

Crocus Investment Fund

September 30, 2015 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 of Manitoba (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, 2015 Quarterly Report.

2.0 Activities of the Receiver

The following summarizes the major activities of the Receiver since June 30, 2015:

- Preparing the June 30, 2015 and September 30, 2015 Quarterly Reports;
- Administering the interim distributions of funds as outlined in the Court Orders of September 4, 2009, December 12, 2011, and October 14, 2014;
- Corresponding with numerous shareholders, brokers, dealers and intermediaries regarding the distributions and status of the Fund;
- Reviewing and negotiating back office support services;
- 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;
- Corresponding with the Receiver's counsel regarding the litigation with the landlord and negotiating a final settlement of the matter;
- Exercising and closing an option to purchase agreement for the premises occupied by Crocus. Concurrently, the Receiver sold the premises while leasing a portion thereof from the purchaser for a short term; and
- Corresponding with the Receiver's counsel and filing affidavit materials with respect to certain 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.

Previously the Receiver had occupied a small portion of the Crocus premises at 211 Bannatyne in Winnipeg (the “Leased Property”). During the quarter, the Receiver exercised a purchase option (the “Purchase Option”) for the Leased Property which had been granted to Crocus by the landlord. Concurrently the Receiver sold the Leased Property to a third party. The Purchase Option and sale are discussed more fully in Section 6.0 below. The Receiver continues to lease a small portion of the premises at 211 Bannatyne from the purchaser on a short term basis and intends to vacate by the end of the calendar year.

4.0 Financial position

Financial information for Crocus has been prepared by the Receiver for the fourth fiscal quarter and year ended September 30, 2015, 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 \$2.0 million. This excludes funds held in trust for shareholders relating to prior distributions.
- Net carrying value of the remaining Crocus portfolio of investees of approximately \$5.1 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, 2015, 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 \$60.8 million for investments with a June 28, 2005 book value of approximately \$59.3 million, representing a recovery of approximately 103%. Crocus' carrying value for these investments, when it ceased trading in December 2004, was approximately \$95.1 million, which would represent a recovery of approximately 64%. 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 Steven P. Peleck (the “Peleck Affidavit”), in his capacity as Senior Vice-President of the Receiver. Counsel for Canad filed a motion seeking an order expunging certain parts of the Peleck Affidavit. The motion was heard on May 27, 2015 and, during submissions before Madam Justice Pfeutzner, it was agreed that the Notice of Application and Affidavit would be expunged with leave to file amended documents.
- On July 17, 2015, an Amended Notice of Application was filed seeking 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 interest of Crocus as a shareholder of Canada. The Amended 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. No affidavit evidence has yet been filed on behalf of the Respondents. Cross-examinations on affidavits are scheduled for early December 2015.

6.0 Commitments and contingencies

The primary remaining obligation of the Fund was pursuant to a lease agreement on the Leased Property which was to terminate on September 30, 2016. The lease agreement dated February 2, 2001 was between Crocus, the landlord, and the landlord's agent and was amended by a lease amending agreement dated July 18, 2001. The lease agreement contained an option to purchase the Leased Property which was further amended and clarified by an agreement dated January 1, 2002 (the "Option Clarification Agreement"). On previous occasions a subtenant of Crocus, which occupied a portion of the Leased Property, had approached Crocus with a view to purchasing the Leased Property. The Receiver had the Leased Property appraised in 2014 and determined that the appraised value was not significantly different than the value outlined in the Option Clarification Agreement. The Receiver was of the view that a sale of the property at the price offered in the Option Clarification Agreement would allow the Receiver to terminate the lease prior to September 30, 2016, thereby reducing its financial obligations and also assist in finalizing the litigation between the landlord and Crocus regarding the past operating costs. Accordingly, the Receiver entered into further discussions with the subtenant.

In anticipation of exercising the Purchase Option, on April 30, 2015 the Receiver entered into an agreement (the "Purchase Agreement") with Taylor George Creative Marketing Inc. and McKim Communications Group Ltd. (collectively "the Purchaser") whereby the Receiver agreed to exercise the Purchase Option for, and on behalf of, the Purchaser or their nominee. The Purchase Option was to be effective July 1, 2015. As part of the terms of the Purchase Agreement, the Purchaser and Crocus agreed to terminate the original lease and sublease agreements that were in place.

On May 6, 2015, the Receiver gave notice to the landlord and the landlord's agent of its intention to exercise its rights under the Option Clarification Agreement to purchase the condominium title to the Leased Property. All of the conditions surrounding the Purchase Option were satisfied and title to the Leased Property was transferred to the Purchaser on August 4, 2015.

The Receiver entered into a short term lease agreement with the Purchaser to continue to occupy certain space within the Leased Property until October 31, 2015, subject to any mutually agreed upon monthly extension.

Concurrent with the exercise of the Purchase Option, the Receiver and the agent for the landlord reached a settlement agreement with respect to the litigation for past building operating costs, wherein the agent claimed approximately \$0.2 million was owing by Crocus (the "Action"). A mutual release was executed by the Receiver and the landlord on July 9, 2015, and on September 4, 2015, a consent judgement order was issued by the Court dismissing the Action on a without costs basis.

With the exercise of the Purchase Option and settlement of the litigation with the landlord, all obligations of Crocus with respect to the original February 2, 2001 lease have been finalized.

The only remaining known contingency relates to an indemnity provided by Crocus to an investee company. This indemnity does not create a requirement for Crocus to fund the investee but does potentially alter the rights of Crocus and other shareholders of the investee.

7.0 Share value

The estimated net asset value of the Class A and Class I shares (the “Share Value”) as at September 30, 2015 was \$0.50 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 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 Interim distributions

8.1 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 settlements.

As at September 30, 2015, the Receiver had paid out approximately \$53.0 million, or approximately 97%, of the first interim distribution, however, there remains approximately \$1.7 million in unclaimed distributions.

8.2 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, 2015, the Receiver had paid out approximately \$8.3 million, or 92%, of the second interim distribution, however, there remains approximately \$0.7 million in unclaimed distributions.

8.3 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 also included the remaining Class Action proceeds of approximately \$0.7 million.

Mailings for the distribution took place in October and November 2014. As at September 30, 2015, the Receiver had paid out approximately \$7.4 million, or 86%, of the third interim distribution, however, there remains approximately \$1.2 million in unclaimed distributions.

8.4 Future distribution

The majority of the Crocus assets have been realized upon with net proceeds of approximately \$72.3 million being approved by the Court for distribution to the Crocus shareholders. In addition, shareholders have been paid their portions of the Class Action settlements and the Class Actions have been finalized.

As noted above, the Receiver currently has approximately \$2.0 million of cash and cash equivalents available to fund shareholder services operations and to continue to realize on the remaining six (6) investments. Given the illiquidity of the remaining investments, as well as the ongoing litigation with Canad, the Receiver is of the view that any future distribution will be based on the settlement or outcome of the Canad litigation. Accordingly, the Receiver is unable to determine when, or if, any future distributions will take place.

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 for the period from June 28, 2005 to September 30, 2015 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 2016.

Respectfully submitted this 6th day of November, 2015.

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

A handwritten signature in blue ink, appearing to read "B Warga", is placed on a light yellow rectangular background.

Per: Brent Warga
Senior Vice-President

Appendix 1 – Crocus financial information as at September 30, 2015

Crocus Investment Fund
Consolidated Statement of Net Assets
As at September 30, 2015 (unaudited)

ASSETS

	September 30, 2015
Cash and equivalents	\$ 1,995,718
Cash in Trust - Interim Distributions	3,536,376
Investments in Manitoba businesses	5,115,099
	<u>10,647,193</u>
Accounts receivable	35,836
	<u>10,683,029</u>

LIABILITIES

Accounts payable and accrued liabilities	12,036
Due to Shareholders - Interim Distributions	3,536,376
	<u>3,548,412</u>

NET ASSETS

\$ 7,134,617

SHAREHOLDERS' EQUITY

Share capital	\$ 188,014,669
Deferred selling costs adjustment	(9,134,637)
Interim Distributions - Class "A" shares	(63,419,302)
Interim Distributions - Class "I" shares	(8,881,767)
Interim Distributions - Class "L" shares	(200)
Deficit	(99,444,146)
	<u>(99,444,146)</u>
	<u><u>\$ 7,134,617</u></u>

NET ASSET VALUE PER SHARE

Net assets \$ 7,134,617

Balance attributed to the Class "A" Common and Series Two Class "I" Special Shares \$ 7,134,617

Number of issued Class "A" Common Shares 14,220,000

Number of issued Series Two Class "I" Special Shares 69,126

14,289,126

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

\$ 0.50

Crocus Investment Fund
Consolidated Statement of Investment Portfolio
As at September 30, 2015 (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

\$	5,115,099
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Appendix 2 – Statement of receipts and disbursements to September 30, 2015

**Deloitte Restructuring Inc., Receiver and Manager of
CROCUS INVESTMENT FUND
Statement of Receipts and Disbursements
For the Period June 28, 2005 to September 30, 2015**

	<u>June 28, 2005 to March 31, 2012</u>	<u>April 1, 2012 to September 30, 2015</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	211,216	494,719
Insurance Claim and Premium Refund	20,662	-	20,662
Interest-Portfolio	1,640,835	288,930	1,929,765
Interest-Short Term Investments	7,376,492	343,383	7,719,875
Investment Principal Repayments	2,890,163	291,859	3,182,022
Management Fees	1,118,517	132,395	1,250,912
Proceeds on Disposal of Investments	52,442,430	4,698,337	57,140,767
Rent/Sub-Lease	1,804,884	863,514	2,668,398
Sundry	297,476	4,200	301,676
Pre-Receivership Accounts Receivable	1,247,463	-	1,247,463
Class Action Settlements	6,812,978	681,946	7,494,924
Total Receipts	<u>\$ 100,474,361</u>	<u>\$ 7,515,780</u>	<u>\$ 107,990,141</u>
Disbursements			
Advances to Investees	\$ 265,132	\$ -	\$ 265,132
Capital Tax	200,257	-	200,257
Computer, Telephone and Office Expense	719,488	92,201	811,689
Consulting Fees	359,150	-	359,150
Employee Pension	442,922	-	442,922
Insurance - Indemnification	141,608	33,407	175,015
Investee Guarantee and Indemnification	1,344,677	-	1,344,677
Investment Expenses	218,497	2,312	220,809
Legal Fees	2,038,338	246,327	2,284,665
Disbursements	55,735	8,728	64,463
Taxes	261,922	31,174	293,096
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	1,499,730	8,630,697
Taxes	407,821	75,018	482,839
Rent	2,899,455	1,412,192	4,311,647
Settlements	579,116	196,875	775,991
Shareholder Services	1,317,222	767,550	2,084,772
Pre-Receivership Payables and Accruals	914,385	-	914,385
Total Disbursements	<u>21,745,497</u>	<u>4,452,960</u>	<u>26,198,457</u>
Excess of Receipts over Disbursements prior to:	<u>78,728,864</u>	<u>3,062,820</u>	<u>81,791,684</u>
Interim Distributions - Class "A" Shares	59,850,522	8,843,507	68,694,029
Interim Distributions - Class "I" & "L" Shares	308,494	41,475	349,969
Class Action Settlements	6,537,507	678,085	7,215,592
Excess of Receipts over Disbursements	<u>\$ 12,032,341</u>	<u>\$ (6,500,247)</u>	<u>\$ 5,532,094</u>
Represented by:			
Short Term Investments and Bonds			\$ 1,995,718
Cash in Trust - Interim Distributions			<u>3,536,376</u>
			<u>\$ 5,532,094</u>

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