

# Crocus Investment Fund

September 30, 2013 Quarterly Report

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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 Restructuring Inc. (formerly Deloitte & Touche Inc., hereafter referred to as “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’ current and future assets, undertakings and properties and granted the Receiver powers to carry out its duties as outlined in the Order.

The purpose of this Report is to report on the activities of the Receiver as well as to provide an update on the financial position of the Fund. The Report will cover the Receiver’s operations and activities since the June 30, 2013 Quarterly Report.

## 2.0 Activities of the Receiver

The following summarizes the major activities of the Receiver since June 30, 2013:

- Preparing the June 30, 2013 and September 30, 2013 Quarterly Reports.
- Administering the interim distributions of funds as outlined in the Court Orders of September 4, 2009 and December 12, 2011.
- Corresponding with numerous shareholders, brokers, dealers and intermediaries regarding the second distribution.
- Supervising and directing agents retained by the Receiver.
- Corresponding with individual Crocus shareholders.
- Ongoing monitoring of the remaining investee companies and discussions with various stakeholders of the investees with respect to possible courses of action regarding Crocus' investment in the investees.
- Ongoing discussions and negotiations with certain of the investee companies about possible exit strategies for Crocus.
- Fulfilling the duties of Crocus as General Partner of the Manitoba Science & Technology Fund ("MS&T").
- Corresponding with Crocus' landlord and sub-tenants regarding ongoing tenancy and sub-tenancy issues, including matters related to building operating costs.

## 3.0 Operations

The ongoing activities related to Crocus consist of investment monitoring, financial reporting, shareholder services and tax reporting. The Receiver no longer employs any former Crocus employees but has sub-contracted certain information technology and back office services.

The Receiver continues to occupy a portion of the Crocus premises at 211 Bannatyne Avenue in Winnipeg (the “leased property”). The majority of the balance of the space which Crocus leased has been sublet.

## 4.0 Financial position

Financial information for Crocus has been prepared by the Receiver for the fourth fiscal quarter ended September 30, 2013, and is attached as Appendix 1.

The following summarizes the financial position of the Fund:

- Investments in cash and cash equivalents (Guaranteed Investment Certificates and Government Bonds) of approximately \$10.6 million. This excludes funds held in trust for shareholders relating to prior distributions, Court ordered holdbacks, or other settlements.
- Accounts receivable of approximately \$0.6 million. The majority of the balance consists of the balance due from the sale of one (1) portfolio investment. In addition, the balance includes accrued interest on marketable securities and portfolio investments.
- Net carrying value of the remaining Crocus portfolio of investees of approximately \$6.1 million. The portfolio valuation is primarily carried at the June 28, 2005 value which was derived from the external valuations completed after Crocus ceased trading in December 2004.

# 5.0 Portfolio

## 5.1 Background

As at June 28, 2005, there were 46 individual investee companies in the Crocus portfolio with a gross carrying value of approximately \$64.1 million.

During the quarter the Receiver sold and settled its interest in one (1) investment, Winnipeg Goldeyes Ltd. (“Goldeyes”). As part of the settlement the Receiver discontinued the legal action against the Goldeyes as described in previous quarterly reports. Cumulatively to September 30, 2013, 40 of the 46 investments within the Crocus portfolio have been realized upon or are considered closed.

In summary, since its appointment, the Receiver has realized proceeds of approximately \$59.6 million for investments with a June 28, 2005 book value of approximately \$58.0 million, representing a recovery of approximately 103%. Crocus’ carrying value for these investments, when it ceased trading in December 2004, was approximately \$92.0 million, which would represent a recovery of approximately 65%. In addition, since its appointment, the Receiver has eliminated exposure on approximately \$2.3 million in guarantees that had been reserved by Crocus.

## 5.2 Status

The status of the remaining investments is as follows:

### Novra Technologies Inc. (“Novra”)

- Novra is an investment held by the Fund representing both equity and debt obligations due to Crocus. The Receiver and the investee have entered into a long term agreement for the repayment of the indebtedness.

### Manitoba Science & Technology Fund, Diamedica Inc., Genesys Venture Inc., and ST Partnership

- Crocus is an investor in MS&T which is a limited partnership holding several science and technology investments. Crocus is the sole owner of the General Partner and the limited partners gave the General Partner a mandate to wind down the partnership. Crocus and MS&T’s holdings include Diamedica Inc.,

Genesys Ventures Inc. and ST Partnership. There are numerous interrelationships amongst these entities. In some cases, the ability to negotiate divestitures of MS&T's science and technology investments is limited given that certain of the companies are publicly traded with limited market liquidity. As a result, the timing of a complete disposition is unknown.

Canad Corporation Ltd. ("Canad")

- No exit agreement has been agreed upon with Canad.



## 6.0 Commitments and contingencies

The primary remaining obligation of the Fund is for the leased property at 211 Bannatyne which terminates on September 30, 2016. The agent for the landlord has previously notified the Receiver of a claim for past building operating costs of approximately \$0.2 million. The Receiver has had several meetings with the agent regarding the quantification and potential settlement of the claim.

There remains one known contingency for an indemnity provided by Crocus to an investee company.

## 7.0 Share value

The estimated net asset value of the Class A and Class I shares (the “Share Value”) as at September 30, 2013 was \$1.29 per share, as detailed in Appendix 1. As noted in previous reports, the Receiver emphasizes that the Share Value is an accounting book value partially based on the June 28, 2005 carrying value of the investment portfolio.

Future events will determine the ultimate realizable value of the portfolio. Such matters may have a material effect on the Share Value which is ultimately available for distribution to Crocus shareholders. The future events identified to date include:

- 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;
- Professional costs incurred by the Receiver and its counsel as a result of current and future negotiations and litigation;
- Any provision for the difference between the head lease cost and sublease revenue for the leased property;
- Any additional guarantees or indemnities granted by Crocus which have not yet been identified; and/or
- All other costs of monitoring the portfolio and realizing on the assets.

The Receiver will continue to provide updates on the Share Value in future Quarterly Reports.

## 8.0 Class Action

Approximately two weeks following the appointment of the Receiver, a Class Action statement of claim (the “Class Action”) was issued against Crocus, Crocus Capital Inc. and 21 other defendants. The claim sought \$150 million in damages from the defendants for negligence and oppression, as well as punitive and exemplary damages. A second class action was subsequently filed against the Government of Manitoba (collectively referred to as the “Class Actions”). Certain of the defendants, namely certain former directors and officers of Crocus, Wellington West Inc., and BMO Nesbitt Burns Inc., claimed written or statutory indemnities from Crocus for any amounts which they might have been obliged to pay to the class action plaintiffs.

The parties in the Class Actions subsequently entered into various settlement agreements, the last of which was approved by Mr. Justice K. Hanssen on April 22, 2009.

As part of the settlements, the directors and officers assigned any claim for contribution and indemnity that they may have had to the Class Action plaintiff. Pursuant to this assignment, on June 25, 2010, the Class Action plaintiff filed a statement of claim against Fillmore Riley LLP (“Fillmore”) and Stafford F. Swain & Associates (“Stafford”). Fillmore had acted as counsel to the Fund and Stafford had provided valuation services. The claim was a representative action on behalf of the shareholder class and claimed damages of up to \$5.0 million, plus interest.

A settlement was reached and approved between the Class Action plaintiff and Stafford on November 15, 2011. Fillmore opposed and sought to have the claim against them struck. Fillmore’s motion was heard by the Court of Appeal and the claim by the Class Action Plaintiff was upheld. The Class Action Plaintiff has filed a motion to compel Fillmore to produce an affidavit of documents and to determine whether certain documents in Fillmore’s possession, including its solicitors’ file, are privileged.

## 9.0 Interim distributions

### 9.1 First interim distribution

On September 4, 2009, the Court issued an Order authorizing a rateable interim distribution of approximately \$54.7 million to the Class A and Class I shareholders. Concurrent with the distribution, the Receiver also began distributing the net proceeds of the Class Actions settlements. Class A and Class I shareholders received \$3.83 per share from the approved distribution plus their portion of the Class Actions settlement.

As at September 30, 2013, the Receiver had paid out approximately \$52.8 million, or 97%, of the first interim distribution, however, there remains approximately \$2.0 million in unclaimed distributions which includes approximately \$0.2 million in unclaimed Class Action settlements.

### 9.2 Second interim distribution

On December 12, 2011, the Court issued an Order authorizing a second interim distribution of approximately \$9.0 million to the Class A and Class I shareholders.

Mailings for the distribution took place in January 2012. As at September 30, 2013 the Receiver had paid out approximately \$8.0 million, or 89%, of the second interim distribution, however, there remains approximately \$1.0 million in unclaimed distributions.

# 10.0 Shareholder communication

The Receiver has continued to post Court Orders, Receiver's Reports, Quarterly Reports, media statements and shareholder letters on its website at [www.deloitte.com/ca/crocusfund](http://www.deloitte.com/ca/crocusfund).


# 11.0 General

A Statement of Receipts and Disbursements for the period from June 28, 2005 to September 30, 2013 is attached as Appendix 2.

The Receiver will continue to keep the Court apprised of ongoing developments with the next Quarterly Report to be filed in mid-January 2014.

Respectfully submitted this 15th day of October, 2013.

**DELOITTE RESTRUCTURING INC.**, in its capacity as Receiver and Manager of Crocus Investment Fund and not in its personal capacity.



Per: Steven P. Peleck  
Senior Vice-President

# Appendix 1 – Crocus financial information as at September 30, 2013

**Crocus Investment Fund**  
**Consolidated Statement of Net Assets**  
**As at September 30, 2013 (unaudited)**

**ASSETS**

	<b>September 30, 2013</b>
Cash and equivalents	\$ 10,577,132
Cash in Trust - Holdback	1,000,000
Cash in Trust - 1st Interim Distribution	1,772,762
Cash in Trust - Class Action Settlements	227,463
Cash in Trust - 2nd Interim Distribution	957,258
Cash in Trust - Class Action Settlements	147,328
Investments in Manitoba businesses	6,127,136
	<u>20,809,079</u>

Accounts receivable	601,416
Capital assets	159,321
	<u>21,569,816</u>

**LIABILITIES**

Accounts payable and accrued liabilities	10,124
Due to Shareholders - 1st Interim Distribution	1,772,762
Due to Shareholders - Class Action Settlements	227,463
Due to Shareholders - 2nd Interim Distribution	957,258
Due to Shareholders - Class Action Settlements	147,328
	<u>18,454,881</u>

**NET ASSETS**

\$ 18,454,881

**SHAREHOLDERS' EQUITY**

Share capital	\$ 188,014,669
Deferred selling costs adjustment	(9,134,637)
1st Interim Distribution - Class "A" shares	(54,462,836)
2nd Interim Distribution - Class "A" shares	(8,956,466)
1st Interim Distribution - Class "I" & "L" shares	(264,956)
2nd Interim Distribution - Class "I" shares	(43,539)
Deficit	(96,697,354)
	<u>\$ 18,454,881</u>

**NET ASSET VALUE PER SHARE**

Net assets	\$ 18,454,881
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Balance attributed to the Class "A" Common and Series Two Class "I" Special Shares	<u>\$ 18,454,881</u>
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Number of issued Class "A" Common Shares	14,220,000
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Number of issued Series Two Class "I" Special Shares	<u>69,126</u>
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14,289,126

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

\$ 1.29



**Crocus Investment Fund**  
**Consolidated Statement of Investment Portfolio**  
**As at September 30, 2013 (unaudited)**

**INVESTMENTS IN MANITOBA BUSINESSES**

Canad Corporation of Canada Inc.

Diamedica Inc.

Genesys Venture Inc.

Manitoba Science & Technology Fund

Novra Technologies Inc.

ST Partnership

**INVESTMENTS IN MANITOBA BUSINESSES**

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\$ 6,127,136

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# Appendix 2 – Statement of receipts and disbursements to September 30, 2013

Deloitte Restructuring Inc., Receiver and Manager of  
**CROCUS INVESTMENT FUND**  
**Statement of Receipts and Disbursements**  
**For the Period June 28, 2005 to September 30, 2013**

	<b>June 28, 2005 to March 31, 2012</b>	<b>April 1, 2012 to September 30, 2013</b>	<b>Total</b>
<b>Receipts</b>			
Cash and Short Term Investments on Hand	\$ 23,363,012	\$ -	\$ 23,363,012
Contract Back Office Services	518,463	-	518,463
Dividends-Portfolio	657,483	-	657,483
Income Tax Refund	283,503	180,407	463,910
Insurance Claim and Premium Refund	20,662	-	20,662
Interest-Portfolio	1,640,835	167,894	1,808,729
Interest-Short Term Investments	7,376,492	142,484	7,518,976
Investment Principal Repayments	2,890,163	135,394	3,025,557
Management Fees	1,118,517	44,132	1,162,649
Proceeds on Disposal of Investments	52,442,430	4,190,702	56,633,132
Rent/Sub-Lease	1,804,884	430,877	2,235,761
Sundry	297,476	-	297,476
Pre-Receivership Accounts Receivable	1,247,463	-	1,247,463
Class Action Settlements	6,812,978	147,328	6,960,306
<b>Total Receipts</b>	<b>\$ 100,474,361</b>	<b>\$ 5,439,218</b>	<b>\$ 105,913,579</b>
<b>Disbursements</b>			
Advances to Investees	\$ 265,132	\$ -	\$ 265,132
Capital Tax	200,257	-	200,257
Computer, Telephone and Office Expense	719,488	34,341	753,829
Consulting Fees	359,150	-	359,150
Employee Pension	442,922	-	442,922
Insurance - Indemnification	141,608	16,388	157,996
Investee Guarantee and Indemnification	1,344,677	-	1,344,677
Investment Expenses	218,497	245	218,742
Legal Fees	2,038,338	105,338	2,143,676
Disbursements	55,735	1,682	57,417
Taxes	261,922	12,548	274,470
Legal Fees - Indemnification	651,982	76,423	728,405
Disbursements	11,216	1,769	12,985
Taxes	50,057	9,254	59,311
Payroll & Benefits	1,735,550	-	1,735,550
Receiver and Manager Fees	7,130,967	623,910	7,754,877
Taxes	407,821	31,198	439,019
Rent	2,899,455	669,077	3,568,532
Settlements	579,116	-	579,116
Shareholder Services	1,317,222	320,912	1,638,134
Pre-Receivership Payables and Accruals	914,385	-	914,385
<b>Total Disbursements</b>	<b>21,745,497</b>	<b>1,903,085</b>	<b>23,648,582</b>
<b>Excess of Receipts over Disbursements prior to:</b>	<b>78,728,864</b>	<b>3,536,133</b>	<b>82,264,997</b>
1st Interim Distribution - Class "A" Shares	52,305,250	384,834	52,690,084
1st Interim Distribution - Class "I" & "L" Shares	264,955	-	264,955
Class Action Settlements	6,537,507	48,008	6,585,515
2nd Interim Distribution - Class "A" Shares	7,545,272	453,689	7,998,961
2nd Interim Distribution - Class "I" Shares	43,539	-	43,539
<b>Excess of Receipts over Disbursements</b>	<b>\$ 12,032,341</b>	<b>\$ 2,649,602</b>	<b>\$ 14,681,943</b>
<b>Represented by:</b>			
Short Term Investments and Bonds			\$ 10,577,132
Cash in Trust - Holdback			1,000,000
Cash in Trust - 1st Interim Distribution			1,772,762
Cash in Trust - 2nd Interim Distribution			957,258
Cash in Trust - Class Action Settlements			227,463
Cash in Trust - Class Action Settlements			147,328
			<b>\$ 14,681,943</b>

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