

# Crocus Investment Fund

December 31, 2009 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 September 30, 2009 Quarterly Report.

## 2.0 Activities of the Receiver

The following summarizes the major activities of the Receiver since September 30, 2009:

- Preparation of the September 30, 2009 and December 31, 2009 Quarterly Reports.
- Administering the interim distribution of funds as outlined in the Court Order of September 4, 2009.
- Preparation and finalization of correspondence and forms required for the distribution.
- Testing the software written for the distribution.
- Corresponding with Concentra Financial and Canada Revenue Agency regarding issues arising from the distribution of funds.
- Corresponding with counsel regarding various distribution issues.
- Corresponding with numerous shareholders, brokers, dealers and intermediaries regarding the distribution.
- Monitoring the status of the Manitoba Securities Commission ("MSC") hearings brought against the former members of the Board of Directors of Crocus and various other parties.
- Meeting and corresponding with various parties interested in acquiring certain of the investee companies.
- Supervising and directing Crocus staff retained by the Receiver.
- Meeting and corresponding with individual Crocus shareholders.
- Regular monitoring of the investee companies and discussions with various stakeholders of the investees with respect to possible courses of action regarding Crocus' investment in the investees.
- Ongoing discussions and negotiations with certain of the investee companies about possible exit strategies for Crocus.
- Meetings and discussions regarding debt agreements with certain of the investee companies.

- Fulfilling the duties of Crocus as General Partner of the Manitoba Science & Technology Fund (“MS&T”).
- Corresponding with pension authorities and the plan actuary about wind-up of the Crocus pension fund.
- Discussions and correspondence with Crocus’ landlord and sub-tenants regarding ongoing tenancy and sub-tenancy issues.

## 3.0 Operations

The ongoing activities of Crocus consist of investment monitoring, financial reporting, shareholder services and tax reporting. The Receiver no longer employs any former Crocus employees but has sub-contracted certain information technology and back office services.

The Receiver continues to occupy approximately one half of the 5<sup>th</sup> floor of the Crocus premises at 211 Bannatyne Avenue. The balance of the space which Crocus leased has been sublet.

## 4.0 Financial position

Financial statements for Crocus have been prepared for the first fiscal quarter ended December 31, 2009 and are attached as Appendix 1. The statements are internal and unaudited and have been prepared in a manner consistent with the financial information that was formerly provided to Crocus shareholders, with the exception that the portfolio valuation is carried at the June 28, 2005 value, unless the investment has been realized upon. The June 28, 2005 value was derived from the external valuations which were completed after Crocus ceased trading in December 2004.

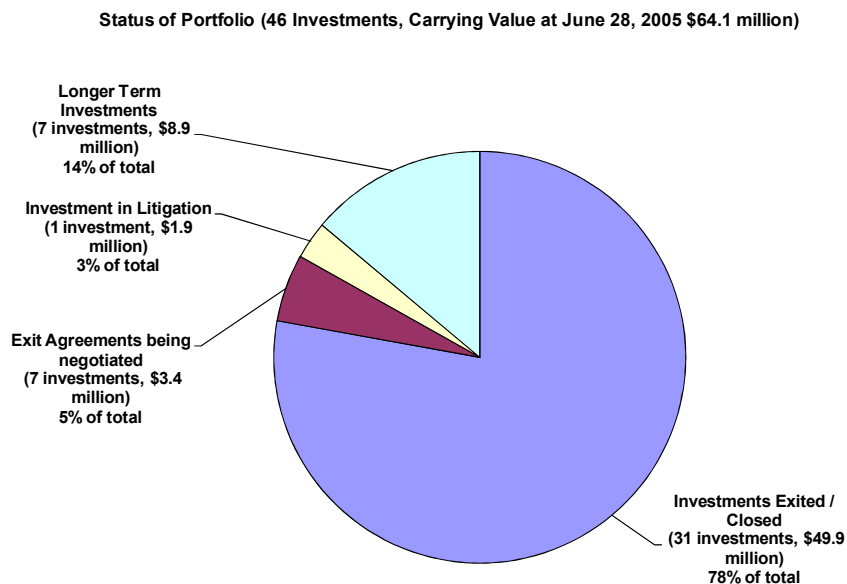
The following are the financial highlights for the first quarter ended December 31, 2009:

- Net loss for the quarter of approximately \$0.3 million.
- Investments in cash and equivalents (Guaranteed Investment Certificates and Government Bonds) of approximately \$12.5 million.
- Accounts receivable of approximately \$5.8 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 \$14.1 million.
- Accounts payable of approximately \$0.4 million.

# 5.0 Portfolio

## 5.1 Status and valuation

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



As noted in previous reports, 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, the Receiver continues to monitor and discuss exit strategies with many of the remaining investees. The position of the majority of the 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.

During the quarter the Receiver realized on its interest in Biovar Life Support Inc. Cumulatively to December 31, 2009, 31 of the 46 investments within the Crocus portfolio have been realized upon or are considered closed. There are 15 investments remaining.

In summary, since its appointment the Receiver has realized proceeds of approximately \$53.3 million for investments with a June 28, 2005 book value of approximately \$50.0 million representing a recovery of approximately 107%. Crocus' carrying value for these investments when it ceased trading in



December 2004 was approximately \$85.5 million, which would represent a recovery of approximately 62%. In addition, since its appointment the Receiver has also eliminated exposure on approximately \$2.3 million in guarantees that had been reserved.

## **5.2 Exit agreements being negotiated**

The Receiver continues discussions with a number of the investee companies regarding the possible exit of Crocus' interest. Currently there are seven (7) investees with a carrying value of approximately \$3.4 million where varying levels of discussions are taking place.

## **5.3 Investment in litigation**

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

## **5.4 Longer term investments**

Seven (7) investments with a carrying value of \$8.9 million are currently considered longer term investments. In the case of several of these investments the Receiver has entered into long term agreements for the repayment of amounts advanced by Crocus. For other investments, in the opinion of the Receiver, exit transactions with these investees in the short term are unlikely. The Receiver continues to monitor these investees and, where deemed appropriate, has taken Board positions.

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

## 6.0 Commitments and contingencies

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

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

## 7.0 Interim distribution

On September 4, 2009 the Court issued an Order authorizing a rateable interim distribution of approximately \$54.7 million to the Class A and Class I shareholders. The Court declined the Receiver's request for a proportionate reduction in the number of shares to reflect the interim payment.

Deloitte began the distribution during the week of October 12 to 16, 2009. Concurrent with the distribution Deloitte also began distributing the net proceeds of the Class Action settlements. Class A and Class I shareholders received \$3.83 per share from the approved distribution plus their portion of the Class Action settlement. Depending on the type of account held, it may be necessary for the shareholder to complete applicable transfer or deregistration forms prior to receiving their distribution. As at December 31, 2009 the Receiver had paid out approximately \$46.7 million or 85% of the authorized distribution.

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

## 8.0 Share value

The net asset value per Class A and Class I share ("share value") as at December 31, 2009 was \$2.27. As noted in previous Reports, the Receiver emphasizes that the share value is an accounting book value partially based on the June 28, 2005 carrying value of the investment portfolio.

Future events will determine the ultimate realizable value of the portfolio. Such matters may have a material effect on the share value which is ultimately available for distribution to Crocus shareholders. The future events identified to date include:

- Possible further increases/reductions in the value of the portfolio as a result of ongoing investee performance.
- The length of time taken to realize on the portfolio.
- Professional costs incurred by the Receiver and its counsel as a result of current and future litigation.
- Any provision for the costs of the difference between the head lease and subleases for the premises maintained by Crocus.
- Any additional guarantees or indemnities granted by Crocus which have not yet been identified.
- All other costs of monitoring the portfolio and realizing on the assets.

The Receiver will continue to provide updates on the share value in future Quarterly Reports.

## 9.0 Shareholder communication

The Receiver has continued to post Court Orders, Receiver's Reports, Quarterly Reports, Media Statements and shareholder letters as well as information related to the Class Action settlements on its website at [www.deloitte.com/ca/crocusfund](http://www.deloitte.com/ca/crocusfund).

# 10.0 General

A Statement of Receipts and Disbursements from June 28, 2005 to December 31, 2009 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-April 2010.

Respectfully submitted this 15th day of January, 2010.

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

A handwritten signature in black ink that reads "Steven Peleck". The signature is written in a cursive style with a prominent horizontal line across the top.

Per: S. P. Peleck  
Senior Vice-President

# Appendix 1 – Crocus financial statements as at December 31, 2009

**Crocus Investment Fund**

**Consolidated Statement of Net Assets**

**As at December 31, 2009 (unaudited)**

**ASSETS**

Cash and equivalents	\$ 12,490,700
Cash in Trust - Interim Distribution	7,909,045
Cash in Trust - Class Action Settlements	998,621
Investments in Manitoba businesses	<u>14,137,932</u>
	35,536,298

Accounts receivable	5,843,609
Capital assets	<u>364,168</u>
	41,744,075

**LIABILITIES**

Accounts payable and accrued liabilities	369,623
Due to Shareholders - Interim Distribution	7,909,045
Due to Shareholders - Class Action Settlements	<u>998,621</u>

**NET ASSETS**

\$ 32,466,786

**SHAREHOLDERS' EQUITY**

Share capital	\$ 188,014,669
Deferred selling costs adjustment	(9,134,637)
Interim Distribution - Class "A" shares	(54,462,836)
Interim Distribution - Class "I" & "L" shares	(264,955)
Deficit	<u>(91,685,455)</u>

\$ 32,466,786

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

\$ 2.27



**Crocus Investment Fund**

**Consolidated Statement of Operations**

**For the period ended December 31, 2009 (unaudited)**

	<b>Quarter Ended</b>	<b>Year to Date</b>
	<b>December 31, 2009</b>	<b>December 31, 2009</b>
<b>REVENUE</b>		
Interest and Dividend Revenue	\$ 132,552	\$ 132,552
Management Fees & Other Recoveries	179,885	179,885
	<u>312,437</u>	<u>312,437</u>
<b>EXPENSES</b>		
Amortization of Capital Assets	25,138	25,138
Occupancy	92,169	92,169
Administrative, Office and Investment	98,215	98,215
Legal	46,177	46,177
Receiver and Manager	351,733	351,733
Salaries and Benefits	41,721	41,721
	<u>655,153</u>	<u>655,153</u>
<b>OPERATING INCOME BEFORE NON-RECURRING ITEMS</b>	<u>(342,716)</u>	<u>(342,716)</u>
Amount realized in excess of June 28, 2005 carrying value	3,564	3,564
<b>LOSS FOR THE PERIOD</b>	<u>\$ (339,152)</u>	<u>\$ (339,152)</u>

**Crocus Investment Fund**

**Consolidated Statement of Deficit**

**For the period ended December 31, 2009 (unaudited)**

	<b>December 31, 2009</b>
<b>DEFICIT-Beginning of period, September 30, 2009</b>	\$ (91,346,303)
Loss for the period	<u>(339,152)</u>
<b>DEFICIT-END OF PERIOD</b>	<u><u>\$ (91,685,455)</u></u>

**Consolidated Statement of Changes in Net Assets**

**For the period ended December 31, 2009 (unaudited)**

	<b>December 31, 2009</b>
<b>NET ASSETS - September 30, 2009</b>	\$ 87,533,729
Interim Distribution - Class "A" shares	(54,462,836)
Interim Distribution - Class "I" & "L" shares	(264,955)
Loss for the period	<u>(339,152)</u>
<b>NET ASSETS - END OF PERIOD</b>	<u><u>\$ 32,466,786</u></u>

**Crocus Investment Fund**

**Consolidated Statement of Investment Portfolio**

**As at December 31, 2009 (unaudited)**

**NET INVESTMENTS IN MANITOBA BUSINESSES**

4658702 Manitoba Ltd

Canad Corporation of Canada Inc.

Cando Contracting Ltd.

Diamedica Inc.

D.L.J.S. Enterprises Ltd.

Enterprise Swine Ltd.

Enterprise Swine II Ltd.

Genesys Venture Inc.

Manitoba Science & Technology Fund

Muddy Waters Smokehouse

Novra Technologies Inc.

Online Enterprises Inc.

ST Partnership

Winnipeg Goldeyes Baseball Club Inc.

W.O.W. Hospitality Concepts Inc.

**NET INVESTMENTS IN MANITOBA BUSINESSES**

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\$ 14,137,932

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**Crocus Investment Fund**

**Consolidated Statement of Investment Portfolio**

**As at December 31, 2009 (unaudited)**

**BONDS AND DEBENTURES**

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

**SHORT TERM INVESTMENTS**

Assiniboine Credit Union	52,080
HSBC	3,321,278
Scotia Bank	17,625,620
Other	26,984
	<u>21,025,962</u>

**CASH & EQUIVALENTS**

\$ 21,398,366

Represented by:

Cash and Equivalents	\$ 12,490,700
Cash in Trust - Interim Distribution	7,909,045
Cash in Trust - Class Action Settlements	998,621
	<u>\$ 21,398,366</u>

**Crocus Investment Fund**

**Notes to the Consolidated Financial Statements**

**For the period ended December 31, 2009 (unaudited)**

**Net Asset Value of Class "A" Common Shares and Series Two Class "I" Special Shares**

The net asset value of the Fund's issued Class "A" Common Shares and Series Two Class "I" Special Shares is calculated as follows:

	<b>December 31, 2009</b>
Net assets - end of year	\$ 32,466,786
Balance attributed to the Class "A" Common and Series Two Class "I" Special Shares	<u>\$ 32,466,786</u>
Number of issued Class "A" Common Shares	14,220,000
Number of issued Series Two Class "I" Special Shares	<u>69,126</u>
	14,289,126
<b>NET ASSET VALUE PER CLASS "A" COMMON SHARE and SERIES TWO CLASS "I" SPECIAL SHARE</b>	<u>\$ 2.27</u>

Appendix 2 –  
Statement of receipts and disbursements  
to December 31, 2009

**Deloitte & Touche Inc., Receiver and Manager of  
CROCUS INVESTMENT FUND  
Statement of Receipts and Disbursements  
For the Period June 28, 2005 to December 31, 2009**

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**Receipts**

Cash and Short Term Investments on Hand	\$ 23,363,012
Contract Back Office Services	518,463
Dividends-Portfolio	657,483
Income Tax Refund	131,991
Insurance Claim and Premium Refund	20,662
Interest-Portfolio	1,599,323
Interest-Short Term Investments	6,939,712
Investment Principal Repayments	1,225,834
Management Fees	1,020,576
Proceeds on Disposal of Investments	46,943,726
Rent/Sub-Lease	1,180,040
Sundry	223,714
Pre-Receivership Accounts Receivable	1,247,368
Class Action Settlements	6,812,978

**Total Receipts**

91,884,882

**Disbursements**

Advances to Investees	\$ 265,132
Capital Tax	200,257
Computer, Telephone and Office Expense	605,905
Consulting Fees	445,375
Insurance - Indemnification	122,078
Investee Guarantee and Indemnification	1,344,677
Investment Expenses	194,625
Legal Fees	1,840,438
Legal Fees - Indemnification	799,352
Payroll & Benefits	1,735,550
Receiver and Manager Fees	5,059,321
Records Review	1,288,814
Rent	1,849,244
Settlements	620,000
Shareholder Services	645,936
Pre-Receivership Payables and Accruals	914,385

**Total Disbursements**

17,931,088

**Excess of Receipts over Disbursements prior to:**

73,953,794

Interim Distribution - Class "A" Shares	46,476,117
Interim Distribution - Class "I" & "L" Shares	264,954
Class Action Settlements	5,814,357

**Excess of Receipts over Disbursements**

\$ 21,398,366

Represented by:

Short Term Investments and Bonds	\$ 12,490,700
Cash in Trust - Interim Distribution	7,909,045
Cash in Trust - Class Action Settlements	998,621

\$ 21,398,366

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