

Crocus Investment Fund

June 30, 2010 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 & 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' 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, 2010 Quarterly Report.

2.0 Activities of the Receiver

The following summarizes the major activities of the Receiver since March 31, 2010:

- Preparation of the March 31, 2010 and June 30, 2010 Quarterly Reports.
- Administering the interim distribution of funds as outlined in the Court Order of September 4, 2009.
- Corresponding with Concentra Financial and Canada Revenue Agency regarding issues arising from the distribution of funds.
- Corresponding with counsel regarding various distribution issues.
- Corresponding with numerous shareholders, brokers, dealers and intermediaries regarding the distribution.
- Monitoring the status of the Manitoba Securities Commission (“MSC”) hearings brought against the former members of the Board of Directors of Crocus and various other parties.
- Meeting and corresponding with various parties interested in acquiring certain of the investee companies.
- Supervising and directing agents retained by the Receiver.
- Meeting and corresponding with individual Crocus shareholders.
- Regular monitoring of the 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.
- Meetings and discussions regarding debt agreements with certain of the investee companies.
- Fulfilling the duties of Crocus as General Partner of the Manitoba Science & Technology Fund (“MS&T”).
- Corresponding with the plan actuary and employees about wind-up of the Crocus pension fund.
- Discussions and correspondence with Crocus’ landlord and sub-tenants regarding ongoing tenancy and sub-tenancy issues.

3.0 Operations

The ongoing activities of 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 approximately one half of the 5th floor of the Crocus premises at 211 Bannatyne Avenue. The balance of the space which Crocus leased has been sublet.

4.0 Financial position

Financial statements for Crocus have been prepared for the second fiscal quarter ended June 30, 2010 and are attached as Appendix 1. The statements are internal and unaudited and have been prepared in a manner consistent with the financial information that was formerly provided to Crocus shareholders, with the exception that the portfolio valuation is carried at the June 28, 2005 value, unless the investment has been realized upon. The June 28, 2005 value was derived from the external valuations which were completed after Crocus ceased trading in December 2004.

The following are the financial highlights for the third quarter ended June 30, 2010:

- Net loss for the quarter of approximately \$0.2 million.
- Investments in cash and equivalents (Guaranteed Investment Certificates and Government Bonds) of approximately \$13.9 million.
- Accounts receivable of approximately \$5.1 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 \$11.9 million.
- Accounts payable of approximately \$0.2 million.

5.0 Portfolio

5.1 Status and valuation

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

During the quarter the Receiver realized on small portions of several investments. Cumulatively to June 30, 2010, 32 of the 46 investments within the Crocus portfolio have been realized upon or are considered closed. There are 14 investments remaining.

In summary, since its appointment the Receiver has realized proceeds of approximately \$55.2 million for investments with a June 28, 2005 book value of approximately \$52.4 million representing a recovery of approximately 106%. Crocus' carrying value for these investments when it ceased trading in December 2004 was approximately \$87.9 million, which would represent a recovery of approximately 63%. In addition, since its appointment the Receiver has also eliminated exposure on approximately \$2.3 million in guarantees that had been reserved.

5.2 Exit agreements being negotiated

The Receiver continues discussions with a number of the investee companies regarding the possible exit of Crocus' interest. Currently there are six (6) investees where varying levels of discussions are taking place.

5.3 Investment in litigation

On November 29, 2006, the Receiver issued a statement of claim against the Goldeyes for unpaid interest which at the time totalled approximately \$306,000. A statement of defence was received and was reviewed by the Receiver and counsel. The Receiver filed a motion to have this matter dealt with summarily by the Court. Counsel for the Goldeyes requested an examination of the Receiver on its affidavit and brought a motion seeking an Order to compel the Receiver to produce certain documents. The Receiver produced the documents sought and the Goldeyes' motion was not proceeded with. The parties then engaged in a series of cross-examinations on affidavits. A summary judgment motion was heard on May 14, 2008. On December 24, 2008, the Court issued a judgment dismissing the summary judgment motion. In essence, the Court has concluded that the matter was not clear enough to deal with the matter summarily and that a trial was required.

5.4 Longer term investments

Seven (7) investments are currently considered longer term investments. In the case of several of these investments the Receiver has entered into long term agreements for the repayment of amounts advanced by Crocus. For other investments, in the opinion of the Receiver, exit transactions with these investees in the short term are unlikely. The Receiver continues to monitor these investees.

One (1) investee, MS&T, is a limited partnership holding several science and technology investments. Crocus is an investor in the limited partnership and is the sole owner of the General Partner. A number of the investments held by the limited partnership are common to the investments held by Crocus. At a meeting held on February 29, 2008, the limited partners gave the General Partner a mandate to wind down the partnership. The Receiver has proceeded with this mandate and reports to the limited partners on a quarterly basis.

6.0 Commitments and contingencies

Receiver's Report #12 outlined the remaining obligations of Crocus. The primary obligation was for the lease of real property at 211 Bannatyne which terminates on September 30, 2016. In addition, as part of the settlements with the former officers and directors of the Fund, the Receiver had agreed to hold an additional \$3.0 million until December 31, 2010 should an officer or director seek indemnification as a result of certain current or newly initiated proceedings.

The only outstanding contingent item known to the Receiver is one (1) indemnity provided by Crocus relating to an investee company.

7.0 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. The Court declined the Receiver's request for a proportionate reduction in the number of shares to reflect the interim payment.

The Receiver began the distribution in October 2009. Concurrent with the distribution the Receiver also began distributing the net proceeds of the Class Action settlements. Class A and Class I shareholders received \$3.83 per share from the approved distribution plus their portion of the Class Action settlement. Depending on the type of account held, it may be necessary for the shareholder to complete applicable transfer or deregistration forms prior to receiving their distribution.

As at March 31, 2010 the Receiver had paid out approximately \$49.5 million or 91% of the authorized interim distribution, however there remained approximately \$5.8 million in unclaimed distributions. Accordingly in June 2010, the Receiver prepared a subsequent mailing and carried out other procedures to locate and contact shareholders with unclaimed distributions. As at June 30, 2010 there was approximately \$3.8 million in unclaimed distributions.

The Receiver is unable to determine when any future distributions may take place.

8.0 Share value

The net asset value per Class A and Class I shares ("share value") as at June 30, 2010 was \$2.17. 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 costs of the difference between the head lease and subleases for the premises maintained by Crocus.
- Any additional guarantees or indemnities granted by Crocus which have not yet been identified.
- 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.

9.0 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.

10.0 General

A Statement of Receipts and Disbursements from June 28, 2005 to June 30, 2010 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-October 2010.

Respectfully submitted this 15th day of July, 2010.

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

A handwritten signature in black ink, appearing to read "Steven Peleck". The signature is fluid and cursive, with a prominent initial "S" and a long, sweeping underline.

Per: S. P. Peleck
Senior Vice-President

Appendix 1 – Crocus financial statements as at June 30, 2010

Crocus Investment Fund

Consolidated Statement of Net Assets

As at June 30, 2010 (unaudited)

ASSETS

June 30, 2010

Cash and equivalents	\$ 13,930,066
Cash in Trust - Interim Distribution	3,757,036
Cash in Trust - Class Action Settlements	477,572
Investments in Manitoba businesses	<u>11,851,043</u>
	30,015,717
Accounts receivable	5,083,044
Capital assets	<u>334,304</u>
	35,433,065

LIABILITIES

Accounts payable and accrued liabilities	209,864
Due to Shareholders - Interim Distribution	3,757,036
Due to Shareholders - Class Action Settlements	<u>477,572</u>

NET ASSETS

\$ 30,988,593

SHAREHOLDERS' EQUITY

Share capital	\$ 188,014,669
Deferred selling costs adjustment	(9,134,637)
Interim Distribution - Class "A" shares	(54,462,836)
Interim Distribution - Class "I" & "L" shares	(264,955)
Deficit	<u>(93,163,648)</u>
	<u><u>\$ 30,988,593</u></u>

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

\$ 2.17

Crocus Investment Fund

Consolidated Statement of Operations

For the period ended June 30, 2010 (unaudited)

	Quarter Ended	Year to Date
	June 30, 2010	June 30, 2010
REVENUE		
Interest and Dividend Revenue	\$ 40,990	\$ 240,029
Management Fees & Other Recoveries	84,551	344,995
	<u>125,541</u>	<u>585,024</u>
EXPENSES		
Amortization of Capital Assets	25,137	75,412
Occupancy	91,956	276,080
Administrative, Office and Investment	79,395	294,372
Legal	24,786	89,156
Receiver and Manager	146,805	748,730
Salaries and Benefits	-	22,832
	<u>368,079</u>	<u>1,506,582</u>
OPERATING INCOME BEFORE NON-RECURRING ITEMS	<u>(242,538)</u>	<u>(921,558)</u>
Amount realized in excess of June 28, 2005 carrying value	8,910	(895,788)
LOSS FOR THE PERIOD	<u>\$ (233,628)</u>	<u>\$ (1,817,346)</u>

Crocus Investment Fund

Consolidated Statement of Deficit

For the period ended June 30, 2010 (unaudited)

	June 30, 2010
DEFICIT-Beginning of period, September 30, 2009	\$ (91,346,302)
Loss for the period	<u>(1,817,346)</u>
DEFICIT-END OF PERIOD	<u><u>\$ (93,163,648)</u></u>

Consolidated Statement of Changes in Net Assets

For the period ended June 30, 2010 (unaudited)

	June 30, 2010
NET ASSETS - September 30, 2009	\$ 87,533,729
Interim Distribution - Class "A" shares	(54,462,836)
Interim Distribution - Class "I" & "L" shares	(264,954)
Loss for the period	<u>(1,817,346)</u>
NET ASSETS - END OF PERIOD	<u><u>\$ 30,988,593</u></u>

Crocus Investment Fund

Consolidated Statement of Investment Portfolio

As at June 30, 2010 (unaudited)

NET INVESTMENTS IN MANITOBA BUSINESSES

4658702 Manitoba Ltd

Canad Corporation of Canada Inc.

Diamedica Inc.

D.L.J.S. Enterprises Ltd.

Enterprise Swine Ltd.

Enterprise Swine II Ltd.

Genesys Venture Inc.

Manitoba Science & Technology Fund

Muddy Waters Smokehouse

Novra Technologies Inc.

Online Enterprises Inc.

ST Partnership

Winnipeg Goldeyes Baseball Club Inc.

W.O.W. Hospitality Concepts Inc.

NET INVESTMENTS IN MANITOBA BUSINESSES

\$ 11,851,043

Crocus Investment Fund

Consolidated Statement of Investment Portfolio

As at June 30, 2010 (unaudited)

BONDS AND DEBENTURES

City of Winnipeg	\$ 372,404
	<u>372,404</u>

SHORT TERM INVESTMENTS

HSBC	3,323,762
Scotia Bank	14,373,320
Other	<u>95,188</u>
	<u>17,792,270</u>

CASH & EQUIVALENTS

\$ 18,164,674

Represented by:

Cash and Equivalents	\$ 13,930,066
Cash in Trust - Interim Distribution	3,757,036
Cash in Trust - Class Action Settlements	<u>477,572</u>
	<u>\$ 18,164,674</u>

Crocus Investment Fund

Notes to the Consolidated Financial Statements

For the period ended June 30, 2010 (unaudited)

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 30, 2010
Net assets - end of year	\$ 30,988,593
Balance attributed to the Class "A" Common and Series Two Class "I" Special Shares	<u>\$ 30,988,593</u>
Number of issued Class "A" Common Shares	14,220,000
Number of issued Series Two Class "I" Special Shares	<u>69,126</u>
	14,289,126
NET ASSET VALUE PER CLASS "A" COMMON SHARE and SERIES TWO CLASS "I" SPECIAL SHARE	<u>\$ 2.17</u>

Appendix 2 – Statement of receipts and disbursements to June 30, 2010

**Deloitte & Touche Inc., Receiver and Manager of
CROCUS INVESTMENT FUND
Statement of Receipts and Disbursements
For the Period June 28, 2005 to June 30, 2010**

Receipts

Cash and Short Term Investments on Hand	\$ 23,363,012
Contract Back Office Services	518,463
Dividends-Portfolio	657,483
Income Tax Refund	247,388
Insurance Claim and Premium Refund	20,662
Interest-Portfolio	1,609,592
Interest-Short Term Investments	7,143,613
Investment Principal Repayments	1,420,572
Management Fees	1,020,576
Proceeds on Disposal of Investments	48,676,356
Rent/Sub-Lease	1,278,615
Sundry	228,098
Pre-Receivership Accounts Receivable	1,247,368
Class Action Settlements	6,812,978

Total Receipts

94,244,776

Disbursements

Advances to Investees	\$ 265,132
Capital Tax	200,257
Computer, Telephone and Office Expense	642,455
Consulting Fees	495,487
Employee Pension	122,922
Insurance - Indemnification	122,078
Investee Guarantee and Indemnification	1,344,677
Investment Expenses	194,625
Legal Fees	1,927,474
Legal Fees - Indemnification	662,601
Payroll & Benefits	1,735,550
Receiver and Manager Fees	5,486,319
Records Review	1,288,814
Rent	2,054,826
Settlements	620,000
Shareholder Services	732,197
Pre-Receivership Payables and Accruals	914,384

Total Disbursements

18,809,798

Excess of Receipts over Disbursements prior to:

75,434,978

Interim Distribution - Class "A" Shares	50,669,945
Interim Distribution - Class "I" & "L" Shares	264,954
Class Action Settlements	6,335,405

Excess of Receipts over Disbursements

\$ 18,164,674

Represented by:

Short Term Investments and Bonds	\$ 13,930,066
Cash in Trust - Interim Distribution	3,757,036
Cash in Trust - Class Action Settlements	477,572

\$ 18,164,674

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