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Financial Advisory

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# Crocus Investment Fund

March 31, 2006 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 December 31, 2005 Quarterly Report.

## 2.0 Activities of the Receiver

The following summarizes the major activities of the Receiver since December 31, 2005:

- Attendance in Court respecting Receiver's Report #3 which related to the request for indemnities by various parties involved in the Crocus Class Action and the MSC investigation.
- Preparation and attendance in Court regarding Receiver's Report #6 and its motion for advice and direction regarding the interim distribution to shareholders of Crocus.
- Preparation of the December 31, 2005 and March 31, 2006 Quarterly Reports.
- Preparation of the March 13, 2006 mailing to shareholders.
- Meeting and corresponding with various parties interested in acquiring certain of the investee companies.
- Ongoing discussions with Chubb Insurance regarding coverage under the Director's & Officer's policy.
- Ongoing discussions with Chubb Insurance respecting coverage for those legal costs incurred as a result of the MSC proceedings.
- Supervising and directing Crocus staff retained by the Receiver.
- Meeting and corresponding with individual investors.
- Meetings with the RCMP regarding their ongoing investigation.
- Meetings with various regulatory authorities regarding shareholder tax issues.

- Monitoring the status of the Class Action proceedings as well as the status of the MSC hearings brought against the Board of Directors of Crocus and various other parties.
- Day to day monitoring of the investee companies and discussions with various stakeholders of the investees about the possible courses of action respecting Crocus' investment in the investees.
- Ongoing discussions and negotiations with certain of the investee companies about possible exit strategies for Crocus.
- Ongoing meetings and discussions with counsel regarding the alternatives available to Deloitte to minimize the liability exposure to Crocus with respect to certain of the investee companies.
- Fulfilling the duties of Crocus as General Partner of the Manitoba Science & Technology Fund.
- Ongoing discussions with various pension authorities and plan administrators about the Crocus pension plans.
- Various discussions and meetings respecting the proposal by GrowthWorks Ltd. ("GrowthWorks") to acquire the interest held by Crocus in the various investee companies.
- Negotiating outstanding severance matters.
- Completion of various tax returns and other statutory filings for Crocus and related entities.

## 3.0 Operations

The ongoing activities of Crocus consist of investment monitoring, financial reporting, shareholder services and tax reporting as well as information technology. The Receiver continues to retain former Crocus staff in each of these areas and the major costs which continue to be incurred are payroll, rent and professional costs.

The Receiver is of the view that the current staffing complement is adequate and has entered into longer term contracts with the 6 remaining staff members. In addition, the Receiver has retained one former investment staff member on a consultative basis.

## 4.0 Financial Position

A financial statement for Crocus has been prepared for the 2<sup>nd</sup> fiscal quarter ended March 31, 2006 and is attached as Appendix 1. The statement is internal and unaudited, and has 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 quarter ended March 31, 2006:

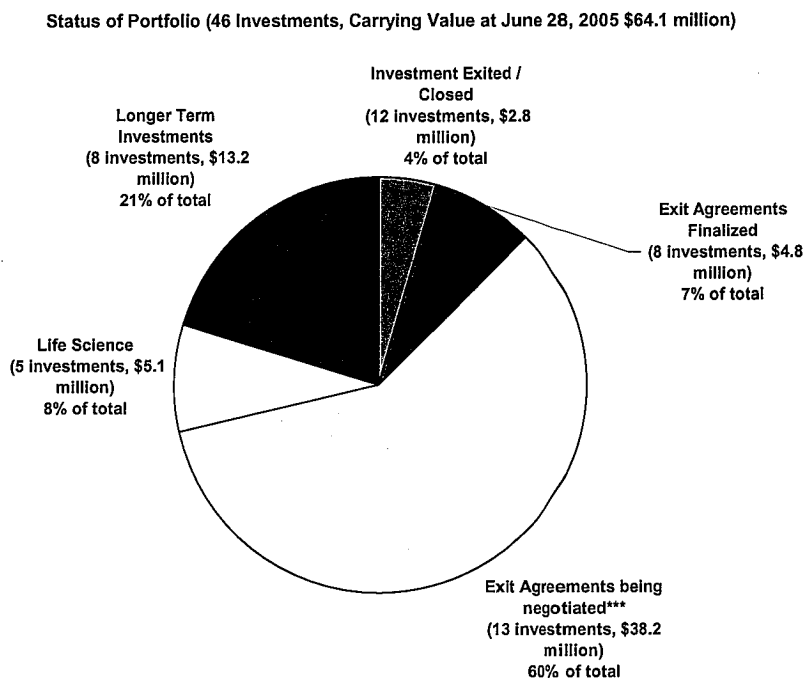
- Crocus' loss for the quarter totalled \$86,000. Year to date income totalled \$871,000.
- Crocus had approximately \$23.5 million of cash, bonds and GIC's which represents a decrease of approximately \$0.9 million from the balance of cash and equivalents as at December 31, 2005. The decrease is primarily attributable to the payment of a \$1.0 million guarantee which Crocus made on behalf of Maple Leaf Distillers Inc. to Astra Credit Union ("ACU").
- Approximately \$1.5 million of the cash, bonds and GIC's are considered sequestered pursuant to an agreement whereby Crocus guaranteed advances made by Assiniboine Credit Union ("ACU") to certain investee companies within the Crocus portfolio.
- The net carrying value of the remaining Crocus portfolio of investees was approximately \$60.7 million.



# 5.0 Portfolio

## 5.1 Status & Valuation

As at June 28, 2005, there were 46 individual investee companies within the Crocus portfolio with a gross carrying value of \$64.1 million. The Receiver has categorized the current status of the portfolio as follows:



\*\*\* Negotiations are ongoing at this time; there is no assurance that final agreements will be reached with any of the investee companies.

One of the overriding issues with the Crocus portfolio is that the majority of agreements entered into between Crocus and the investee companies did not provide for any exit mechanism. Accordingly, when the Receiver indicates that exit agreements are being negotiated, this does not necessarily mean that the ultimate agreement will be an immediate outright sale of the investment. However, what this does mean is that the Receiver is looking to enter into a formal agreement which will set the process and the timetable for the exit of Crocus from the investee company. The original estimated timetable presented to the Court of approximately 5 years to deal with the majority of the Crocus portfolio remains on track.

The Receiver is of the view that the cost would outweigh the benefit in revaluing the portfolio on an ongoing basis given that the Fund is not trading, and accordingly, for the present, the valuation of all remaining investees within the portfolio has been frozen at their June 28, 2005 values. The values will be adjusted should there be evidence that the carrying value has materially changed.

## **5.2 Investments Exited / Closed**

In the December 31, 2005 Quarterly Report, the Receiver reported that positions in five (5) investees had been sold or liquidated. (Sequoia Energy Fund, Centrestone Ventures Limited Partnership, IMRIS Inc., SR&J Customer Call Centres Inc., Viventia Biotech Inc.) In addition the Receiver had recovered available funds on two (2) investees (Blye Brothers Entertainment Inc. and Venture Seeds Ltd.). Since December 31, 2005, an additional five (5) investments are considered closed as a result of events that have taken place which virtually eliminate the prospect for any meaningful recovery for Crocus. The five (5) investments are Maple Leaf Distillers Inc., Green Gates Restaurant, Mezzo Limited Partnership, Turtle Mountain Pork Limited Partnership I and Turtle Mountain Pork Limited Partnership II. Details of these investments are as follows:

- Maple Leaf Distillers Inc. ("Maple Leaf"): As at June 28, 2005 Crocus held approximately \$5.8 million in preference shares in Maple Leaf and had guaranteed \$1.0 million of the indebtedness of Astra, the primary secured creditor of Maple Leaf. On January 16, 2006 Astra applied for and was granted a Court Order appointing an Interim Receiver over the assets of Maple Leaf. The Interim Receiver has advised that while the sale of the assets has not been completed, it is unlikely that there will be any funds available for parties other than certain secured creditors of Maple Leaf. On March 17, 2006, Astra demanded on the guarantee and the Receiver honoured Crocus' obligation. The payment of the guarantee indirectly gave Crocus certain rights in shares of Salisbury House of Canada Ltd. up to the amount of the funded guarantee (\$1.0 million). It is unclear as to whether

Crocus' rights in these shares are exclusive. The Receiver is currently attempting to clarify its position, value the shares and analyze its options.

- Green Gates Restaurant ("Green Gates"): Crocus' investment in Green Gates consisted of a minority share position as well as an unsecured loan of approximately \$250,000. On February 24, 2006, Green Gates Restaurant ceased operations. The Receiver will continue to monitor the situation, but is doubtful that it will realize any recovery on the investment.
- Mezzo Limited Partnership ("Mezzo"): Crocus held a limited partnership interest in Mezzo which had owned a banquet / meeting centre at 291 Bannatyne Avenue. The operation incurred significant operating losses while it had operated. The general partner of Mezzo confirmed that in the summer of 2005, Mezzo offered its real property for sale but was unsuccessful in finding a buyer. Subsequently the land and building was placed into tax sale by the City of Winnipeg and the first mortgage holder has issued a Notice Exercising Power of Sale under the Real Property Act.
- Turtle Mountain Pork Limited Partnership I & Turtle Mountain Pork Limited Partnership II (collectively "Turtle Mountain"): Crocus had an investment in Turtle Mountain which had ceased operations prior to the receivership. The Receiver has confirmed that all assets of these partnerships have been liquidated and that the proceeds were insufficient to pay their creditors.

To March 31, 2006, 12 of the 46 investments within the Crocus portfolio have been realized upon, or are considered closed. In summary, since its appointment, the Receiver has received proceeds of approximately \$3.1 million for investments with a June 28, 2005 book value of approximately \$2.8 million representing a recovery of approximately 110%. Crocus' carrying value for these investments when it ceased trading in December 2004 was approximately \$11.3 million which would represent a recovery of 27%.

Since its appointment, the Receiver has also eliminated exposure on approximately \$1.8 million in guarantees that had been reserved.

### **5.3 Exit Agreements Finalized**

Eight (8) investments with a carrying value of approximately \$4.8 million are either involved in Court processes or alternatively are subject to exit arrangements.

Details of two of these investments which are involved Court processes are as follows:

- Deloitte had initiated formal recovery proceedings through the appointment of a Court Appointed Receiver on COH Holdings ("COH") where its board and staff had resigned and the Company had ceased operations. When COH ceased operations there was approximately \$1.5 million (US dollars) of funds on hand. The Court Appointed Receiver of COH has obtained possession of the funds on hand and is currently in the process of establishing a claims administration process. Objections against the Court Appointed Receiver's Motion have been filed by counsel for a potential claimant. At the same time, the former CEO of COH has filed a claim against COH and Crocus for approximately \$32.0 million (US dollars). Deloitte responded to the claim in Colorado Court with the position that leave of the Manitoba Court must be obtained prior to proceeding with a claim against Crocus in the United States. The Colorado Court agreed with the position put forth by Deloitte.
- A privately appointed receiver had been appointed on Ezedia Inc. prior to the appointment of Deloitte as Receiver of Crocus. Crocus had honoured its obligation under a guarantee to the primary lender of Ezedia and has claimed the net proceeds of the sale of assets of Ezedia Inc. (approximately \$164,000) pursuant to subrogation language within the guarantee. The Receiver has filed a notice of application in Court for a declaration that the net proceeds of sale from the assets of Ezedia be paid to the Receiver.

#### **5.4 Formal Exit Agreements being Discussed / Negotiated**

The Receiver continues discussions with a number of the investee companies regarding possible exits of the Crocus interest. Currently there are 13 investees with a carrying value of approximately \$38.2 million where varying levels of discussions and negotiations are taking place. The position of the majority of these investees is that they prefer to negotiate an arrangement whereby the investee company and/or the existing non-Crocus shareholder(s) of the investee would buy Crocus' interest from the Receiver. The process is ongoing and it is anticipated that exit agreements will be negotiated with a significant number of investees by late summer.

#### **5.5 Life Science Investments**

One investee, Manitoba Science and Technology Fund ("MS&T") is a limited partnership holding several science and technology investments. Crocus is an investor in the fund 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. The limited partners have given the General Partner a mandate to wind-down the partnership. The Receiver is in final discussions with an entity which has expertise in these types of investments; it is anticipated that the Receiver will enter into a management / agency agreement with this entity to oversee the ongoing development of these companies and to ensure that the appropriate exit strategies are put in place. This agreement will likely be finalized prior to the end of April.

#### **5.6 Longer Term Investments**

Eight (8) investments with a carrying value of \$13.2 million are considered longer term investments. In the opinion of the Receiver, a transaction with these investees in the short term is unlikely. The Receiver continues to monitor these investees and where deemed appropriate has taken Board positions.

# 6.0 Contingent Liabilities

The December 31, 2005 Quarterly Report outlined a number of contingent liabilities of the Fund. The following is an update of developments regarding known contingent liabilities. The Receiver however cannot provide any assurance that all contingent liabilities of the Fund have been identified.

## 6.1 Class Action Proceedings

The Receiver continues to monitor the action commenced under *The Class Proceedings Act* ("Class Action") which was filed against Crocus, Crocus Capital Inc. and 21 other defendants on July 12, 2005 and which seeks damages of \$150 million for oppression and negligence as well as punitive and exemplary damages of \$50 million.

As a result of a Court Order within the Class Action proceedings, the plaintiff has retained new counsel. To date, no defences have been filed and the Class Action has not yet been certified. Class Action counsel has indicated in Court that they intend to expand the Class to include all shareholders of Crocus.

## 6.2 Indemnifications

In addition to the Class Action, prior to the appointment of the Receiver there had been an investigation of Crocus by the Office of the Auditor General ("OAG") as well as an investigation into the conduct of Crocus and its directors and officers by the MSC. In total, 17 former officers and directors were named in the investigations and proceedings.

Several of the former officers and directors as well as the former lead brokers for Crocus have indicated that they are entitled to be indemnified out of the assets of Crocus and requested that payments to their counsel continue through the Receiver. Counsel representing the proposed class members in the Class Action proceedings were opposed to the use of Crocus' assets to indemnify former officers and

directors. The Receiver outlined a proposed approach for the competing positions in Receiver's Report #3.

Madam Justice McCawley rendered her Reasons for Decision on January 30, 2006 and ordered that Crocus, through the Receiver, is responsible for paying the ongoing legal costs of the various directors and officers sued in the Class Action as well as those parties named in the regulatory proceeding brought by the MSC. The Court order instructing the Receiver to pay these costs remains un-signed and the Receiver has been advised that the Class Action litigants intend to file an appeal of the Order of Madam Justice McCawley. The Receiver does not intend to pay any of the legal costs until such appeal has been heard and determined, or alternatively, until it is indicated that no appeals will be filed.

Crocus had maintained insurance coverage on behalf of directors and officers (but not on behalf of the lead brokers) to cover claims; the coverage is limited to \$5.0 million, with a \$100,000 deductible, which has been paid by the Receiver. Presently the insurer has denied coverage for those legal costs related to the MSC investigation as well as the Office of the Auditor General ("OAG") investigation. The Receiver has filed a statement of claim against the insurer asking the Court to declare that the legal costs associated with the MSC and OAG actions are covered by the policy of insurance. In the meantime, these legal costs, as well as those of the lead brokers, will be paid out of the assets of Crocus which will ultimately reduce the amount that is available to Crocus shareholders.

### **6.3 Guarantees**

Crocus had guaranteed the indebtedness of certain advances to its investee companies from other lenders. With the payment of the Crocus guarantee to Astra on the account of Maple Leaf, the number of investments with guarantee exposure has been reduced to four (4) with the corresponding exposure to Crocus being approximately \$2.8 million. As at March 31, 2006, the provision for guarantees where payment is considered likely is \$0.5 million.

#### **6.4 Pension Plan**

Crocus had funded a defined benefit pension plan for its employees that was administrated by the Canadian Labour Congress ("CLC plan"). The disposition of the CLC plan remains under consideration.

#### **6.5 Severance Claims**

The Receiver has had discussions with the two former employees that were not paid prior to the receivership and have subsequently advanced claims for severance. Settlement discussions continue with both employee claimants.

#### **6.6 Litigation**

As was noted in Report #5, Crocus as well as an investee, COH, are the subject of a claim brought forth by the former CEO of COH. The claim was advanced in a US Court (Colorado); leave has not been granted in the Manitoba Court of Queen's Bench. The Receiver believes that the claim against Crocus is frivolous and sought to have the claim dismissed in the US Court. On February 28, 2006, the US Court ruled that in the interests of international comity, it would defer ruling on Crocus' motion to dismiss until the Canadian Court acts on the plaintiff's request for leave to continue the action against Crocus in Colorado.

#### **6.7 Western Economic Diversification**

Subsequent to Report #5 the Receiver became aware of a potential claim by the Government of Canada - Western Economic Diversification (WED) relating to \$2.0 million in contributions made by WED to Crocus from 1994 to 1996. A portion of the contributions were repayable by Crocus on an annual basis from 1996 to 2008 if certain profitability levels were achieved. The profitability levels were not reached and as a result no payments were made. WED has indicated that they believe they have an unsecured creditor's claim against Crocus. The claim, if valid, would rank in priority to the shareholders of Crocus. This claim was not known or recorded as at June 28, 2005 and accordingly, if valid, would result in a decrease to the unit value of Crocus. This matter remains under review.



## **6.8 Trailer Fees**

As was outlined in Report #5, Crocus had paid referring broker/agents a commission a portion of which was payable over the hold period. Based on a share price of \$6.00, the estimated liability is approximately \$1.5 million. As the ultimate amount of repayment to shareholders is unknown, no liability for trailer fees has been accrued within the financial statements.

## **6.9 Other**

Previously, the Receiver was aware of two indemnities provided by Crocus relating to investees. Since the December 31, 2005 report, a further indemnity has been identified by the Receiver. This indemnity is in the range of \$0.5 to \$1.0 million and the Receiver is working to minimize the exposure under this claim. The Receiver continues to ascertain whether further indemnities exist.

## 7.0 Share Value

The net asset value per share ("share value") as at March 31, 2006 was \$5.99.

As was noted in previous reports, the Receiver emphasizes that the share value of \$5.99 is an accounting book value based largely on the June 28, 2005 carrying value of the investment portfolio.

Future events will determine the ultimate realizable value of the portfolio. Those events include determination of amounts that Crocus will have to pay in order to settle known and contingent liabilities, including payment on various indemnities. Such matters may have a material effect on the share value which is ultimately available for distribution to Crocus shareholders. The Receiver continues to believe that the total amount of claims against Crocus may be significant in light of the current investigations and the Class Action lawsuit against the Fund. 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.
- The extent of guarantees which Crocus and the Receiver may be required to honour.
- Professional costs incurred by the Receiver and its counsel as a result of current and future litigation.
- Costs and damages to which Crocus may become liable and the Receiver may have to pay as a result of indemnities granted by Crocus.
- Costs and damages to which Crocus may become liable as a result of the Class Action proceedings.

- Any provision for the costs of the difference between the head lease and subleases for the premises maintained by Crocus.
- The additional liability, if any, for the trailer fees payable to agents/brokers.
- Any potential for liability/surplus under Crocus' employee pension plan.
- 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 its quarterly reports.

# 8.0 Shareholders

## **8.1 Proposed Distribution**

As outlined in Receiver's Report #6, the Receiver had brought forth a motion for a proposed interim distribution of approximately \$1.00 per share to the Class A shareholders of Crocus. In a judgment delivered on April 7, 2006 Madam Justice McCawley indicated that it was premature for any consideration to be given to the possibility of an interim distribution to the Crocus shareholders in the face of the proposed Class Action. The Receiver will not appeal this Order and as such it is unlikely that any distribution will be made to the Class A shareholders for the foreseeable future. The Receiver does not intend to make any additional applications to Court for payment to the shareholders until such time as there is a greater certainty as to the potential liabilities against Crocus.

## **8.2 Communications**

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)

In addition, in March 2006, all Class A shareholders received a copy of their year end account statement as well as an update letter on the status of the Crocus receivership. A copy of the letter sent to the Class A shareholders is attached as Appendix 2.

## 9.0 GrowthWorks Proposal

In the fall of 2005, the Manitoba Federation of Labour ("MFL") indicated that it required time to consider whether alternatives, other than receivership, existed which would result in a better return for the Crocus shareholders. Subsequently, the MFL advanced a proposal by GrowthWorks Ltd. ("GrowthWorks proposal") as an alternative to the plan outlined by the Receiver in Receiver's Report #5. The Court considered the GrowthWorks proposal and the Receiver's plan and in a decision delivered on October 27, 2005 rejected the GrowthWorks proposal and accepted the Receiver's plan.

In November 2005 GrowthWorks subsequently submitted a conditional offer to the Receiver for \$70 million. Under this offer GrowthWorks was to receive \$84 million in assets (\$24.0 million in cash and the investment portfolio valued at \$60.0 million). This offer was not considered acceptable for a number of reasons and was rejected by the Receiver.

On March 9, 2006, GrowthWorks delivered a letter to the Receiver wherein it proposed to acquire all of the assets of Crocus under the terms of a definitive agreement to be negotiated between the parties. Deloitte reviewed the proposal and responded in writing on March 22<sup>nd</sup>. GrowthWorks replied on the 26<sup>th</sup> and we subsequently met with representatives of GrowthWorks to clarify the positions of the parties. That meeting led to our counsel writing to counsel for GrowthWorks on April 7<sup>th</sup>. We were and remain of the view that our discussions with GrowthWorks are most productively conducted on a confidential basis. Unfortunately, in our view, following receipt of our counsel's letter, GrowthWorks saw fit to make a copy available to one of the Crocus shareholders who, we understand, provided a copy to the public media. Subsequently, on April 13<sup>th</sup>, we received further communication from GrowthWorks, to which we have not yet had the opportunity to respond. We intend to continue our discussions with GrowthWorks but, from our perspective at least, it is preferable that they remain confidential. Accordingly, the Receiver will

not be filing copies of the correspondence with the Court, at least for the time being.

As has been the view of the Receiver throughout, there are certain constraints in attempting to sell the Crocus portfolio, which include confidentiality rights of the investee companies as well as right of first refusal provisions which are contained within shareholders' agreements affecting a number of the Crocus investee companies. Provided that we are able to reach agreement in principle with GrowthWorks on certain key issues, we expect:

1. to seek the advice and direction of the Court as to whether or not the Receiver presently has, or will be granted by the Court, the right to sell the shares of investee companies without complying with the rights of first refusal, and to vest Crocus' rights under existing shareholder' agreements in a purchaser over the objections of the investee companies. At the same time the Receiver would seek clarification on the issue of its right to disclose information about investee companies that was provided to Crocus or to the Receiver in confidence.
2. that while the advice and direction of the Court was sought the Receiver will continue to pursue and conclude exit agreements with the investee companies.

The Receiver has had ongoing discussions with various of the investee companies about their willingness to allow the Receiver to complete a transaction with GrowthWorks or any other third party purchaser and about their willingness to waive their rights of first refusal to allow a transaction to be completed. We have been advised by a number of the more significant Crocus investees that they will not agree to this waiver without an Order of the Court and that they will vigorously oppose any application by the Receiver for such an Order. The Receiver is currently of the view that it is not in the best interest of the Crocus shareholders to put the administration of the receivership on hold while this matter is litigated. We are advised by counsel that any application to the Court to resolve this matter,

including final disposition of all appeals and rights of appeal, would take a minimum of 9 – 12 months. As indicated, we expect to continue to have dialogue with GrowthWorks, as well as other parties, to ascertain whether there is any opportunity to complete a transaction. For the present, we are continuing with the Receiver’s plan approved by the Court in October 2005.

# 10.0 Legal

## **10.1 RCMP Investigation**

Pursuant to Receiver's Report #8 and the Order of the Court dated October 19, 2005, the RCMP continue their investigation. It is anticipated that a meeting will be held with the RCMP by the end of April to receive an update on the progress of their investigation.



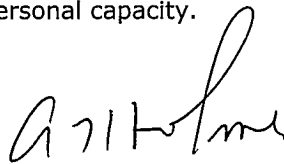
# 11.0 General

A Statement of Receipts and Disbursements from June 28, 2005 to March 31, 2006 is attached as Appendix 3.

The Receiver will continue to keep the Court apprised of ongoing developments with the next quarterly report to be filed prior to July 15, 2006.

Respectfully submitted this 17th day of April, 2006.

**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 "A.R. Holmes". The signature is written in a cursive style with a large, looping initial "A".

Per: A.R. Holmes  
Senior Vice-President

# Appendices

# Appendix 1

**Crocus Investment Fund**  
**Consolidated Statements of Net Assets**  
**As at March 31, 2006 (unaudited)**

**ASSETS**

Investments in Manitoba Businesses  
Less: Allowance for investment guarantees  
Net Investments in Manitoba Businesses  
Investments in marketable securities  
Investments in marketable securities - sequestered

	<b>March 31, 2006</b>
\$	61,246,475
	(500,000)
	<u>60,746,475</u>
	21,360,791
	<u>1,500,000</u>
	<u>83,607,266</u>
	657,766
	2,043,984
	23,031
	712,227
	<u>11,980</u>
	<u>87,056,254</u>

Cash

Accounts receivable

Prepaid expenses

Capital assets

Deferred costs

**LIABILITIES**

Accounts payable and accrued liabilities

**NET ASSETS**

	1,474,161
\$	<u>85,582,093</u>

**SHAREHOLDERS' EQUITY**

Share capital

Deferred selling costs adjustment

Deficit

	188,014,669
	(9,134,637)
	<u>(93,297,939)</u>
\$	<u>85,582,093</u>

**"GAAP" NET ASSET VALUE PER CLASS "A" COMMON SHARE and**

**SERIES TWO CLASS "I" SPECIAL SHARE**

\$	<u>5.99</u>
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**Consolidated Statements of Operations**  
**For the period ended March 31, 2006 (unaudited)**

	<b>Quarter Ending</b>	<b>Year to Date</b>
	<b>March 31, 2006</b>	<b>March 31, 2006</b>
<b>REVENUE</b>		
Interest and dividend revenue	\$ 534,257	\$ 1,060,148
Management fees	190,296	288,625
	<u>724,553</u>	<u>1,348,773</u>
<b>OPERATING EXPENSES</b>		
Amortization of Capital Assets	37,220	74,585
Indemnification Insurance	100,000	100,000
Occupancy	96,859	197,142
Administrative, Office and Investment	185,775	405,926
Legal - Receivership	237,869	372,008
Legal - Indemnification	107,358	347,358
Receiver and Manager	310,235	645,681
Salaries and Benefits	146,585	350,327
	<u>1,221,901</u>	<u>2,493,027</u>
	<u>(497,348)</u>	<u>(1,144,254)</u>
	<u>396,143</u>	<u>2,015,405</u>
	<u>(101,205)</u>	<u>871,151</u>
Provision for income taxes	15,000	-
	<u>(86,205)</u>	<u>871,151</u>
<b>INCOME BEFORE NON-RECURRING ITEMS</b>		
Amount realized in excess of June 28, 2005 carrying value		
<b>INCOME BEFORE INCOME TAXES</b>		
Provision for income taxes		
<b>INCOME FOR THE PERIOD</b>		
	\$ (86,205)	\$ 871,151

**Consolidated Statements of Deficit**  
**For the period ended March 31, 2006 (unaudited)**

**DEFICIT-Beginning of period, September 30, 2005**  
Income for the period  
**DEFICIT-END OF PERIOD**

<b>March 31, 2006</b>	
\$	(94,169,090)
	871,151
\$	<u>(93,297,939)</u>

**Consolidated Statements of Changes in Net Assets**  
**For the period ended March 31, 2006 (unaudited)**

**NET ASSETS - September 30, 2005**

**Operating activities**

Income for the period

**NET ASSETS - END OF PERIOD**

<b>March 31, 2006</b>	
\$	84,710,942
	871,151
\$	<u>85,582,093</u>

**Consolidated Statements of Investment Portfolio**  
**As at March 31, 2006 (unaudited)**

**Investment Portfolio by Sector**

**Science, Medical and Technology**

Biovar Life Support Inc.	Class "B" common shares	-	500,000
	Promissory note	350,000	-
Diamedica Inc.	Common shares	-	425,000
Genesys Venture Inc.	Voting common shares	-	125,000
	Promissory note	100,000	-
Manitoba Science & Technology Fund	Class "A" limited partnership units	-	2,702,000
Medicure Inc.	Common shares and warrants	-	850,000
Novra Technologies Inc.	Common shares and warrants	-	1,249,999
	Debenture	777,197	-
Online Enterprises Inc.	Class "A" common shares	-	5,500,003
ST Partnership	Limited partnership units	-	802,565
<b>Total Science, Medical and Technology -</b>		<b>1,227,197</b>	<b>12,154,567</b>

**Manufacturing**

Carte International Inc.	Common shares	-	1,220,000
	Debenture	4,000,000	-
Cando Contracting Ltd.	Class "A" common shares	-	1,816,141
Enterprise Swine Systems Ltd	Debenture	600,000	-
Enterprise Swine Systems II Ltd	Debenture	267,086	-
ESS Holding Company	Common shares	-	600,000
	Guarantee	557,512	-
Mondetta (Dimensions 100 Inc)	Series "I" class "A" common shares and warrar	-	800,001
Westward Industries Limited	Common shares	-	990,000
Other	Debenture	154,000	-
	Each individually less than \$100,000	-	46
<b>Total Manufacturing -</b>		<b>5,578,598</b>	<b>5,426,188</b>

**Consolidated Statements of Investment Portfolio**  
**As at March 31, 2006 (unaudited)**

**Investment Portfolio by Sector**

**Entertainment and Hospitality**

	Debt Cost	Equity Cost
	\$	\$
Canad Corporation of Canada Inc.	-	5,000,000
Crocus Hockey Holdings Inc.	46,939	-
D.L.J.S. Enterprises Ltd.	-	5,067,524
Minds Eye Pictures	25,000	-
	145,000	-
	-	3,000,000
	679,361	-
	1,931,459	-
Muddy Waters Smokehouse	134,315	-
Pasta La Vista	-	75,671
	136,835	-
	172,965	-
True North Holding Company	-	400,000
Winnipeg Goldeyes Baseball Club Inc.	-	576,851
	434,149	-
Winnipeg Spaghetti Corp.	644,298	-
W.O.W. Hospitality Concepts Inc.	1,620,666	-
Other	-	50,000
<b>Total Entertainment and Hospitality -</b>	<b>5,970,987</b>	<b>14,170,046</b>

Each individually less than \$100,000  
**Sector Percentage: 27%**



**Consolidated Statements of Investment Portfolio  
As at March 31, 2006 (unaudited)**

**Investment Portfolio by Sector**

**Financial Services**

Manitoba Property Fund  
National Leasing Group Inc.  
Wellington West Capital Inc.

Limited partnership units  
Class "A" common shares  
Common shares  
Debenture

**Total Financial Services -**

**Sector Percentage: 12%**

	Debt Cost \$	Equity Cost \$
	-	928,462
	-	6,017,647
	-	1,870,700
	500,000	-
	<b>500,000</b>	<b>8,816,809</b>

**Service**

Mid Canada Production Services Inc.  
POS Systems Ltd.

Common shares  
Debenture and warrants

**Total Service -**

**Sector Percentage: 1%**

	-	290,000
	750,257	-
	<b>750,257</b>	<b>290,000</b>

**Non Operating**

COH Holdings (US) Inc.  
(formerly OpTx Corporation)  
eZedia Inc.

Series "B-1" convertible preferred shares  
Common shares and warrants  
Common shares and warrants

Debenture  
Promissory note  
Guarantee

**Total Non Operating -**

**Sector Percentage: 27%**

	-	4,839,356
	-	3,705,334
	-	4,938,938
	6,442,093	-
	100,000	-
	523,433	-
	<b>7,065,526</b>	<b>13,483,628</b>

**TOTAL**

**Sector Percentage: 100%**

	<b>21,092,565</b>	<b>54,341,238</b>
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**INVESTMENTS IN MANITOBA BUSINESSES AT COST**

**75,433,803**

**NET UNREALIZED DEPRECIATION OF**

**INVESTMENTS IN MANITOBA BUSINESSES**

**(14,687,328)**

**NET INVESTMENTS IN MANITOBA BUSINESSES**

**60,746,475**

**Consolidated Statements of Investment Portfolio  
As at March 31, 2006 (unaudited)**

**BONDS AND DEBENTURES**

Province of Manitoba  
Manitoba Hydro  
City of Winnipeg

<u>Par Value</u>	<u>Amortized Cost</u>
\$200,000	\$200,000
811,000	811,000
600,000	597,360
<u>1,611,000</u>	<u>1,608,360</u>

**SHORT TERM INVESTMENTS**

Bank of Montreal Guaranteed Investment Certificates  
RBC Guaranteed Investment Certificates  
Assiniboine Credit Union  
Scotia Bank  
Canadian Western Bank  
HSBC

1,064,125	1,064,125
14,103,316	14,103,316
3,654,027	3,654,027
1,058,327	1,058,327
1,000,000	1,000,000
250,000	250,000
<u>21,129,795</u>	<u>21,129,795</u>
<u>22,740,795</u>	<u>22,738,155</u>

**NET UNREALIZED APPRECIATION OF INVESTMENTS  
IN MARKETABLE SECURITIES**

122,636

**INVESTMENTS IN MARKETABLE SECURITIES**

\$22,860,791

**Notes to the Consolidated Financial Statements  
For the period ended March 31, 2006 (unaudited)**

**"GAAP" 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:

	March 31, 2006
Net assets - end of year	\$ 85,582,093
Less: Attributed to Class "L" Special	<u>(200)</u>
Balance attributed to the Class "A"	<u>85,581,893</u>
Number of issued Class "A" Common	14,220,000
Number of issued Series Two Class "I"	<u>69,126</u>
"GAAP" net asset value per Class "A" Common Shares and Series Two Class "I" Special Shares	<u>14,289,126</u> <u>\$5.99</u>

## Appendix 2



March 13, 2006

Deloitte & Touche Inc.  
360 Main Street  
Suite 2300  
Winnipeg MB R3C 3Z3  
Canada  
www.deloitte.ca

**To the Shareholders of Crocus Investment Fund:**

Dear Sir/Madam,

As you are aware, pursuant to an Order of the Manitoba Court of Queen's Bench, Deloitte & Touche Inc. (the "Receiver" or "Deloitte") was appointed Receiver and Manager of Crocus Investment Fund ("Crocus" or the "Fund") effective June 28, 2005. The purpose of this letter is to provide shareholders with a brief update regarding the status of the Fund.

**Activities of the Receiver and Manager**

The primary function of the Receiver is to protect, preserve and realize on the assets of the Fund in an orderly way. In carrying out this function, there have been numerous complex legal and operational issues faced by the Receiver. Reports on the various issues and subsequent Court Orders have been posted on the Deloitte website at [www.deloitte.com/ca/crocusfund](http://www.deloitte.com/ca/crocusfund).

Upon the appointment of the Receiver, the Manitoba Federation of Labour ("MFL") indicated that it required time to consider whether other alternatives existed which would result in a better return for the Crocus shareholders. In the fall of 2005, the MFL advanced a proposal by GrowthWorks Ltd. (the "GrowthWorks proposal") as an alternative to the plan outlined by the Receiver which is detailed in Receiver's Report #5 (the "Receiver's plan"). The Court considered both the proposal and the plan and in a decision delivered on October 27, 2005 rejected the GrowthWorks proposal and accepted the Receiver's plan.

GrowthWorks subsequently submitted a conditional offer to the Receiver for \$70.0 million. This offer was for the investment portfolio currently valued at \$60.0 million and cash of approximately \$24.0 million for a total asset value of \$84.0 million. The offer was not considered acceptable and was rejected. On March 9, 2006 GrowthWorks delivered a letter to Deloitte wherein it proposes to acquire all of the assets of Crocus under the terms of a definitive agreement to be negotiated between the parties (the "Proposal"). Deloitte will review the Proposal and may be able to report on it in Deloitte's next quarterly report to the Manitoba Court of Queen's Bench, which is to be filed by mid-April. In reviewing the Proposal, Deloitte must consider the interests of all parties and assess the potential impact.

As has been detailed in Receiver's Reports #5 and 5A, evaluating and responding to any proposal is not a simple process due to a number of factors including:

- The Crocus portfolio of investments consists primarily of minority interests in small privately held companies, which by their nature can be difficult to value and sell.
- Crocus entered into varied and complex legal agreements with virtually all of its Investee companies, many of which have provisions for rights of first refusal and confidentiality.
- Crocus has indemnified various third parties who are looking to the remaining assets of Crocus to provide protection for any claims which may be brought against them.

The Receiver's plan, which is presently being carried out, is for an orderly sale of the Crocus investment assets. The proceeds from the sale of the investments, net of costs, are being held in trust by the Receiver pending further Order of the Court. The Receiver has retained staff and consultants to assist with the management and disposition of the investments and the Receiver continues to correspond with numerous parties interested in acquiring the investments. In addition, certain investee companies have brought forth various parties which they indicate may be interested in buying out Crocus' interest in the investee company. This process is ongoing and we anticipate that exit strategies will be negotiated with a significant number of the investee companies by late summer.

**Status of Shares**

As a result of the decision by Crocus to suspend the rights of the Class A shareholders to request redemption of their shares (effective December 10, 2004), the Receiver is unable to redeem shares. However, the Receiver is of the view that it would like to begin to return capital to the shareholders of Crocus. In that regard, Deloitte has requested the Court to authorize an initial interim distribution to shareholders. Subject to Court approval and other statutory and

regulatory matters being satisfied, the first distribution would equate to \$1.00 per Class A share. Subject to further approvals by the Court, additional distributions may be made as cash becomes available. The Court set a date of March 29, 2006 to hear this matter. A number of parties may oppose the proposed distribution, details of which are outlined in Receiver's Report #6.

#### **Class Action Proceedings**

As many of you may be aware, a Class Action lawsuit was initiated against Crocus Investment Fund and various other parties including former Officers and Directors of Crocus, Crocus' lead broker and auditors, and the Manitoba Securities Commission. Deloitte has no direct involvement in the Class Action. Currently, only those shareholders of Crocus who bought their Crocus shares after October 1, 2000 are eligible to benefit from the Class Action. If the Class Action results in a payment from Crocus to the Class Members, such payment, to the extent not covered by insurance, will reduce the amount available to those shareholders of Crocus who are currently not eligible to benefit from the Class Action.

This Action is in its early stages and the Class has yet to be certified. Recently, the Court ruled that Crocus is responsible for paying the ongoing legal costs of the various Officers and Directors sued in the Class Action as well as those parties named in the regulatory proceeding brought by the Manitoba Securities Commission ("MSC"). Payment of these costs, to the extent they are not covered by insurance, will also reduce the amount which is ultimately available to Crocus' shareholders.

Crocus had maintained insurance coverage for Officers and Directors to cover claims which may be filed; the coverage is limited to \$5.0 million with a \$100,000 deductible. Presently, the insurer has denied coverage for those legal costs related to the MSC investigation as well as the investigation of the Office of the Auditor General ("OAG"). The Receiver has filed a statement of claim against the insurer asking the Court to declare that the legal costs associated with the MSC and OAG to be covered by the policy of insurance. In the meantime, as a result of the Court Order these legal costs are to be paid out of the assets of Crocus.

As indicated, it is the Receiver's mandate to protect, preserve and realize on the assets of Crocus for those parties entitled to share in the distribution of the proceeds of realization. Deloitte is currently considering various alternatives to ensure that it effectively discharges this mandate.

#### **Shareholder Services**

The Receiver has maintained a shareholder services group. For your records we have enclosed a statement of your current holdings. Should you have specific questions regarding your Crocus account or have a change of address, please contact shareholder services at (204) 925-7788 or 1-866-893-8710.

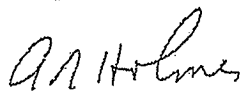
#### **Further Information**

Further information and updates will continue to be posted on the Deloitte website at [www.deloitte.com/ca/crocusfund](http://www.deloitte.com/ca/crocusfund). The Receiver will endeavor to keep all shareholders apprised of the progress of the receivership and we would encourage you to check our website for updates on a regular basis.

Should you have any questions respecting this matter, please visit the website or alternatively call the help line at 1-866-574-3535.

Yours truly,

**Deloitte & Touche Inc.,**  
in its capacity as Receiver/Manager  
of Crocus Investment Fund and not  
in its personal capacity.

  
Per: A. R. Holmes  
Senior Vice President

# Appendix 3

**Deloitte & Touche Inc., Receiver and Manager of  
CROCUS INVESTMENT FUND  
Statement of Receipts & Disbursements  
For the Period June 28, 2005 to March 31, 2006**

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**Receipts**

Contract Back Office Services	\$	110,503
Dividends-Portfolio		494,458
Insurance Premium Refund		6,294
Insurance Claim		14,368
Interest-Portfolio		239,323
Interest-Short Term Investments		655,100
Investment Principal Repayments		175,277
Proceeds on Disposal of Investments		2,973,425
Rent/Sub-Lease		107,925
Sundry		87,380
Pre-Receivership Accounts Receivable		346,690

**Total Receipts**

5,210,745

**Disbursements**

Advances to Investees	\$	235,000
Computer, Telephone, and Office Expense		234,040
Consulting Fees		40,507
Guarantee of Investee Indebtedness		1,000,000
Insurance - Indemnification		100,000
Investment Expenses		51,446
Legal Fees		493,967
Payroll & Benefits		760,734
Receiver and Manager Fees		1,036,301
Rent		265,226
Shareholder Services		93,042
Pre-Receivership Payables and Accruals		744,939

**Total Disbursements**

5,055,200

**Excess Receipts over Disbursements**

\$ 155,545

**Opening Short Term Investments & Bonds**

\$ 23,363,012

**Closing Short Term Investments & Bonds**

\$ 23,518,557

Represented by:

Short Term Investments and Bonds	\$	22,018,557
Sequestered Funds		1,500,000

\$ 23,518,557