
Dividends & Other	0.4	0.02
Deferred Selling Costs	7.4	0.52
Total Decrease in Value	66.0	4.62

Appendix 6 summarizes the decrease in graph form.

The Receiver emphasizes that the unit value of \$5.99 is an accounting book value as at June 28, 2005 as opposed to the realizable value of the investments and is not an indication as to what amount of funds may be available for distribution to the Class A shareholders.

The ultimate realizable value of the shares will be dependent on future events which will determine the realizable value of the portfolio. As well, the amounts that Crocus will have to pay in order to settle known and contingent liabilities may have a material effect on the unit value which is ultimately available for distribution to unit holders. The Receiver believes that these amounts may be significant in light of the current investigations and the Class Action lawsuit against the Fund and other parties that are looking to Crocus for indemnification. Specifically, the ultimate

realizable value of the Class A shares is dependent on future events, some of which are as follows:

- Possible further increases/reductions in the value of the portfolio as a result of ongoing investee performance.
- The length of time taken to realize on the portfolio.
- The extent of guarantees which Crocus and the Receiver may be required to honour.
- Professional costs incurred by the Receiver and its counsel as a result of current and future litigation.
- Costs and damages to which Crocus may become liable and the Receiver may have to pay as a result of indemnities granted by Crocus.
- Costs and damages to which Crocus may become liable as a result of the Class Action proceedings.
- Any provision for the costs of the difference between the head lease and subleases.
- The additional liability, if any, for the trailer fees payable to agents/brokers.
- Any potential for liability/surplus under Crocus's employee pension plan.
- All other costs of monitoring the portfolio and realizing on the assets

Given the difficulty in quantifying the above, the Receiver is unable to estimate the ultimate realizable value of the shares at this time, but will provide updated information in subsequent reports to the Court.

7.0 Operations / Cash Flow

7.1 Operations to June 28, 2005

For the 9 month period ended June 28, 2005 Crocus's operating loss totalled approximately \$3.7 million. In addition, Crocus incurred non-recurring expenses of \$4.5 million increasing the total operating loss to \$8.2 million. Losses on the sale and revaluation of investments for the 9 month period totalled \$50.0 million to bring the total loss to \$58.2 million.

Non-recurring operating expenditures include restructuring expenses of \$1.1 million, severance costs of \$2.8 million and external professional fees related to the valuation of the investment portfolio of \$0.6 million. Restructuring costs consist primarily of legal and consultant fees. Severance costs consist of severance payments to former officers and employees.

7.2 Post June 28, 2005 Operations

Operating cost reductions since the initial appointment of the Receiver were outlined in the First Report of the Receiver and Manager. The major costs currently being incurred are payroll, rent and professional costs of the Receiver and its counsel. Since the First Report there have been additional staff reductions and the Receiver continues to attempt to reduce operating costs in an effort to mitigate further cash operating losses of the Fund.

7.3 Cash Flow

For information purposes, the Receiver has attached an operating cash flow projection for the period June 28, 2005 to December 31, 2005 as Appendix 7.

The statement **excludes** any provision for future legal fees or other costs or damages that may arise as a result of indemnities which Crocus has provided. Depending on the outcome and liability for costs, the cash holdings and unit value could be reduced significantly.

A Statement of Receipts and Disbursements from June 28, 2005 to September 8, 2005 is attached as Appendix 8.

8.0 Shareholder Hold Period / Tax Issues

8.1 Hold Period

When Class A shareholders purchased Crocus common shares, the shareholder was, except for certain specific exemptions, restricted from redeeming or transferring the shares for a period of eight years.

Exceptions with respect to redemptions permitted a shareholder to redeem all or part of their holdings if:

- 1) The individual acquired the shares as a consequence of the death of another individual;
- 2) The shareholder faced "Severe Financial Hardship".

In both of these situations, if the shares were redeemed, the individual was not permitted to retain the tax credits that would have been received on the issuance of the shares.

Permitted transfers which were exempt from the regulations of the holding period included the following:

- 1) An individual may transfer shares back and forth between registered and non-registered accounts.
- 2) Individuals may transfer shares to their current or former spouses as well as common-law partners, to their parents, or to siblings or children.

The Receiver has continued to record transfers, but has not permitted redemptions in accordance with the Order of the Court under which it was appointed.

Given that, for the present, there is no ability on the part of the Receiver to make any distributions to shareholders of Crocus, there is no reason for the Court to consider the appropriateness of the hold period and the applicability of same to the Receiver. Should funds become available for distribution to the Class A shareholders, a determination will have to be made as to whether any distribution will be made with consideration to the initial hold period.

8.2 Tax Implications to Shareholders

The Receiver is currently reviewing with the various levels of government what, if any, effect the Receivership of Crocus will have on the individual tax position of each of the Class A shareholders. The Receiver will report to the Court in due course on this subject.

9.0 Legal / Reserve Requirements

9.1 Receiver Counsel

The Receiver has engaged the law firm of Hill, Abra, Dewar as Counsel of record and has also engaged other counsel in circumstances in which it appeared reasonable to do so.

9.2 Amendments to the Crocus Act

Prior to the appointment of the Receiver, the Board of Directors of Crocus was mandated to amend the Articles of Crocus to correspond to the amended *Labour Sponsor Venture Capital Corporations Act*. Given the resignation of the Board of Directors, the Receiver requested the Court to amend the Articles to make them consistent with the new legislation.

The Court approved the request and granted the necessary Order on August 10, 2005.

9.3 Reserve Requirements

Section 12(1) of the Crocus Act, required Crocus to maintain a reserve fund. While the section of the Crocus Act is detailed in the method of calculation, it effectively required Crocus to maintain a pool of cash and short term investments, the total of which must exceed 15% of the fair market value of its investments. As at June 28, 2005 Crocus was in compliance with the reserve requirement. For the present, the reserve requirement remains in place, however the Receiver will be discussing the matter with appropriate officials to discuss its ongoing applicability.

10.0 Ability of Crocus to Resume Operations

The Receiver is of the view that it is highly unlikely that Crocus will be in a position to resume normal operations of raising and investing capital. The following summarizes a number of the factors considered by the Receiver in arriving at this conclusion:

- 1) Crocus would require regulatory approval from the MSC to resume operations. While not impossible, the prospect of Crocus being able to address all of the issues raised by the MSC is highly unlikely.
- 2) As a result of the extensive media coverage of the OAG investigation, MSC investigation, RCMP investigation and Class Action proceedings, the Receiver concurs with the view of the former Board of Crocus that the "Crocus" brand name has been irreparably harmed, in all likelihood destroying its ability to raise capital.
- 3) Crocus has been named as a defendant in the \$200 million Class Action proceedings along with certain of its officers and directors who claim indemnity against Crocus. Should it be determined that the indemnity is valid as against Crocus, then Crocus's ability to raise or distribute funds to the Class A shareholders will be seriously impaired until the quantum of liability under the indemnities is determined. The Receiver believes that the litigation arising out of the lawsuits and investigations may be lengthy and potentially costly to Crocus.
- 4) Wellington West Capital Inc. and BMO Nesbitt Burns in their capacity as lead brokers for the Fund have indicated that their Broker Agreements with Crocus allow them to be indemnified against potential claims against them. Both Wellington West and BMO Nesbitt Burns have been named as

defendants in the Class Action proceedings and have advised of their intention to pursue Crocus under their indemnity arrangements. As above, the quantum of the liability will be dependent on the length and result of the litigation.

- 5) The Receiver has concerns that there may be commitments on behalf of certain of the investee companies which may not have been reflected in the records of Crocus. Until the extent of any such commitments is ascertained, it is not reasonable to expect that Crocus could properly resume operations.

11.0 Alternative Approaches

Notwithstanding the inability of Crocus to resume operations, the portfolio of Crocus must continue to be managed or sold, so as to maximize the realization which will be available to the shareholders once the liabilities of Crocus are determined and paid.

In considering the options to achieve maximum realization, the Receiver has requested and received the input of various parties including:

- Former investment personnel of Crocus retained by the Receiver;
- Industry experts as well as legal counsel retained by the Manitoba Federation of Labour;
- Legal counsel retained by the Receiver.

In addition, the Receiver has considered the specific position of each of the investee companies. The Receiver is of the view that there are certain constraints in attempting to manage or sell the Crocus portfolio. The two most difficult constraints are confidentiality provisions and right of first refusal options within shareholder agreements to which Crocus is a party. Confidentiality rights make it difficult, without the consent of the investee company, for the Receiver to disclose information about an investee company to a potential purchaser of Crocus's investment. A right of first refusal in favour of existing shareholders potentially deters a third party from doing all of the necessary due diligence investigations and making an offer for an asset when the holder of that right can simply take advantage of the efforts of the third party to set the price for the asset and then supplant the third party's offer by matching it.

While it is arguable that the Receiver may not be bound by confidentiality provisions and rights of first refusal to which Crocus is a party, the nature of the investee companies is such that the Receiver may not practically be able to ignore them as it seeks to maximize the realized value of the portfolio. The nature of the investees is that they are private, not public, companies. Typically, they are made up of a relatively small number of shareholders who are well known to each other. In many cases, the company is not merely an investment for the shareholders but also provides employment for them. The shares held by Crocus cannot be sold in the public markets. Rather, they must be sold to the investee company itself, to existing shareholders of the investee or to some third party who will be welcomed as a new investor. New shareholder agreements may have to be negotiated between the present shareholders and the successor to Crocus's position, a feat not possible without the cooperation of the existing ownership.

In the Receiver's experience, many of the investee companies are highly concerned that their confidential financial and other business information will become public as a result of the receivership of Crocus. Should that occur without their consent, or in favour of persons who have not themselves been approved by the existing owners and made subject to confidentiality agreements acceptable to the existing owners, the prospects of successfully persuading them to cooperate with the Receiver in the sale of the Crocus positions are negligible. In this regard, the Receiver is concerned that the present requirement for virtually all dispositions of Crocus's investments to be approved by the Court may be counterproductive to its efforts to maximize the value of the realized portfolio.

While the Receiver recognizes that it is usual for investee companies with outside investors to protect their interests through rights of first refusal and confidentiality agreements, these agreements impose severe constraints on the ability of the Receiver to deal with the Crocus portfolio in a commercially reasonable manner.

Having sought the input of the parties mentioned above, and having regard to the confidentiality, right of first refusal and other constraints, including the outstanding Class Action litigation and the uncertain state of indemnities granted by Crocus, the Receiver has considered the following alternative approaches to dealing with the Crocus portfolio.

11.1 Sale of the Portfolio "en bloc"

Theoretically, the sale of the Crocus portfolio "en bloc" is a possible approach. However, the rights of investee companies to confidentiality make it virtually impossible for the Receiver to disclose to potential purchasers of the portfolio the information they would need to value the portfolio and thus maximize the return to the shareholders. The Receiver does not consider it realistic that consents would be received from all investee companies to disclose the information necessary for potential third party purchasers to submit informed "en bloc" bids for the portfolio. In addition, 28 investee companies may have the right to prevent the sale of Crocus's investment by exercising their rights of first refusal. For these reasons, the Receiver does not consider it feasible to proceed with a sale of the Crocus portfolio "en bloc".

11.2 Use of a Management Company

The Receiver has considered the alternative of requesting proposals from companies with expertise in the management of portfolios similar in type to the Crocus portfolio (the "Venture Capital Manager"). Proponents of this approach have not been specific as to whether the Venture Capital Manager would replace, or work as an agent of, the Receiver.

In the Receiver's view, resolution of the issue of whether a Venture Capital Manager should be retained depends on whether it would be in the long term best interests of the Class A shareholders of Crocus to do so. It is relevant to inquire as to what the difference would be between use of a Venture Capital Manager and the Receiver.

Presumably, the Venture Capital Manager would bring the skills of raising capital, identifying new investment opportunities, investing newly raised capital either in new or existing businesses and managing an existing portfolio of investments. It would not, with respect, be expertise with a focus on liquidating an existing portfolio for purposes of distribution but rather on the ongoing operation of an LSIF. It is the respectful view of the Receiver that, in the circumstances of Crocus, in which there are no new funds to be raised and no new investment opportunities to be found, the skill set possessed by an experienced receiver is more in accord with Crocus's present needs than the skill set possessed by a Venture Capital Manager.

Generally speaking, in the Receiver's experience, Court appointed receivers have a focused set of responsibilities, designed to achieve a specific end within a reasonable timeframe. It would be unusual for the object of the receivership to be the continued operation of the business that is in receivership if there is no real prospect of being able to sell it as a going concern. Deloitte favours an orderly liquidation of the portfolio over a reasonable period of time followed by Court supervised distribution of the proceeds. Those who have advocated use of a Venture Capital Manager have not explained how or when it would accomplish the objective of returning as much of their capital as possible to those who invested in Crocus.

The perceived advantage of the appointment of a Venture Capital Manager is that the Manager could provide the direction and support to the investee companies that a venture capital company typically provides to the companies in which it invests. The desired objective of this approach is that Crocus investee companies be given the opportunity to realize their full potential (or at least some greater part of that potential than has been achieved to date) and thus achieve a higher value before being sold. In fact, for so long as Deloitte is the Receiver, it is our intention to have available to us as consultants, persons with the expertise of a Venture Capital Manager. At present, the Receiver has retained the services of certain of the former investment staff of Crocus for that purpose. The Receiver is not of the belief that

use of a Venture Capital Manager would be in the best interests of the Class A shareholders given the following:

- 1) An increase in the overall value of the Crocus portfolio by active management of the portfolio over a period of years cannot be guaranteed. The recent history of the Crocus portfolio has seen a substantial decrease in the overall value of the portfolio. It is at best uncertain as to whether that trend can be reversed.
- 2) Because of the investee confidentiality agreements referred to above, the Receiver may not be able and is not willing to disclose to those Venture Capital Managers from whom proposals would be sought, the proper information they would require in order to frame a proposal. As noted above, confidentiality agreements exist with 15 of the 46 investee companies representing greater than 73% of the total value of \$64.1 million ascribed to all investee companies.
- 3) A Venture Capital Manager is typically compensated based on a percentage of assets under administration and part of its duties is to invest new capital. Given that Crocus is not operating, defining the time frame and compensation arrangements with the Venture Capital Manager would be problematic.
- 4) The support that a Venture Capital Manager provides to an investee company consists primarily of management expertise and financial support. Under the Order appointing Deloitte, the Receiver is able to retain outside consultants to provide such management advice as may be required by specific Crocus investees to the extent that the Receiver does not itself have such capabilities in-house. In addition, in those cases where the investee company requires new capital and new capital is feasible, the Receiver will work with the investee company to find sources of capital on terms which are beneficial to all stakeholders, including

Crocus. Accordingly appointment of a Venture Capital Manager would not be necessary from either of these perspectives.

- 5) Certain of the investee companies of Crocus have indicated that it would be their preference to terminate their dealings with Crocus and have it divest itself of its interest as an investor on terms and conditions that allow the Receiver to realize the fair value of the investment. It is not appropriate, however, for details of these discussions to be made public at this time as that would violate the expectations of the investee companies and compromise the ability of the Receiver to effect a reasonable realization of the investment.

11.3 Orderly Sale of the Portfolio by the Receiver

Given the rights of the various investee companies and also given the uncertainties surrounding the outstanding legal matters and the potential exposure, if any, which Crocus may have, the Receiver has concluded that, to achieve the maximum value for the assets of Crocus, it will be necessary to deal with the investee companies that make up the portfolio on an individual basis, and that the strategy employed will vary depending on the particular investee company and the rights held by that company.

The list of investee companies is a matter of public knowledge. The Receiver will encourage any person who indicates an interest in purchasing Crocus's interest in an investee company to request that the investee company provide the Receiver with permission to disclose information on a confidential basis required by the prospective purchaser with respect to a possible transaction. To the greatest degree possible consistent with realization of fair value, it is the intention of the Receiver to work in cooperation with investee companies in the exercise of its duties.

If, after making an approach to an investee company, the Receiver determines that the investee company is acting in an unreasonable manner so as to frustrate the Receiver in realizing on the Crocus portfolio, the Receiver will consider whether there is a basis on which, in the particular circumstances, the Court might use its equitable powers to set aside the rights of the investee company, subject to whatever conditions the Court might determine to be appropriate.

12.0 Summary & Recommendation

The Receiver recommends an orderly sale of the assets of Crocus over a reasonable period of time. Generally speaking, each investee company will be dealt with separately on its own merits although it remains possible that an investor acceptable to the investee companies might be identified who would purchase more than one of the Crocus investments. The proceeds from such dispositions, net of costs incurred, will be held in trust by the Receiver pending further Order of this Court. In the event that confidentiality, rights of first refusal or other contractual obligations of Crocus unduly and unreasonably interfere with the Receiver's efforts, it may prove necessary to return to the Court, with notice to the affected investee company, and seek relief.

At present, paragraph 3(l) of the Receiving Order entitles the Receiver to sell the assets of Crocus:

without the approval of this Court in respect of any transaction not exceeding \$100,000, provided that the aggregate consideration for all such transactions does not exceed \$100,000.

Paragraph 4 of the Receiving Order says:

This Court orders that the ability of the Receiver to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business, other than those transactions described in paragraph 3(l) hereof, shall be the subject of further application to this Court.

In order for the Court to be able to approve of a transaction, the Receiver must file sufficient information to explain the basis for its recommendation. It is likely that virtually all such recommendations are going to be predicated on the detailed financial circumstances of the investee company. In fairness to the investee companies, the Receiver feels obliged to ensure that they understand that, at

present, approval of the Court of any transaction may require that details of their financial circumstances be made public, notwithstanding confidentiality agreements to the contrary. The Receiver anticipates that the cooperation of the investee companies with its realization efforts will be seriously compromised by the requirements of public disclosure.

It is also the Receiver's experience to date that, given that the investee companies are active businesses, their circumstances change from day to day. The time between making an agreement to liquidate a Crocus investment until the closing of the transaction must be short. In addition, as in all commercial transactions, the expectations of the parties are that a closing will be final and conclusive. After the closing, the new investor will be in place and the conduct of the business and affairs of the investee company must proceed on the expectation of permanency. The requirement to seek Court approval, and the inevitable delay until the matter can be brought before the Court and, depending on the interests of various parties, finally disposed of (including expiry of all appeal periods or disposition of appeals) creates an element of uncertainty that jeopardizes the ability of the Receiver to most effectively liquidate the portfolio.

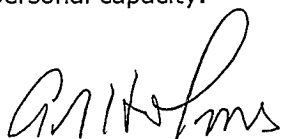
The Receiver understands the need for the Court to have an acceptable level of ongoing supervision of the receivership. With respect, that does not require the Court to consider and approve or reject what, in essence, are business decisions. The particular expertise of the Receiver and its advisors has been accumulated over many years with the objective of being able to make such decisions. In lieu of requesting the Court for its approval of those decisions in each and every case as they are being made, the Receiver respectfully suggests that a more preferable reporting relationship would be for the Receiver to file quarterly reports on its activities with the Court and to respond to any questions the Court may have with respect thereto. Those reports would not provide, as a matter of course, detailed disclosure of the confidential information of investee companies but would keep the Court apprised of the activities of the Receiver and, if the Court deemed it necessary, supplemental reports on particular issues could be filed.

Depending on the circumstances, it is possible that the Receiver may request the Court to receive certain sensitive information about investee companies on an *in camera* basis, with supporting Reports being sealed pursuant to an Order of the Court. While the Receiver understands that there are those who advocate for full and absolute transparency in dealing with Crocus's assets, the necessity to seek Court approval on virtually all transactions involving the investee companies will create uncertainty and frustrate the investees and other third party purchasers. Should that requirement remain in effect, it is highly probable that, in the majority of applications to Court, the Receiver would seek the approval of the Court to seal all documents containing confidential information, which the Court itself might find to be problematic given the preference for hearing evidence and making decisions as a public forum.

Accordingly the Receiver is seeking an amendment to the Initial Receiving Order to remove the quoted language from paragraph 3(l) and paragraph 4 and to replace it with a requirement for quarterly reporting. The Receiver would continue to have the ability to attend in Court to seek advice and direction with respect to any transaction where it deems it appropriate to do so and would provide quarterly reports to the Court as to its activities and the status of the investee portfolio.

Respectfully submitted this 12th day of September, 2005.

DELOITTE & TOUCHE INC., in its
capacity as Receiver and Manager of
The Crocus Investment Fund and not in its
personal capacity.



Per: A.R. Holmes
Senior Vice-President

Appendices

Appendix 1 – Crocus Financial Statements

Crocus Investment Fund Consolidated Statements of Net Assets As at June 28, 2005 (unaudited)

ASSETS

Investments in Manitoba Businesses
Less: Allowance for investment guarantees
Net Investments in Manitoba Businesses
Investments in marketable securities
Investments in marketable securities - sequestered

	June 28, 2005
\$	64,143,487
	(3,253,988)
	60,889,499
	19,796,738
	3,500,000
	<u>84,186,237</u>
	66,274
	1,971,046
	199,525
	802,783
	17,970
	<u>87,243,835</u>

Cash

Accounts receivable
Prepaid expenses
Capital assets
Deferred costs

LIABILITIES

Accounts payable and accrued liabilities

NET ASSETS

	1,631,813
\$	<u>85,612,022</u>

SHAREHOLDERS' EQUITY

Share capital
Deferred selling costs adjustment
Deficit

	188,014,669
	(9,134,637)
	(93,268,009)
\$	<u>85,612,022</u>

"GAAP" NET ASSET VALUE PER CLASS "A" COMMON SHARE and
SERIES TWO CLASS "I" SPECIAL SHARES

\$	<u>5.99</u>
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"PRICING" NET ASSET VALUE PER CLASS "A" COMMON SHARE and
SERIES TWO CLASS "I" SPECIAL SHARES

\$	<u>6.42</u>
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Appendix 1 – Crocus Financial Statements (cont'd)

Consolidated Statements of Operations For the period ended June 28, 2005 (unaudited)

REVENUE	June 28, 2005
Interest and dividend revenue	\$ 623,581
Management fees	1,120,897
	<u>1,744,479</u>
OPERATING EXPENSES	
Amortization of capital assets	136,884
GST and capital tax	348,360
General and administrative	1,547,217
Investment management	1,523,965
Occupancy	301,623
Professional fees	231,124
Shareholder services	313,715
Selling, marketing and offering	1,031,785
	<u>5,434,673</u>
	<u>(3,690,194)</u>
	<u>1,137,151</u>
OPERATING LOSS BEFORE NON-RECURRING ITEMS	
Restructuring costs	2,787,117
Severance expense	542,766
Valuation fees	4,467,034
	<u>(8,157,228)</u>
	<u>(13,834,181)</u>
	<u>(21,861)</u>
	<u>(36,169,347)</u>
	<u>(50,025,389)</u>
	<u>(58,182,617)</u>
	<u>(45,000)</u>
	<u>\$ (58,227,617)</u>
	\$ 10.61
	<u>(4.62)</u>
	<u>\$ 5.99</u>
LOSS BEFORE THE FOLLOWING	
Net realized loss on disposal of investments in Manitoba businesses	
Net change in value of marketable securities	
Net change in value of Manitoba businesses	
LOSS BEFORE INCOME TAXES	
Provision for income taxes	
LOSS FOR THE PERIOD	
"PRICING" NET ASSET VALUE PER SHARE, OCTOBER 1, 2004	
DECREASE IN NET ASSET VALUE PER SHARE	
"GAAP" NET ASSET VALUE PER SHARE, JUNE 28, 2005	

Appendix 1 – Crocus Financial Statements (cont'd)

Consolidated Statements of Deficit For the period ended June 28, 2005 (unaudited)

	June 28, 2005
	\$ (34,805,460)
	(58,227,617)
	(333,333)
	98,401
	<u>\$ (93,268,009)</u>

DEFICIT-Beginning of period, September 30, 2004
 Loss for the period
 Series Three Class "I" Special Shares dividend
 Excess of stated value of Class "A" Common Shares redeemed and Series Two
 Class "I" Special Shares redeemed over the redemption value
DEFICIT-END OF PERIOD

Consolidated Statements of Changes in Net Assets For the period ended June 28, 2005 (unaudited)

	June 28, 2005
	\$ 154,302,105
	<u>(58,227,617)</u>
	96,074,488
	300,348
	(419,282)
	(10,000,000)
	(333,333)
	<u>(10,199)</u>
	<u>\$ 85,612,022</u>

NET ASSETS - September 30, 2004, as previously reported

Operating activities
 Loss for the period
Capital transactions
 Proceeds from issuance of Class "A" Common Shares
 Redemption of Class "A" Common Shares
 Redemption of Class "I" Special Shares
 Series Three Class "I" Special Shares dividend
 Sales charges relating to the issuance of Class "A" Common Shares
NET ASSETS - END OF PERIOD

Appendix 1 – Crocus Financial Statements (cont'd)

Consolidated Statements of Investment Portfolio As at June 28, 2005 (unaudited)

Investment Portfolio by Sector

Science, Medical and Technology

	Debt Cost	Equity Cost
	\$	\$
Biovar Life Support Inc.	-	500,000
CentreStone Ventures Limited Partnership	350,000	-
COH Holdings (US) Inc.	-	302,400
(formerly OpTx Corporation)	-	4,839,356
Diamedica Inc.	-	3,705,334
eZedia Inc.	-	425,000
	-	4,938,938
	6,442,093	-
	100,000	-
	523,433	-
Genesys Venture Inc.	-	125,000
IMRIS Inc	100,000	-
	-	4,294,469
	-	2
	1,078,000	-
Manitoba Science & Technology Fund	-	2,702,000
Medicure Inc.	-	1,150,000
Novra Technologies Inc.	-	1,249,999
	777,197	-
Online Enterprises Inc.	-	5,500,003
ST Partnership	-	802,565
Viventia Biotech Inc.	-	515,000
Total Science, Medical and Technology -	9,370,723	31,050,066

Sector Percentage: 45%

Appendix 1 – Crocus Financial Statements (cont'd)

Consolidated Statements of Investment Portfolio As at June 28, 2005 (unaudited)

Investment Portfolio by Sector

Manufacturing & Transportation

Carte International Inc.	Common shares	-	1,200,000
	Debtenture	4,000,000	-
Cando Contracting Ltd.	Class "A" common shares	-	2,077,032
Enterprise Swine Systems Ltd	Debtenture	600,000	-
Enterprise Swine Systems II Ltd	Debtenture	267,086	-
ESS Holding Company	Common shares	-	600,000
	Guarantee	557,512	-
Maple Leaf Distillers Inc	Preferred shares	-	2,000,000
Mondetta (Dimensions 100 Inc)	Series "I" class "A" common shares and warrants	-	800,001
Sequoia Energy Fund	Common shares	-	550,000
Turtle Mountain Pork Limited Partnership	Limited partnership units	-	500,000
Turtle Mountain Pork II Limited Partnership	Limited partnership units	-	400,000
Venture Seeds Ltd	Convertible debtenture	52,980	-
Westward Industries Limited	Common shares	-	990,000
	Debtenture	94,000	-
Other	Each individually less than \$100,000	-	46
Total Manufacturing & Transportation	Sector Percentage: 16%	5,571,578	9,117,079

Appendix 1 – Crocus Financial Statements (cont'd)

	Debt Cost \$	Equity Cost \$
Investment Portfolio by Sector		
Entertainment and Hospitality		
Blye Brothers Entertainment Inc.	854,164	-
Canad Corporation of Canada Inc.	-	251
Crocus Hockey Holdings Inc.	46,939	5,000,000
D.L.J.S. Enterprises Ltd.	25,000	5,067,524
Green Gates Country House and Restaurant	145,000	-
Mezzo Limited Partnership	70,000	330,000
Minds Eye Pictures	210,000	-
Muddy Waters Smokehouse	679,361	158,282
Pasta La Vista	1,931,459	3,000,000
True North Holding Company	145,161	-
Winnipeg Goldeyes Baseball Club Inc.	136,835	75,671
Winnipeg Spaghetti Corp.	172,965	-
W.O.W. Hospitality Concepts Inc.	-	400,000
Other	434,149	576,851
Total Entertainment and Hospitality -	7,147,253	14,658,579
Each individually less than \$100,000		50,000
Sector Percentage: 24%		

Appendix 1 – Crocus Financial Statements (cont'd)

Consolidated Statements of Investment Portfolio As at June 28, 2005 (unaudited)

Investment Portfolio by Sector

	Debt Cost \$	Equity Cost \$
Financial Services		
Manitoba Property Fund	-	928,462
National Leasing Group Inc.	-	6,017,647
Wellington West Capital Inc.	138,750	1,870,700
Total Financial Services -	638,750	8,816,809
Sector Percentage: 10%		
Service		
Mid Canada Production Services Inc.	-	290,000
POS Systems Ltd.	750,257	-
SR&J Customer Care Call Centre Inc.	750,000	-
	1,000,000	-
	1,453,402	-
Total Service -	3,953,659	290,000
TOTAL	26,681,963	63,932,533
		90,614,496
		(29,724,997)
		60,889,499

INVESTMENTS IN MANITOBA BUSINESSES AT COST

NET DECLINE IN VALUE OF

INVESTMENTS IN MANITOBA BUSINESSES

NET INVESTMENTS IN MANITOBA BUSINESSES

Appendix 1 – Crocus Financial Statements (cont'd)

Consolidated Statements of Investment Portfolio As at June 28, 2005 (unaudited)

BONDS AND DEBENTURES

Province of Manitoba
Manitoba Hydro
City of Winnipeg

<u>Par Value</u>	<u>Amortized Cost</u>
\$200,000	\$200,000
811,000	811,000
600,000	599,089
<u>1,611,000</u>	<u>1,610,089</u>

SHORT TERM INVESTMENTS

Government of Canada Treasury Bills
Bank of Montreal Guaranteed Investment Certificates
RBC Guaranteed Investment Certificates
Money Market Investments
Assiniboine Credit Union

2,375,000	2,334,596
1,064,125	1,064,125
14,103,316	14,103,316
13,348	13,348
4,048,580	4,048,580
<u>21,604,369</u>	<u>21,563,965</u>

23,215,369	23,174,054
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NET UNREALIZED APPRECIATION OF INVESTMENTS IN MARKETABLE SECURITIES

122,684

INVESTMENTS IN MARKETABLE SECURITIES

<u>\$23,296,738</u>

Appendix 1 – Crocus Financial Statements (cont'd)

Notes to the Consolidated Financial Statements For the period ended June 28, 2005 (unaudited)

"GAAP" Net Asset Value of Class "A" Common Shares and Series Two Class "I" Special Shares

The net asset value of the Fund's issued Class "A" Common Shares and Series Two Class "I" Special Shares is calculated as follows:

	June 28, 2005
Net assets - end of year	\$ 85,612,022
Less: Attributed to Class "L" Special	(200)
Balance attributed to the Class "A" Common and Series Two Class "I" Special Shares	<u>85,611,822</u>
Number of issued Class "A" Common Shares	14,220,000
Number of issued Series Two Class "I" Special Shares	69,126
"GAAP" net asset value per Class "A" Common Shares and Series Two Class "I" Special Shares	<u>14,289,126</u> <u>\$5.99</u>

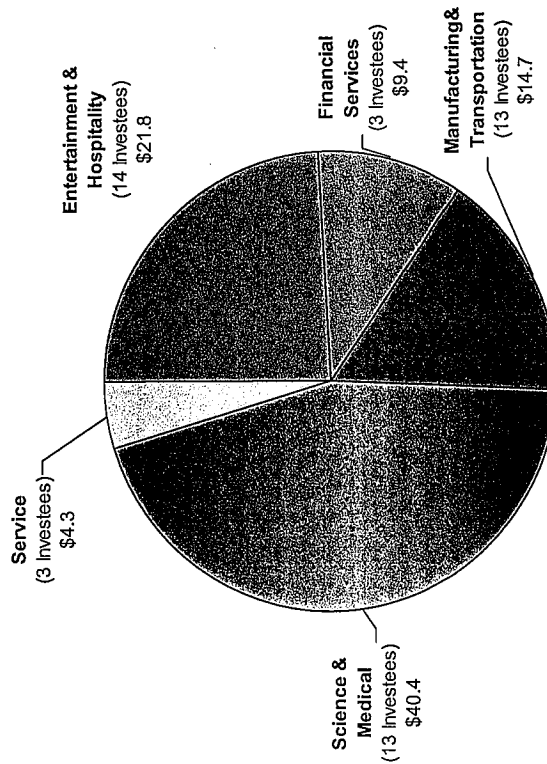
Appendix 2 – Portfolio

Crocus Investment Portfolio: Comparison of Cost and Current Value (\$millions)

Portfolio at Cost

Total Value: **\$90.6 million**

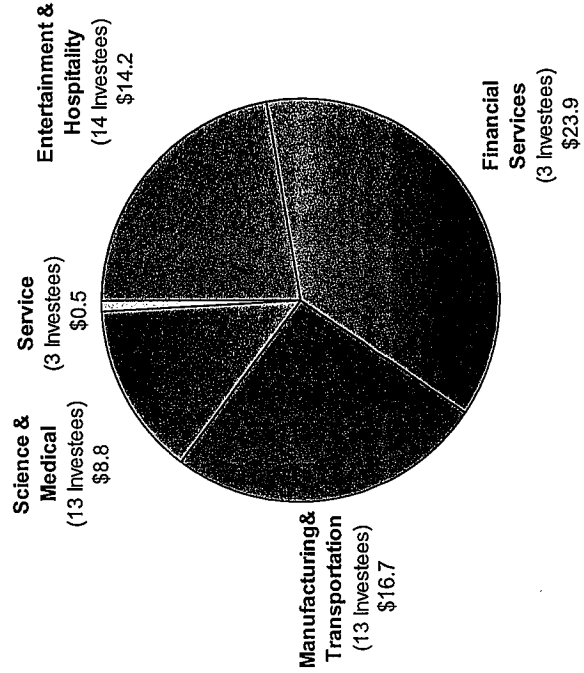
Investees: **46**



Portfolio at Current Book Value

Total Value: **\$64.1 million**

Investees: **46**

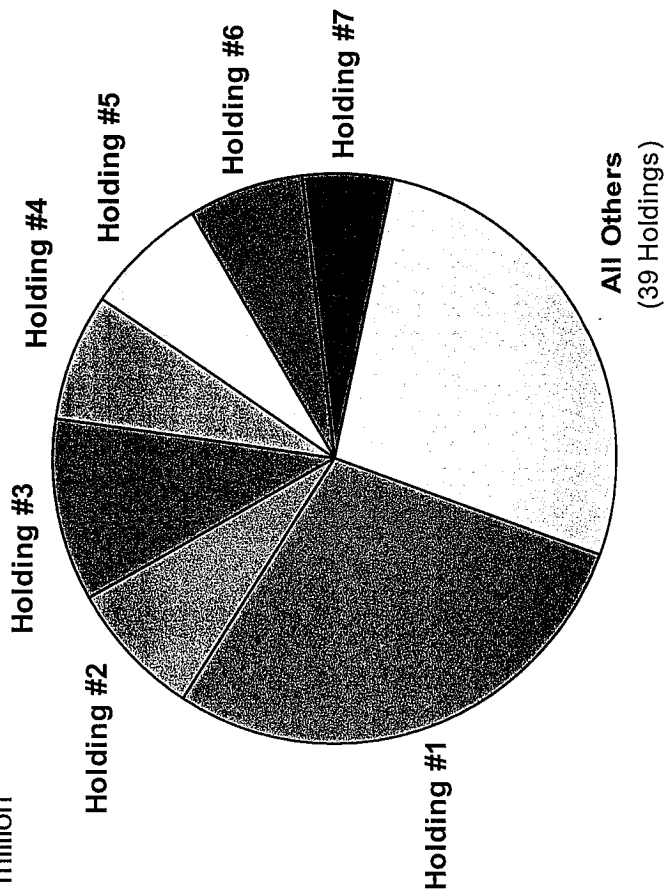


Appendix 3 – Portfolio Graphs

Crocus Investment Portfolio: Analysis of Top 7 Holdings

Top 7 Holdings

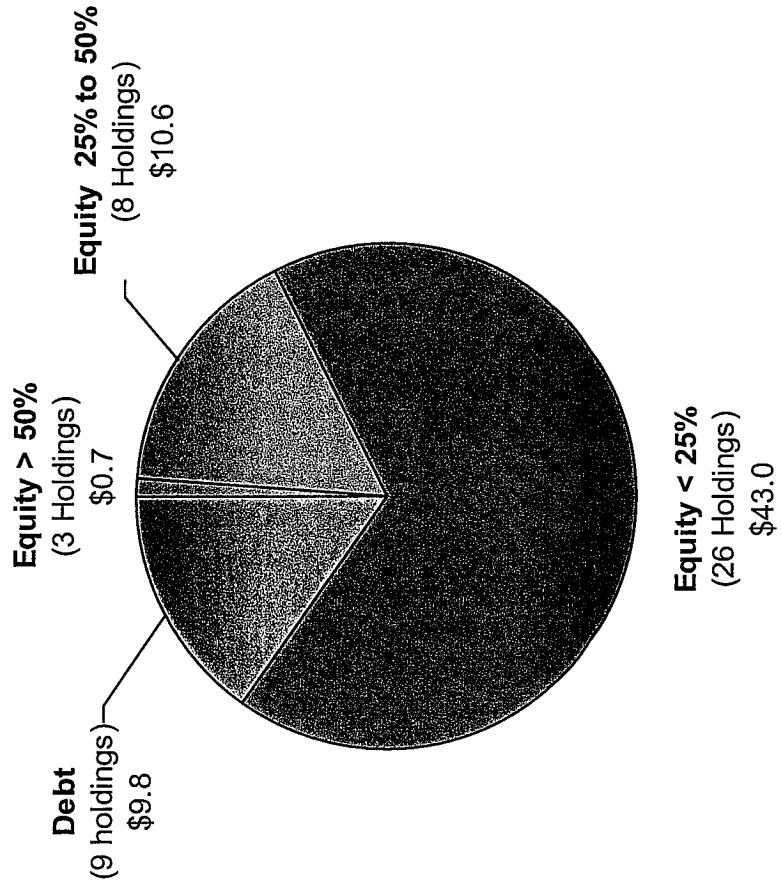
Total Value: \$46.8 million
Percentage: 73%



39 Other Holdings
Total Value: \$17.3 million
Percentage: (27%)

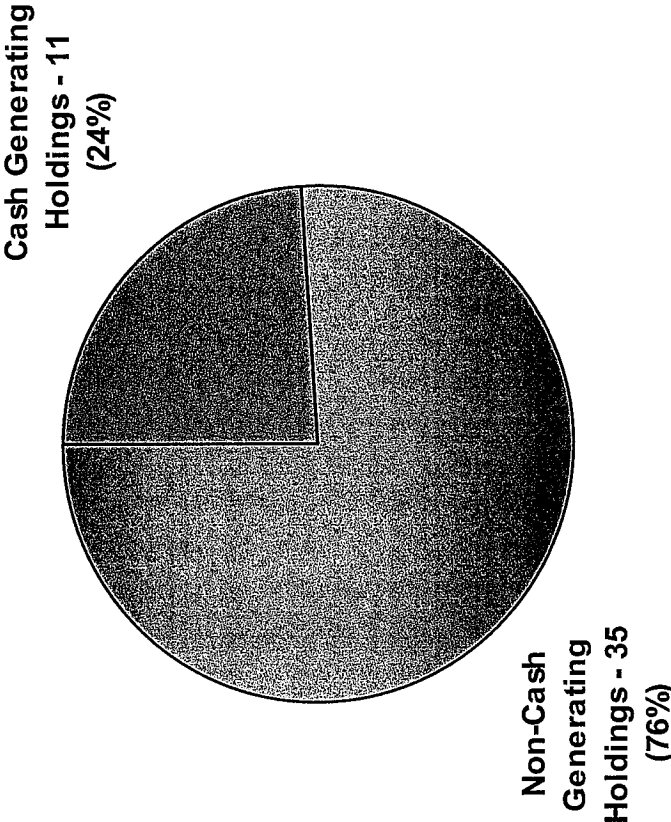
Appendix 3 – Portfolio Graphs (cont'd)

Crocus Investment Portfolio: Size of Shareholdings in Investee Companies (\$millions)



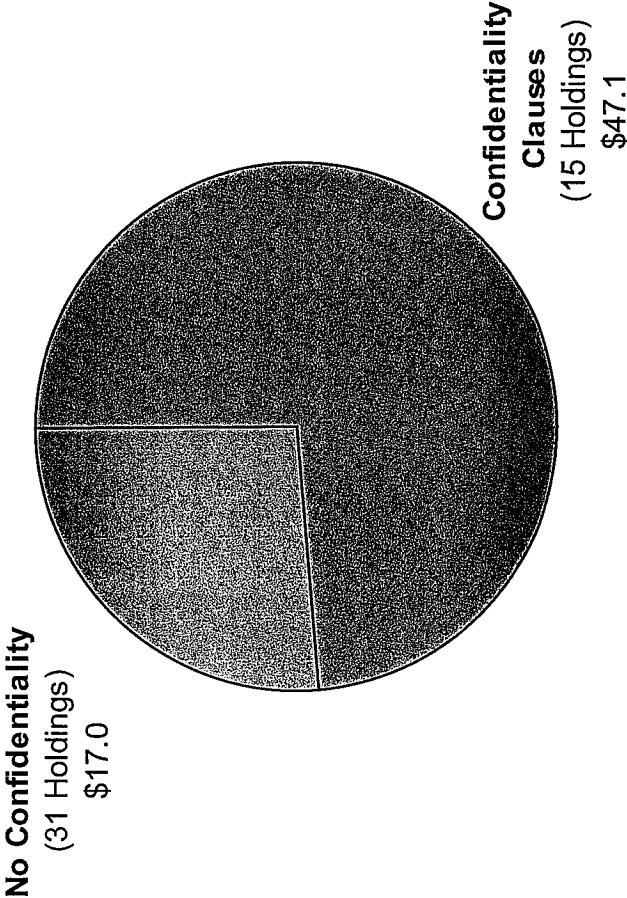
Appendix 3 – Portfolio Graphs (cont'd)

Crocus Investment Portfolio: Number of Investee Holdings Generating Cash



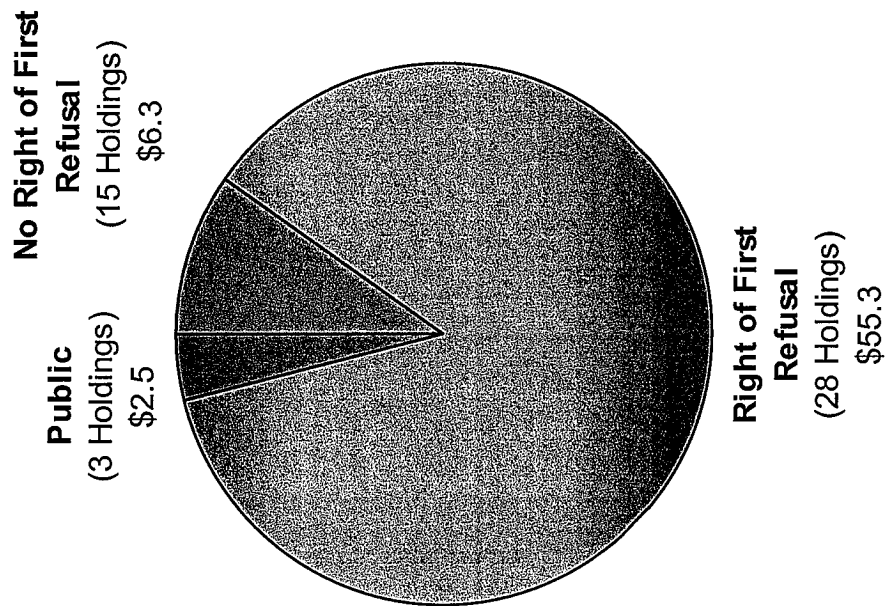
Appendix 3 – Portfolio Graphs (cont'd)

Crocus Investment Portfolio: Holdings with Confidentiality Clauses (\$millions)



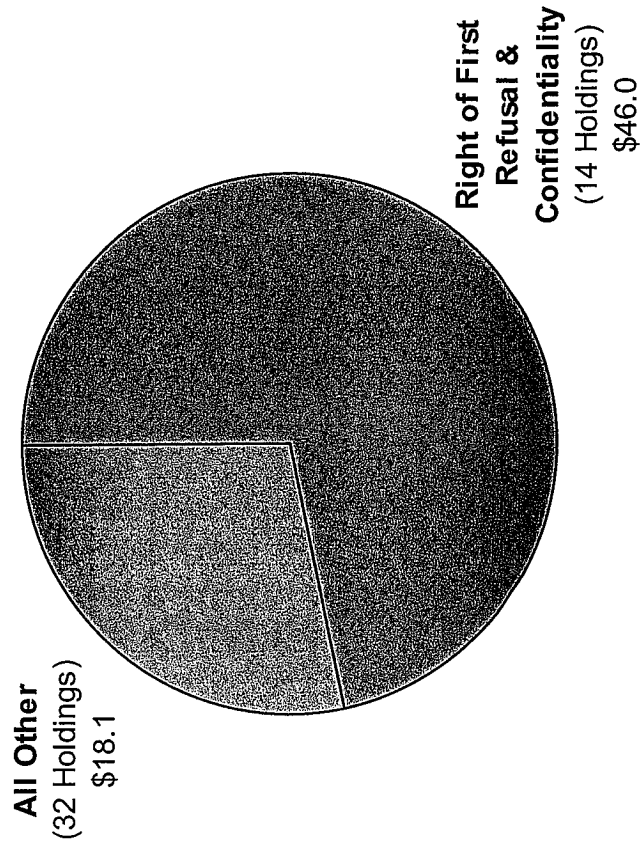
Appendix 3 – Portfolio Graphs (cont'd)

Crocus Investment Portfolio: Investee Holdings with Right of First Refusal (\$millions)



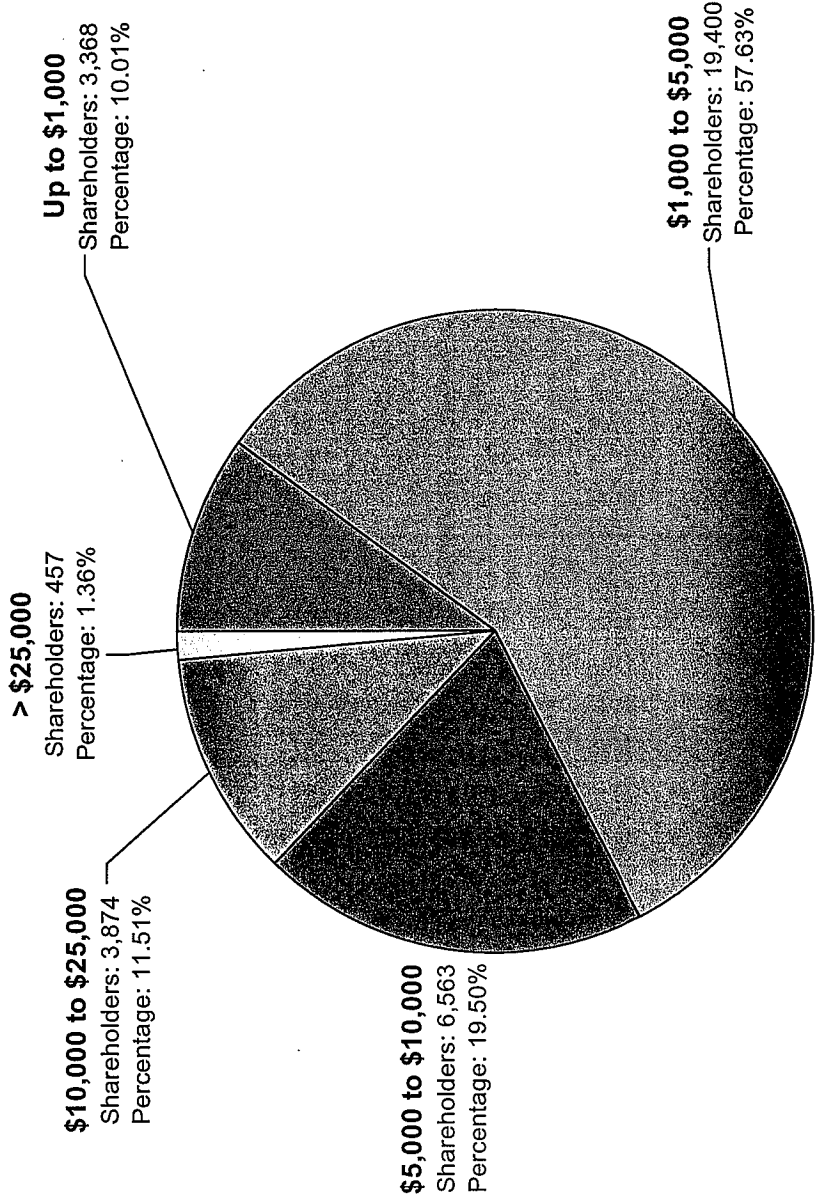
Appendix 3 – Portfolio Graphs (cont'd)

Crocus Investment Portfolio: Investee Holdings with Right of First Refusal and Confidentiality Clauses (\$millions)

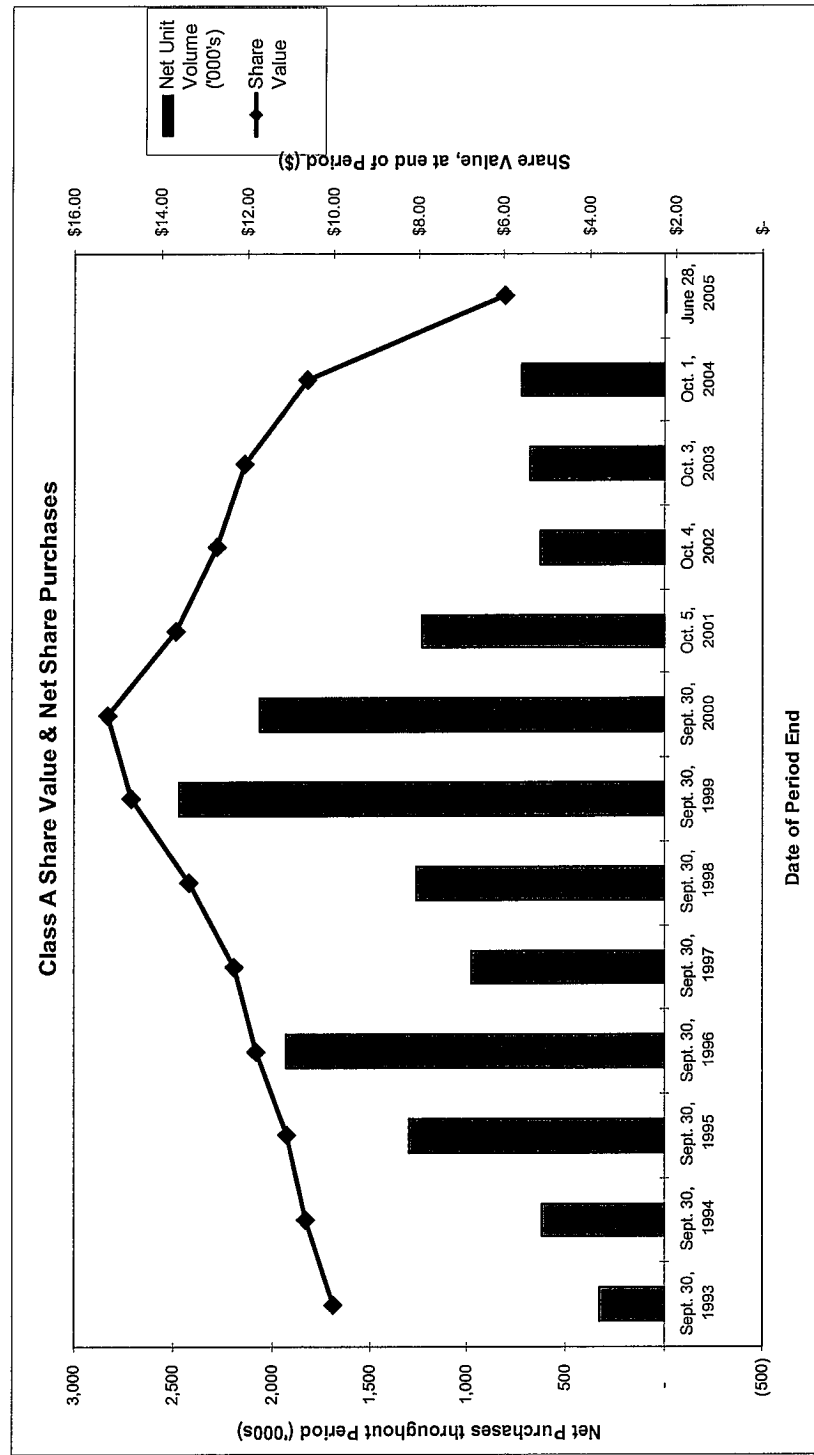


Appendix 4 – Class A Shareholder Stratification

CROCUS – Class A Shareholder Stratification (at Original Investment Cost)

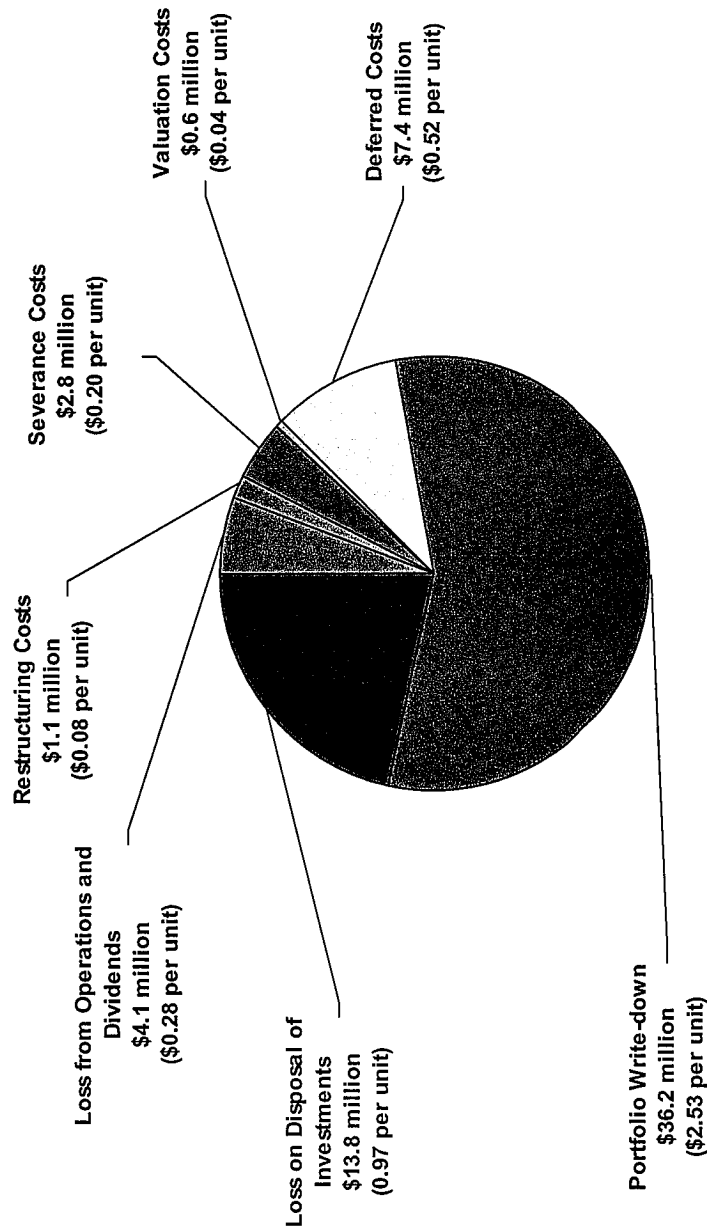


Appendix 5 – Net Asset Value per Share



Appendix 6 – Decrease in Net Asset Value per Share

CROCUS – Analysis of Decrease in Net Asset Value from Sept. 30, 2004 (\$66.0 million decrease or \$4.62 per unit)



Appendix 7 – Statement of Projected Cash Receipts and Disbursements

Crocus Investment Fund
Statement of Projected Operating Cash Receipts and Disbursements
June 28, 2005 to December 31, 2005

	June/July	August	September	October	November	December	Total
OPERATING RECEIPTS							
Interest-Bonds & Short Term Investments	-	2,543	21,893	12,829	165,424	95,032	297,721
Interest-Portfolio	-	5,500	5,500	5,500	5,500	245,200	267,200
Dividends-Portfolio	-	625	120,000	-	625	120,000	241,250
Insurance Claim	-	20,662	-	-	-	-	20,662
Rent Sublet Receipts	1,275	1,275	15,054	15,054	15,054	15,054	62,764
Management/Sub-Contract	26,750	26,750	26,750	26,750	26,750	26,750	160,500
Total Operating Receipts	28,025	57,355	189,197	60,133	213,353	502,035	1,050,098
OPERATING DISBURSEMENTS							
Salaries & Benefits	55,978	47,216	49,286	25,678	25,678	25,678	229,515
Investment	13,623	13,623	20,435	13,623	13,623	13,623	88,550
Shareholder Services	16,767	16,767	25,150	16,767	16,767	16,767	108,985
IT	11,089	11,089	16,634	11,089	11,089	11,089	72,080
Finance & Admin	42,530	38,203	38,203	38,203	35,980	35,980	229,097
Office	4,086	4,062	4,062	4,062	4,062	4,062	24,393
Rent	3,671	3,504	15,670	2,922	2,922	15,670	44,358
Telephone	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Office & Postage	19,121	2,000	2,000	21,121	2,000	2,000	48,242
Other	5,000	5,000	10,000	15,000	15,000	10,000	60,000
Shareholder Services	230,982	200,000	175,000	175,000	150,000	150,000	1,080,982
Consulting	403,847	342,464	357,439	324,464	278,120	285,868	1,992,202
Professional Costs***	(375,822)	(285,109)	(168,242)	(264,332)	(64,768)	216,167	(942,105)
Total Operating Disbursements	1,000	10,100	177,100	10,100	10,100	149,150	357,550
Excess Operating Receipts over Disbursements	(375,822)	(285,109)	(168,242)	(264,332)	(64,768)	216,167	(942,105)
Estimated Capital Transactions							
Debt Repayments from Investments	1,000	10,100	177,100	10,100	10,100	149,150	357,550
Equity Sales from Investments	-	-	1,302,400	-	-	-	1,302,400
Potential Funding Commitments	(141,000)	(34,000)	(50,000)	-	-	-	(225,000)
Potential Payout under Guarantees	-	-	-	-	(927,000)	-	(927,000)
Collection of Pre-Receiver Accounts Receivable	23,811	70,579	998	23,830	317,614	79,612	516,444
Payment of Pre-Receiver Accounts Payable	(832,767)	(7,946)	-	-	-	-	(840,713)
Net Increase / (Decrease) in Cash and Short Term Investments	(1,324,778)	(246,376)	1,262,256	(230,402)	(664,063)	444,929	(758,423)
Opening Balance, Cash and Short Term Investments	23,363,012	22,038,234	21,791,858	23,054,114	22,823,713	22,159,659	23,363,012
Closing Balance, Cash and Short Term Investments	22,038,234	21,791,858	23,054,114	22,823,713	22,159,659	22,604,589	22,604,589
Represented By:							
Cash and Short Term Investments - Sequestered	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
Cash and Short Term Investments	18,538,234	18,291,858	19,554,114	19,323,713	18,659,659	19,104,589	19,104,589
Total	22,038,234	21,791,858	23,054,114	22,823,713	22,159,659	22,604,589	22,604,589

*** includes estimated cost of Receiver and Manager and counsel. Excludes costs of parties claiming indemnification.

Appendix 8 – Statement of Receipts and Disbursements

**Deloitte & Touche Inc. Receiver and Manager of
CROCUS INVESTMENT FUND
Statement of Receipts & Disbursements
For the Period June 28, 2005 to September 8, 2005**

Receipts

Dividends-Portfolio	\$	625
Insurance Premium Refund		6,294
Insurance Claim		14,368
Investment Principal Repayments		5,272
Interest-Portfolio		27,979
Management/Sub-Contract		13,294
Rent (sublet)		7,761
Sundry		2,851
Pre-Receivership Accounts Receivable		99,487

Total Receipts

177,930

Disbursements

Net Advances to Investees	\$	175,000
Computer, Telephone, and Office Expense		17,113
Payroll & Benefits		159,351
Rent		118,935
Legal Fees		82,071
Receiver and Manager Fees		148,911
Shareholder Services		21,017
Pre-Receivership Payables and Accruals		840,713

Total Disbursements

1,563,111

Excess Disbursements over Receipts

\$ (1,385,181)

Opening Cash & Short Term Investments

\$ 23,363,012

Closing Cash & Short Term Investments

\$ 21,977,831

Represented by:

Cash & Short Term Investments	\$	18,477,831
Sequestered Funds		3,500,000

\$ 21,977,831