

Crocus Investment Fund

September 30, 2014 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 (the “Receiving 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 Receiving 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, 2014 Quarterly Report.

2.0 Activities of the Receiver

The following summarizes the major activities of the Receiver since June 30, 2014:

- Preparing the June 30, 2014 and September 30, 2014 Quarterly Reports.
- Preparing Receiver's Report 16 in support of a third interim distribution by the Receiver.
- Preparing correspondence and planning for a third interim distribution.
- 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 distributions and status of the Fund.
- Supervising and directing agents retained by the Receiver.
- 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.
- 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.
- Corresponding with the Receiver's counsel regarding the litigation with the landlord.
- Corresponding with the Receiver's counsel regarding the litigation with one of the investees.

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 employees of Crocus 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 second fiscal quarter ended September 30, 2014, 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 \$10.4 million. This excludes funds held in trust for shareholders relating to prior distributions, Court ordered holdbacks, or other settlements.
- Accounts receivable of approximately \$0.3 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.

Cumulatively to September 30, 2014, 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 \$59.9 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 Ventures 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”)

- On June 19, 2014, the Receiver caused Crocus to commence proceedings against Leon Norman Ledohowski (“Leo”), LRC Holding Corporation Inc., and Canad Corporation Ltd. (“Canad”) as Respondents in a Court of Queen’s Bench filing. In its Notice of Application, Crocus sought various forms of relief including declarations that Leo had exercised his powers as a director of Canad, and that Canad had conducted its business and affairs in a manner that was oppressive of, or unfairly prejudicial to, or which unfairly disregarded, the interests of Crocus as a shareholder of Canad. The Notice of Application also sought an Order that Canad be liquidated and dissolved and that the proceeds from such liquidation be distributed to the shareholders of Canad. The Notice of Application was supported by an Affidavit sworn by the undersigned, in his capacity as Senior Vice-President of the Receiver. No affidavit evidence has yet been filed on behalf of the Respondents.

6.0 Commitments and contingencies

The primary remaining obligation of the Fund is for the lease on the Leased Property which terminates on September 30, 2016. The agent for the landlord had previously notified the Receiver of a claim for past building operating costs of approximately \$0.2 million. The Receiver had several meetings with the agent regarding the quantification and potential settlement of the claim. No resolution was reached and on October 23, 2013, the agent for the landlord issued a statement of claim against Crocus and the Receiver for approximately \$0.1 million. The Receiver has filed a statement of defence and plead that as at October 31, 2013 it has overpaid building operating costs by approximately \$42,000. An examination for discovery took place on March 20, 2014 and the litigation continues.

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, 2014 was \$1.25 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 it takes 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. The Receiver has received the settlement funds in the approximate amount of \$147,000.

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 had 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. Subsequently, the Class Action plaintiff advised that a settlement with Fillmore has been reached in the approximate amount of \$35,000.

One of the previous settlement agreements was with PriceWaterhouseCoopers LLP (“PwC”), the Fund’s former auditors. As part of the settlement agreement, the Class Action plaintiff was required to hold \$0.5 million (the “Holdback Amount”) in trust to compensate or reimburse PwC for reasonable fees, disbursements or other expenses or charges that PwC may incur subsequent to the settlement agreement as a result of the claim assigned to the Class Action plaintiff against Fillmore or any related proceeding, or its involvement in a proceeding commenced by the Receiver against any Crocus investee. Pursuant to the settlement agreement, the Class Action plaintiff was to apply to Court following the conclusion of the Class Actions for an order releasing the Holdback Amount to be paid to the Receiver. Counsel for the Class Action plaintiff has since asked the Receiver to apply to Court for release of the Holdback Amount in its place. The Receiver filed a motion and on September 18, 2014 the Court ordered that the Holdback be released. As a result of the release of the Holdback amount, the Class Actions are finalized.

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, 2014, the Receiver had paid out approximately \$52.8 million, or approximately 97%, of the first interim distribution, however, there remains approximately \$1.9 million in unclaimed distributions.

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 June 30, 2014, the Receiver had paid out approximately \$8.1 million, or 90%, of the second interim distribution, however, there remains approximately \$0.9 million in unclaimed distributions.

9.3 Third interim distribution

On October 14, 2014, the Court issued an Order authorizing a third interim distribution of \$0.60 to the Class A and Class I shareholders. This distribution will also include the remaining Class Action proceeds of approximately \$0.7 million outlined in Section 8.0 above.

Mailings for the distribution took place in October and November 2014.

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.

11.0 General

A Statement of Receipts and Disbursements for the period from June 28, 2005 to September 30, 2014 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 2015.

Respectfully submitted this 19th day of December, 2014.

DELOITTE RESTRUCTURING 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 written in a cursive style with a large initial 'S'.

Per: Steven P. Peleck
Senior Vice-President

Appendix 1 – Crocus financial information as at September 30, 2014

Crocus Investment Fund
Consolidated Statement of Net Assets
As at September 30, 2014 (unaudited)

ASSETS

	September 30, 2014
Cash and equivalents	\$ 10,359,743
Cash in Trust - Holdback	1,000,000
Cash in Trust - 1st Interim Distribution	1,916,191
Cash in Trust - 2nd Interim Distribution	923,220
Cash in Trust - Undistributed Class Action Settlements	681,953
Investments in Manitoba businesses	6,051,732
	<u>20,932,839</u>

Accounts receivable	304,606
Capital assets	109,626
	<u>21,347,071</u>

LIABILITIES

Accounts payable and accrued liabilities	10,314
Due to Shareholders - 1st Interim Distribution	1,916,191
Due to Shareholders - 2nd Interim Distribution	923,220
Due to Shareholders - Undistributed Class Action Settlements	681,953
	<u>681,953</u>

NET ASSETS

\$ 17,815,393

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	(97,336,842)
	<u>(97,336,842)</u>
	<u><u>\$ 17,815,393</u></u>

NET ASSET VALUE PER SHARE

Net assets	\$ 17,815,393
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Balance attributed to the Class "A" Common and Series Two Class "I" Special Shares	<u>\$ 17,815,393</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**

\$ 1.25

Crocus Investment Fund
Consolidated Statement of Investment Portfolio
As at September 30, 2014 (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

\$	6,051,732
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Appendix 2 – Statement of receipts and disbursements to September 30, 2014

**Deloitte Restructuring Inc., Receiver and Manager of
CROCUS INVESTMENT FUND
Statement of Receipts and Disbursements
For the Period June 28, 2005 to September 30, 2014**

	<u>June 28, 2005 to March 31, 2012</u>	<u>April 1, 2012 to September 30, 2014</u>	<u>Total</u>
Receipts			
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	197,365	480,868
Insurance Claim and Premium Refund	20,662	-	20,662
Interest-Portfolio	1,640,835	237,490	1,878,325
Interest-Short Term Investments	7,376,492	292,072	7,668,564
Investment Principal Repayments	2,890,163	210,799	3,100,962
Management Fees	1,118,517	88,263	1,206,780
Proceeds on Disposal of Investments	52,442,430	4,440,702	56,883,132
Rent/Sub-Lease	1,804,884	674,521	2,479,405
Sundry	297,476	-	297,476
Pre-Receivership Accounts Receivable	1,247,463	-	1,247,463
Class Action Settlements	6,812,978	681,953	7,494,931
Total Receipts	<u>\$ 100,474,361</u>	<u>\$ 6,823,165</u>	<u>\$ 107,297,526</u>
Disbursements			
Advances to Investees	\$ 265,132	\$ -	\$ 265,132
Capital Tax	200,257	-	200,257
Computer, Telephone and Office Expense	719,488	59,811	779,299
Consulting Fees	359,150	-	359,150
Employee Pension	442,922	-	442,922
Insurance - Indemnification	141,608	24,898	166,506
Investee Guarantee and Indemnification	1,344,677	-	1,344,677
Investment Expenses	218,497	295	218,792
Legal Fees	2,038,338	175,674	2,214,012
Disbursements	55,735	6,316	62,051
Taxes	261,922	21,899	283,821
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	947,582	8,078,549
Taxes	407,821	47,379	455,200
Rent	2,899,455	1,085,281	3,984,736
Settlements	579,116	-	579,116
Shareholder Services	1,317,222	513,484	1,830,706
Pre-Receivership Payables and Accruals	914,385	-	914,385
Total Disbursements	<u>21,745,497</u>	<u>2,970,065</u>	<u>24,715,562</u>
Excess of Receipts over Disbursements prior to:	<u>78,728,864</u>	<u>3,853,100</u>	<u>82,581,964</u>
1st Interim Distribution - Class "A" Shares	52,305,250	459,317	52,764,567
1st Interim Distribution - Class "I" & "L" Shares	264,955	-	264,955
Class Action Settlements	6,537,507	57,240	6,594,747
2nd Interim Distribution - Class "A" Shares	7,545,272	487,777	8,033,049
2nd Interim Distribution - Class "I" Shares	43,539	-	43,539
Excess of Receipts over Disbursements	<u>\$ 12,032,341</u>	<u>\$ 2,848,766</u>	<u>\$ 14,881,107</u>
Represented by:			
Short Term Investments and Bonds			\$ 10,359,743
Cash in Trust - Holdback			1,000,000
Cash in Trust - 1st Interim Distribution			1,916,191
Cash in Trust - 2nd Interim Distribution			923,220
Cash in Trust - Undistributed Class Action Settlements			681,953
			<u>\$ 14,881,107</u>

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