

VCAA

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Membership Drive

The VCAA has embarked on an ambitious plan to expand our membership and our sphere of influence. Our members range from senior veterans of the VC and private equity industries to the next generation of venture capital firms, private equity investors and angels who are driving the technology deals in the Alberta economy. We also welcome service providers that work with VC and PE firms to join our association.

On behalf of our members, we generate opportunities, events and programs that provide:

- Dialogue among our members, and between the VC community and related industries and economic sectors.
- Networking opportunities at numerous VCAA events that are designed to facilitate introductions, connections and greater deal flow among VC industry players and related industries in Alberta and across Canada.
- Advocacy of the critical role that venture capital plays in the Alberta economy.
- On behalf of our members we converse with government officials (municipal, provincial and federal), regulatory bodies, media and others so that they understand the importance of what we do and can make informed decisions that nurture the health of Alberta's VC industry.

If you would like to join the VCAA, please contact Rebecca Giffen at rebecca.giffen@venture-edge.com





A message from the Executive Director—Chair

I hope everyone had a great summer. Welcome back! Over the summer, the VCAA hosted its first ever stampede networking event where we enjoyed lunch and the rodeo finals. We were lucky enough to have covered seats so the rain that day didn't bother us. Thanks to everyone who attended. We are looking to make this an annual event.

I would like to welcome our two new board members, Art Robinson of 32 Degrees Capital and Brad Johns of Yaletown Venture Partners. Thanks also to Shawn Abbott, Gary Bantle, Wally Hunter, Brad Pierce and Aki Georgacacos for once again serving on the board of the VCAA. Thanks also to Cole Orobetz and Randi Lethebe of Avrio Ventures for taking care of the VCAA finances.

I would also like to welcome new members Bennett Jones, Blackjack Investments, Cenovus, Collins Barrow, and Gowlings. The VCAA has a strong membership base of Venture Capital Firms that do business in Alberta and is further looking to expand in the coming months. We encourage all existing members to help us expand our membership.

During the coming year the VCAA will be hosting its third annual Conference & Ski Day at Chateau Lake Louise. Please mark your calendars for February 27 and 28, 2013. Watch your inbox or check out www.vcaa.ca for more details.

I look forward to continuing to work with all of you this year.

Rebecca Giffen

Call for news article submissions

We invite our members to submit news articles to be published on our website and various social media. Please submit the news article to the following email:

vcaainfo@gmail.com

Thank you!



VCAA The Voice of Venture Capital

The Venture Capital Association of Alberta (VCAA) is the hub of VC activity in Alberta. Our mission is to propel the growth of Alberta's VC and technology industries by serving the needs of players in venture capital, private equity, angel and related communities. Our members invest capital and provide expertise primarily in the sectors of: Information and Communications Technology (ICT), Clean and energy technologies and Agriculture/bio and life sciences.

We work to:

- Increase the flow of risk capital into Alberta.
- Increase the number of profitable investment opportunities available to our members.
- Provide top tier professional development opportunities to those in the VC sector.
- Ensure that our membership is broad and includes those from the VC and technology sectors, those industries that directly service the VC sector, and affiliates.

Upcoming Events



Professional development is an area of increasing focus. We produce events and programs through which our members expand their knowledge of VC industry trends, issues and emerging research.

Startup Calgary Launch Party – November 14, 2012

Startup Calgary is gearing up for its Annual Launch Party. Last year's event was amazing with over 50 startups applying to showcase, 350+ people in attendance and a full night of good times! VC's are asked to plan to attend the event and get the word out to startup companies to be part of the showcase. Applications for the showcase are due by Friday October 12, 2012. Visit www.startupcalgary.ca for more details.

Startup Edmonton Launch Party – November 15, 2012

Save the date for the 3rd annual Startup Edmonton Launch party. Visit www.startupedmonton.com for more details.

VCAA Conference and Ski Day – February 27 & 28, 2013

The VCAA will also be hosting its annual conference and Ski day again in 2013. Watch www.vcaa.ca and your inbox for details.

2013 CVCA Conference

The VCAA is a supporter of the 2013 CVCA conference which will take place May 22-24, 2013 in Banff, Alberta at the Fairmont Banff Springs Hotel. Please visit www.cvca.ca for more details.

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Department of Finance Consultations on Funding High Growth Firms in Canada

Recognizing the impact that venture capital funding has on helping businesses grow in the early stages of their development, the Government of Canada's Economic Action Plan 2012 said it would make available \$400 million to help increase private sector investments in early stage risk capital, and to support the creation of large-scale venture capital funds led by the private sector. The government stated goal is to increase the capital and expertise available for growing, innovative firms while focusing resources on those that are likely to become global leaders.

This past summer the Department of Finance launched consultations which sought input on the financing needs of high-growth firms in Canada, the factors that influence private sector participation in venture capital, and the role that governments can play in developing an environment that supports sustainable private-sector-led venture capital.

The questions asked by the department included:

- What are the key challenges facing high-growth firms in Canada in accessing the capital they need to innovate?
- What are the unique challenges confronting early- or late-stage companies or those in different industry sectors?
- What barriers do Canadian and international investors (e.g., financial institutions, pension funds, endowments) face in participating in venture capital markets?
- Should a priority be placed on attracting corporate strategic investors, foreign venture capital participation, or some other form of private sector investment?
- Does Canada have the right mix of large-scale and small-scale funds?
- Should a portion of public support target any particular stage of company development?
- What criteria should the Government consider in allocating the new resources to support venture capital in order to meet the objectives outlined above?

Some of the more frequent (though not surprising) comments submitted were (paraphrasing in some instances):

- There is too little seed and early stage capital available.
- There is too little institutional funding made available for this asset class.
- Canadian funds lack the staying power to fund the full growth cycle of innovative companies and are forced to sell or be diluted by larger international funds too soon in the cycle.
- Canadian funds should be larger and incentives are needed to encourage this.
- Some public support or tax incentive might be considered for early or seed stage investments.

Apart from an announcement in late July that Jim Flaherty was going to travel to San Francisco, California and Boston, Massachusetts to hold discussions with U.S. financial leaders aimed at



Department of Finance Consultations on Funding High Growth Firms in Canada

highlighting Canada's growing reputation as an investment destination and encouraging more private sector investment in venture capital, there has been no further update from the department as to the results of its consultations.

Stay tuned.

(Prepared with the assistance of Brad Pierce and Andrew Pozzobon of Borden Ladner Gervais LLP)

Notes on Crowd Funding in Canada

The status of crowd funding in Canada is that it could feasibly be permitted under the private placement offering memorandum ("OM") exemption in each province other than Ontario (as Ontario does not have this exemption). However, no one appears to be doing it yet in Canada.

The general consensus appears to be that crowd funding is unlikely to occur in Canada without legislation similar to the recently enacted US *JOBS Act*. However, some writers believe the crowd funding rules under the *JOBS Act* (once complete) may end up a lot like the Canadian OM rules, suggesting crowd funding could take off in Canada even without new legislation.

The current view is there may be some difficulties in using the OM exemption for crowd funding:

1. Alberta's OM exemption (and moreover, that of every other province except BC, New Brunswick, Nova Scotia and Newfoundland) restricts who may invest in an OM offering to "eligible investors". Non-eligible investors may invest to a maximum of \$10,000.
2. The OM exemption in every province requires audited financial statements - a significant cost for start-ups (the *JOBS Act* only requires audited financials for offerings of over \$500,000 in any one year).
3. Crowd funding intermediaries such as online funding portals are illegal unless registered under the applicable provincial securities laws. No province currently has rules for funding portals and apparently none have been registered yet in Canada.

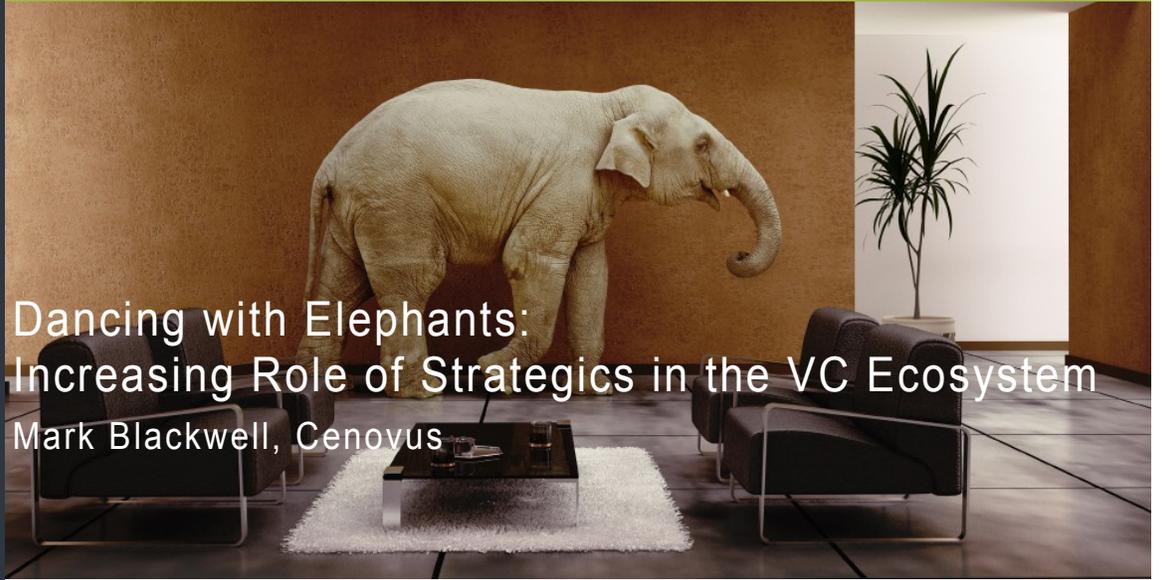
"eligible investor" includes:

- an individual alone or with a spouse who has at least \$400,000 in net assets;
- an individual with net income of \$75,000 for at least two years; or
- an individual and spouse with combined income of \$125,000 for at least two years.

Briefly, the crowd funding exemption under the US *JOBS Act* provides the following:

- private issuers may offer up to \$1 million per year in a crowd funding offering (anything above \$500,000 requires the issuer to provide audited financial statements)
- each investor is limited to the greater of \$2,000 and 5% of annual income or net worth less than \$100,000 per year (higher limits apply for higher net-worth individuals).

(Prepared with the assistance of Brad Pierce and Craig Taylor of Borden Ladner Gervais LLP)



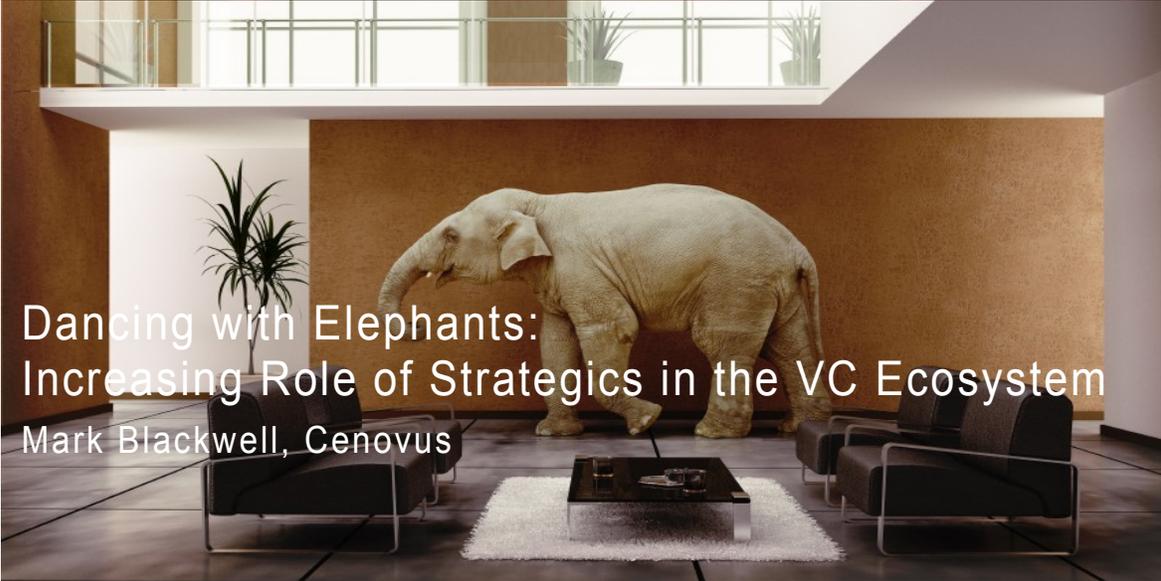
Dancing with Elephants: Increasing Role of Strategics in the VC Ecosystem

Mark Blackwell, Cenovus

The role that strategics are playing in the venture capital ecosystem is becoming more and more relevant as large corporations look to revive and/or increase efforts through involvement as limited partners (“LP”) in innovative funds or develop in-house direct investment portfolios. According to a report conducted by National Venture Capital Association in the United States corporations participated in ~16.3% of all venture deals in the first half of 2012, which was an increase from 14.7% in 2011 and 12.9% in 2010. This trend was seen clearly at this year’s SDTC Annual Investor Summit in Calgary where corporations represented ~57% of the collective investor group including corporate venturing arms from Cenovus, Chevron, Total, Conoco-Phillips, BP, P&G, Intel, Dow Chemicals, Siemens, Enbridge and Mitsui.

Albeit participation is increasing in broad-based corporate venturing, clean technology and energy innovation is one of the more active sectors for strategics for the following reasons:

1. **Capital Requirements:** the clean technology VC model is currently influx, as many start-ups are now requiring increased capital to prove out the technology before reaching a potential liquidity event. Although there are exceptions to this rule, clean technology companies are raising larger pools of private capital that require strategics to step in to lead or syndicate rounds. Examples include: Fisker Automotive (~\$989mm), Better Place (~\$780mm), BrightSource Energy (~\$535mm) and Elevance Renewable Sciences (~\$294mm)
2. **Commercialization Build Up:** by committing to an investment, corporations can play a vital role in field-testing and piloting technologies to assist in platform optimization and validation. One of the biggest assets of large corporations is the large technical and operations expertise and the ability to provide this support in the early days of the company is invaluable – if utilized and leveraged in the right fashion;
3. **Exit / Liquidity:** with shaky equity markets and the lack of investor confidence after the less than successful launch of biofuels IPO’s in the US, many companies including: Bright-Source, Elevance Renewable Sciences and Smith Electric Vehicles have had to pull IPOs, requiring additional private funding to continue operations;
4. **Market Access:** validation of technology is a preliminary means to allow market access to companies, however through joint development and innovative licensing arrangements large corporations such as Veolia and GE are playing an active role in taking technology platforms to their worldwide markets;



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Understanding the great opportunity corporations have in the ecosystem there is general hesitation by most financial investors on how the 'elephants' dance with the entrepreneurs through the critical stages of development. Weighing the benefits of customer validation and early adoption, the challenge of aligning the interests of strategic versus financial investors is sometimes a large challenge. This was very evident at the 2012 SDTC Forum as there was disagreement on some certain terms and conditions enacted by strategic investors, yielding unfavorable results for the collective investor group, including discounts and exclusivity. Therefore, one major area of discussion is how we can realign these differences to develop collective solutions that put the entrepreneurs interest at heart while still ensuring alignment with the investment mandates of the strategic and financial investors.

As a key player in this ecosystem, the Cenovus Environmental Opportunity Fund (CEO) Ltd. (a wholly owned subsidiary of Cenovus Energy Inc.) is playing an active role. Through CEO Ltd., we invest in early-stage companies that are developing technologies that could improve the environmental and financial performance of our operations or those that are developing innovations that may fundamentally change the energy industry. Since 2003, Cenovus has been investing in early-stage technology companies that provide innovative products and services to address today's environmental resource efficiency concerns. Our portfolio companies include: Saltworks Technologies, General Fusion, Atlantic Hydrogen, HiFi Engineering, Seal Well Inc & CVT Corp.

VCAA Board of Directors

The VCAA Board of Directors for 2012 includes:

Aki Georgacacos
Brad Pierce
Shawn Abbott

Art Robinson
Gary Bantle
Wally Hunter

Brad Johns
Rebecca Giffen

Thank you to our sponsors!



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