

Crocus Investment Fund

June 30, 2016 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 March 31, 2016 Quarterly Report.

2.0 Activities of the Receiver

The following summarizes the major activities of the Receiver since March 31, 2016:

- Preparing the March 31, 2016 and June 30, 2016 Quarterly Reports;
- Preparing Receiver's Reports No. 17 and No. 18 in support of an interim passing of accounts set to be heard by the Court on September 16, 2016;
- Publishing a notice in the Winnipeg Free Press, and on the Receiver's website, advising shareholders of the Receiver's intention to make an application to the Court to pass its accounts. The notice advised of the process to be followed if any shareholder objected to the intended application;
- 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;
- Corresponding with, and reporting to, the bare trustee for 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"); and
- Corresponding with the Receiver's counsel 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.

4.0 Financial position

Financial information for Crocus has been prepared by the Receiver for the third fiscal quarter ended June 30, 2016, and is attached as Appendix 1.

The following summarizes the financial position of the Fund:

- Investments in cash and cash equivalents of approximately \$1.6 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 \$5.2 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 June 30, 2016, 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 \$60.3 million for investments with a June 28, 2005 book value of approximately \$58.8 million, representing a recovery of approximately 103%. Crocus' carrying value for these investments, when it ceased trading in December 2004, was approximately \$94.6 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. The Amended Notice of Application was supported by an Affidavit sworn by Brent Warga (the “Warga Affidavit”), in his capacity as Senior Vice-President of the Receiver. The Respondents filed affidavit evidence on May 31, 2016 and the Receiver is in the process of reviewing the materials. Cross-examinations on affidavits which were rescheduled from March 2016 to May 2016 at the request of the Respondents did not occur, and a new cross-examination date has not yet been determined.

6.0 Commitments and contingencies

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 June 30, 2016 was \$0.48 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 June 30, 2016, the Receiver had paid out approximately \$53.2 million, or approximately 97%, of the first interim distribution, however, there remains approximately \$1.5 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 June 30, 2016, the Receiver had paid out approximately \$8.4 million, or 93%, of the second interim distribution, however, there remains approximately \$0.6 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 Actions proceeds of approximately \$0.7 million.

Mailings for the distribution took place in October and November 2014. As at June 30, 2016, the Receiver had paid out approximately \$7.6 million, or 88%, of the third interim distribution, however, there remains approximately \$1.0 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 Actions settlements and the Class Actions have been finalized.

As noted above, the Receiver currently has approximately \$1.6 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 June 30, 2016 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 2016.

Respectfully submitted this 18th day of July, 2016.

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 that reads "B Warga". The signature is written in a cursive, flowing style.

Per: Brent Warga
Senior Vice-President

Appendix 1 – Crocus financial information as at June 30, 2016

Crocus Investment Fund
Consolidated Statement of Net Assets
As at June 30, 2016 (unaudited)

ASSETS

	June 30, 2016
Cash and equivalents	\$ 1,636,076
Cash in Trust - Interim Distributions	3,416,161
Investments in Manitoba businesses	<u>5,250,021</u>
	10,302,258
Accounts receivable	<u>51,749</u>
	10,354,007

LIABILITIES

Accounts payable and accrued liabilities	10,348
Due to Shareholders - Interim Distributions	<u>3,416,161</u>

NET ASSETS

\$ 6,927,498

SHAREHOLDERS' EQUITY

Share capital	\$ 188,014,669
Deferred selling costs adjustment	(9,134,637)
Interim Distributions - Class "A" shares	(71,951,299)
Interim Distributions - Class "I" shares	(349,770)
Interim Distributions - Class "L" shares	(200)
Deficit	<u>(99,651,265)</u>
	<u><u>\$ 6,927,498</u></u>

NET ASSET VALUE PER SHARE

Net assets \$ 6,927,498

Balance attributed to the Class "A" Common and Series Two Class "I" Special Shares \$ 6,927,498

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**

\$ 0.48

Crocus Investment Fund
Consolidated Statement of Investment Portfolio
As at June 30, 2016 (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

\$	5,250,021
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Appendix 2 – Statement of receipts and disbursements to June 30, 2016

**Deloitte Restructuring Inc., Receiver and Manager of
CROCUS INVESTMENT FUND
Statement of Receipts and Disbursements
For the Period June 28, 2005 to June 30, 2016**

	June 28, 2005 to March 31, 2012	April 1, 2012 to June 30, 2016	Total
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	240,868	524,371
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	352,660	7,729,152
Investment Principal Repayments	2,890,163	291,859	3,182,022
Management Fees	1,118,517	176,526	1,295,043
Proceeds on Disposal of Investments	52,442,430	4,704,147	57,146,577
Rent/Sub-Lease	1,804,884	866,664	2,671,548
Sundry	297,476	4,202	301,678
Pre-Receivership Accounts Receivable	1,247,463	-	1,247,463
Class Action Settlements	6,812,978	681,946	7,494,924
Total Receipts	\$ 100,474,361	\$ 7,607,802	\$ 108,082,163
Disbursements			
Advances to Investees	\$ 265,132	\$ -	\$ 265,132
Capital Tax	200,257	-	200,257
Computer, Telephone and Office Expense	719,488	179,391	898,879
Consulting Fees	359,150	-	359,150
Employee Pension	442,922	-	442,922
Insurance - Indemnification	141,608	25,955	167,563
Investee Guarantee and Indemnification	1,344,677	-	1,344,677
Investment Expenses	218,497	4,686	223,183
Legal Fees	2,038,338	265,751	2,304,089
Disbursements	55,735	9,151	64,886
Taxes	261,922	33,736	295,658
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	1,738,170	8,869,137
Taxes	407,821	86,973	494,794
Rent	2,899,455	1,418,248	4,317,703
Settlements	579,116	196,875	775,991
Shareholder Services	1,317,222	858,089	2,175,311
Pre-Receivership Payables and Accruals	914,385	-	914,385
Total Disbursements	21,745,497	4,904,471	26,649,968
Excess of Receipts over Disbursements prior to:	78,728,864	2,703,331	81,432,195
Interim Distributions - Class "A" Shares	59,850,522	8,954,778	68,805,300
Interim Distributions - Class "I" & "L" Shares	308,494	41,476	349,970
Class Action Settlements	6,537,507	687,181	7,224,688
Excess of Receipts over Disbursements	\$ 12,032,341	\$ (6,980,104)	\$ 5,052,237
Represented by:			
Short Term Investments and Bonds			\$ 1,636,076
Cash in Trust - Interim Distributions			3,416,161
			\$ 5,052,237

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