

THE QUEEN'S BENCH
WINNIPEG CENTRE

BETWEEN:

THE MANITOBA SECURITIES COMMISSION,

Applicant

– and –

CROCUS INVESTMENT FUND

Respondent

FIRST REPORT OF THE RECEIVER

DATED JULY 11, 2005

DELOITTE & TOUCHE INC.
RECEIVER AND MANAGER
CROCUS INVESTMENT FUND
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Background

1. Pursuant to an Order of the Manitoba Court of Queen's Bench signed by The Honourable Mr. Justice Scurfield and dated June 28, 2005 (the "Order") Deloitte & Touche Inc. was appointed as Receiver and Manager (the "Receiver") pursuant to Section 27 of the Securities Act, CCSM c. S50 and Queen's Bench Rule 14.05 (2) (b) of all the assets, property and undertaking of the Crocus Investment Fund ("Crocus"). A hearing has been set for Wednesday July 13, 2005 to continue the appointment of the Receiver.
2. The purpose of the First Report of the Receiver is to provide this Honourable Court with a preliminary update of the Receiver's activities since the date of the Order and to identify certain issues for the Court.

Activities of the Receiver

3. Since the date of the Order the Receiver has:
 - a. met with former Crocus personnel and made arrangements to retain certain personnel on a "day to day" basis;
 - b. taken those steps considered necessary to secure Crocus' premises;
 - c. taken steps to secure and back-up Crocus physical and electronic records;
 - d. published notice of receivership in the Winnipeg Free Press and Globe & Mail;
 - e. advised active investee Companies of Crocus of the appointment of the Receiver;
 - f. compiled a list of Class "A" shareholders and implemented a process to advise all shareholder's of the receivership;
 - g. reviewed the Crocus portfolio in conjunction with retained Crocus personnel, Crocus legal counsel as well as Receiver legal counsel, to identify matters of immediate urgency;
 - h. initiated a process with Crocus investment personnel to consider steps necessary to maximize value of investment portfolio;
 - i. notified various legal counsel representing former Crocus officers and directors of the appointment of the Receiver;
 - j. made arrangements with Crocus landlord and prospective sub-tenants to finalize sub-let arrangements;
 - k. established a Receiver telephone helpline and website; and
 - l. established a Receiver's bank account and notified all parties where Crocus had cash on deposit or short term investments.

Crocus Personnel

4. All employees and officers of Crocus had either been terminated and or severed prior to the appointment of the Receiver.
5. Prior to the receivership arrangements had been made by the Crocus Board of Directors to either pay employees their severance pay or alternatively place the estimated severance pay in trust for those employees who did not receive payment.
6. The trust monies have been released and all severance obligations have been dealt with.

7. The Receiver has made arrangements with certain of the former Crocus staff to retain their services on terms comparable to their previous employment terms.
8. In total eleven former Crocus employees have been retained on a day to day basis;
 - a. 5 investment personnel
 - b. 2 information technology personnel
 - c. 2 shareholder services personnel and
 - d. 2 accounting personnel
9. As a result of retaining only those staff noted above, the reduction in annualized payroll costs, including internal consultants, is approximately \$1.1 million.
10. Given that the Order is of an interim nature, the Receiver has made day to day employment arrangements with the staff retained; in order to ensure ongoing continuity with regard to the investee portfolio it is absolutely critical that the Receiver be able to make longer term commitments to those staff retained

Crocus Assets

11. Crocus assets are largely comprised of liquid cash assets including short and long term investments as well as an equity and / or debt interest in approximately 50 privately held companies.

Securing Crocus Premises and Records

12. The Receiver attended at Crocus place of business at 211 Bannatyne immediately after receipt of the Order on June 28th.
13. All access codes to the property other than for those personnel retained by the Receiver were cancelled.
14. The Receiver completed a computer back-up of all Crocus files and copies of the computer tapes are now under the control of the Receiver.

Shareholder Notification

15. Under the terms of the Order the Receiver was required to place a copy of the notice which was affixed to the Order in a local and National newspaper, the notice was run in the Winnipeg Free Press and the Globe & Mail on Wednesday July 6th.
16. Within 21 days of the signing of the Order the Receiver was required to notify all shareholder's of the appointment of the Receiver either through e-mail or ordinary mail.
17. Compilation of the necessary information to notify the shareholder's is now complete and the notification process will be complete by Friday July 15th.

Secured Creditor Notification

18. Under the terms of the Order, the Receiver was required to send a copy of the Receiving Order to all secured creditors with a registered interest in the Personal Property Security Registry. That has been done.

Crocus Portfolio

19. The individual investee companies which comprise the Crocus portfolio were reviewed with Crocus investment personnel, Crocus legal counsel and Receiver legal counsel to identify those matters which may be considered of an urgent nature and which would have to be dealt with prior to July 13th.
20. With the assistance of the Crocus investment personnel the Receiver has begun the process of analyzing the investment portfolio with a view to constructing a plan as to how best to maximize the Crocus shareholder value; part of the process in constructing this plan will be to consider the various agreements in place between Crocus and the investee companies
21. In reviewing the investee portfolio there are issues which may arise which may ultimately affect the manner in which the Receiver could expose the portfolio to the marketplace. These issues may include items such as confidentiality, first rights of refusal, right of partnering shareholders to match offers to purchase the Crocus interests, among other items.
22. The ability to complete this review in a timely fashion is largely dependent on the Receiver's ability to retain certain staff on a more permanent basis and as such subject to the Court's direction the Receiver would intend to make longer term commitments to the retained staff;
23. At the time of the Receiver's appointment, there were a number of transactions in progress with certain of the investee companies which under the terms of the Order would require the Receiver to obtain Court approval of the transaction, once concluded. Given the interim nature of the Order the Receiver has been reluctant to make application to Court to seek approval of these transactions and has asked the investee' to defer certain matters until after the July 13th hearing. Should the Receiver remain in place after July 13th even for a further interim period, it will be the Receiver's intention to begin making the necessary application to Court to deal with the matters which may require Court approval.

Legal Matters

24. A number of the former Board members and Officers of Crocus had retained separate legal counsel to deal with issues related to the investigation of the Manitoba Securities Commission, the Office of the Auditor General and potential Class Action litigation by the Class A shareholder's of Crocus. The Receiver is aware of at least eight firms excluding Crocus corporate counsel which have billed or would intend to bill Crocus for services to be rendered under various Indemnity Agreements.

25. The Receiver has advised all firms, of which it is aware, that future work should only be completed with the written approval of the Receiver.
26. A number of the legal firms have requested authorization from the Receiver to continue with the various matters which they were handling and at the same time confirmation from the Receiver that their unpaid and ongoing accounts will be paid from Crocus assets.
27. The Receiver has also been advised by Counsel representing the interest of certain Class A shareholder's that they would object to any Crocus assets being utilized by former Officer's and Directors to defend actions brought against them.
28. The Receiver will be seeking the Court's advice and direction on these legal matters.

Landlord Matters

29. At the date of the Order Crocus had certain transactions in process related to a sub-let of certain of their premises at 211 Bannatyne.
30. The Receiver has facilitated completion of those transactions.

Public Communication

31. The Receiver has established an information helpline at 1-866-574-3535 and a website at www.deloitte.com/ca/crocusfund.

Cash Position

32. Prior to any provision for professional fees including those fees which may be payable as result of various indemnities held by former officers and directors it is estimated that Crocus will incur an average monthly cash loss of approximately \$75,000 over the next sixty days.

Short Term Issues

33. In order for the Receiver to continue formulation of a plan of action with respect to the Crocus portfolio it is critical that longer term arrangements be made with those former Crocus staff which the Receiver believes are necessary to maximizing overall shareholder value. Should the Receiver continue on under some form of interim order then the Receiver asks that specific authority of the Court be granted to the Receiver to enter into specific employment arrangements lasting up to three months with personnel retained by the Receiver.
34. The Receiver intends to report back to the Court within a 6 week period as to the intended course of action respecting the investee portfolio and to seek the Court's approval to any plan ultimately submitted. In the meantime, if there are any transactions which cannot await such a review the Receiver intends to apply to Court on as needed basis to seek approval of those transactions.

35. Depending on the outcome of the July 13th hearing the Receiver would intend to make application to Court in the very near future for advice and direction respecting the Receiver's responsibility to pay the ongoing legal costs of former Officers and Directors of Crocus.

RESPECTFULLY SUBMITTED BY:

Deloitte & Touche Inc. in its capacity as
Court-Appointed Receiver and Manager of
Crocus Investment Fund

A handwritten signature in black ink, appearing to read "A. R. Holmes". The signature is written in a cursive style with a large initial "A" and a long, sweeping underline.

Per: A. R. Holmes
Senior Vice-President