

# ONTARIO CAPITAL GROWTH CORPORATION

2011-2012 Annual Report



## Ontario Capital Growth Corporation (OCGC)

The Ontario Capital Growth Corporation (OCGC) was established by the *Ontario Capital Growth Corporation Act, 2008* and launched on February 27, 2009. The principal business of OCGC is to manage the interest of the Government of Ontario in the limited partnership known as the Ontario Venture Capital Fund LP (OVCF) and to manage and operate the Ontario Emerging Technologies Fund (OETF). OCGC is an agency of the Ministry of Economic Development and Innovation (MEDI).

# ABOUT ONTARIO CAPITAL GROWTH CORPORATION

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The \$205 million OVCF is a limited partnership between the Government of Ontario and leading institutional investors: Ontario Municipal Employees Retirement System (OMERS), Royal Bank of Canada, TD Bank Group, the Business Development Bank of Canada, and Manulife Financial. OVCF was established to invest primarily in Ontario-based and Ontario-focused venture capital and growth equity funds that support innovative, high potential companies. Ontario has committed \$90 million to the Fund, with the balance coming from its partner institutions.

OVCF is structured as a fund-of-funds, whereby investors pool their capital to invest in both a range of funds (predominantly venture capital funds) as well as co-investing directly into companies. OVCF is managed by Northleaf Capital Partners Ltd. As a limited partner in OVCF, OCGC does not have an active role in the fund's management.

OVCF was designed to foster innovation and investment in Ontario by making fund commitments and direct investments in high performing funds and companies that will enhance long-term investment returns and contribute to the creation of a globally competitive and self-sustaining venture capital industry in Ontario.

Launched in 2009, the \$250 million OETF is a direct co-investment fund established by the Government of Ontario to invest, alongside qualified investors, directly into innovative, high-potential Ontario companies in the following sectors: clean technologies; life sciences and advanced health technologies; and digital media and information and communication technologies. It is a discretionary, non-entitlement investment program making equity and quasi-equity investments.

OETF is a market-based fund that invests in companies seeking to secure investment rounds between \$1 million and \$15 million. The total amount that OCGC can invest in a single company over the life of the fund is up to \$25 million.

OETF is expected to be a self-sustaining investment fund by reinvesting any net capital or profits returned to it from its investments.

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# MESSAGE FROM THE CHAIR

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On behalf of the Board of Directors, I am pleased to present the 2011-2012 Annual Report of the Ontario Capital Growth Corporation (OCGC). This report highlights OCGC's progress in 2011-2012 towards filling the early-stage capital gap in the province and delivering on the government's innovation agenda.

Innovation is critical to bolstering Ontario's productivity and global competitiveness, facilitating economic growth and investment, and creating high-quality value-added jobs. It also contributes to long-term economic prosperity for Ontario. In today's uncertain economy and continuing tight venture capital markets in Ontario, Canada and abroad, private early-stage Ontario companies face significant challenges in securing sufficient capital to enable them to grow, prosper and compete in a global market.

OCGC, through the Ontario Venture Capital Fund (OVCF), plays an important role by attracting capital to OVCF sponsored venture capital funds and by deploying much needed capital to start-up businesses in three key sectors of the Ontario economy through the Ontario Emerging Technologies Fund (OETF): clean technology; life sciences and advanced health technologies; and digital media and information and communications technologies.

In 2011-2012, OCGC has made significant progress in helping emerging Ontario companies through the provision of much needed capital. The OVCF has successfully closed seven Ontario-based or Ontario-focused funds and six direct investments since inception. The OVCF plays an important role

as it aims to foster the development of best-in-class fund managers in order to generate superior returns for its lead investors. At this early stage in its lifecycle, OVCF is performing well, both at the fund level and the direct investment level. OVCF acts as an important catalyst in ongoing efforts to create a profitable, globally competitive and self-sustaining venture capital industry in Ontario and Canada.

The success of the model has been validated by the number of venture capital funds that have been able to achieve their fundraising objectives. OCGC will continue to act as a catalyst as the OVCF continues to actively pursue investment opportunities to complete the OVCF portfolio and support the overall venture capital ecosystem in Ontario.

On the direct investment side, OCGC approved approximately one new investment opportunity per month under the OETF over the last fiscal year. OCGC experienced a marked increase in investment activity from non-venture capital investors as OCGC continues to secure increased market confidence as a market investor in the Ontario venture capital ecosystem.

In addition to providing access to capital through OETF and OVCF, OCGC has embraced a role as a builder and supporter of the venture capital ecosystem, connecting a wide business network of industry partners, investors and entrepreneurs. OCGC has showcased Ontario companies to potential corporate investors and US venture capital investors – helping to increase the availability of early-stage capital for innovative companies in Ontario.

In 2011-2012, the OCGC Board of Directors saw the addition of the Ministry of Economic Development and Innovation's Deputy Minister, Wendy Tilford, to the position of Vice-Chair of the Board and the departure of George Ross as Vice-Chair. On behalf of the Board, I would like to acknowledge the dedication, passion, commitment and leadership of OCGC's outgoing founding Chair, George Ross, in establishing the early vision behind OCGC. In addition, a number of existing members were reappointed, ensuring the continuity of the Board expertise and its role in the successful implementation of OCGC's mandate.

I would also like to thank John Marshall, our CEO, as well as the staff at OCGC for their dedication, hard work and continued support over the past year in implementing an important component of the Ontario innovation agenda.

In closing, I would also like to recognize the ongoing input and support from OCGC's Qualified Investors and many other innovation-focused partners, whose active support and engagement are so critical to the success of early-stage Ontario companies.



**Selma M. Lussenburg**

Chair

June 19, 2012

# MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

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In 2011-2012, OCGC has built significant momentum in supporting effective solutions in response to the funding challenges and needs of innovative early-stage Ontario companies. OCGC has served as an important source of co-investment capital in the sectors that serve as the backbone of Ontario's innovation economy.

OCGC continues to see the effects of the full implementation of the Ministry of Economic Development and Innovation's overall risk capital strategy and its intended impact in the market. Since its inception, the OETF has approved 27 qualified investors, as well as five angel syndicates, closing a total of 26 initial co-investment transactions and leveraging \$2.1 for every \$1 invested. Much of this levered capital has been sourced from outside Ontario, providing much needed investment for Ontario companies. Investments managed under the OETF continue to be spread across the Fund's three target sectors – clean technology; life sciences and advanced health technologies; and digital media and information and communications technologies.

The OVCF fund mirrored the economic and fundraising realities of today's venture capital market. 2011-2012 saw a continued expansion in this market, following moderate year-over-year growth in the amount of capital invested in early-stage companies in 2010. However, both in Canada and in the U.S., venture capital fundraising is still relatively low compared to pre-2007 levels. While an increase in corporate interest and investing from industry leaders serve as strong validation of the strength of Ontario's innovation and economic ecosystem, the overall relatively low level of new capital flowing into venture capital funds remains an ongoing challenge.

OCGC manages the Province of Ontario's limited partner interest in the OVCF and continues to monitor OVCF's investments along with the other Limited Partners. During the 2011-2012 fiscal year, Northleaf Capital Partners, the manager of OVCF, closed a number of fund investments which had received lead order commitments from OVCF in prior years. Specifically, up until June 2012, the OVCF has closed seven Ontario-based or Ontario-focused funds and six direct investments.

Working closely with the Ministry of Economic Development and Innovation, OCGC has established a strong governance and fiscal responsibility structure, combined with operational improvements and policy initiatives to deliver on our strategic priorities and achieve long-term financial integrity. In consultation with the Minister of Economic Development and Innovation, we have updated and executed a new Memorandum of Understanding, following the Minister's appointment last fall.

In closing, I would like to acknowledge the valuable guidance and support provided by OCGC's Board of Directors in executing on OCGC's mandate. Let me also take this opportunity to thank the OCGC team for their critical contributions, continued dedication and hard work during the past year.



**John Marshall**  
President and Chief Executive Officer

June 19, 2012

# MEMBERS OF THE BOARD OF DIRECTORS

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## **Selma M. Lussenburg – Chair**

*Appointment to Board: February 2011*

Selma Lussenburg was appointed as the Chair of the OCGC Board on February 9, 2011. Ms. Lussenburg has extensive private sector experience with AT&T and OMERS, and a background in corporate governance, including serving as the Corporate Secretary to the OMERS Board of Directors.

Ms. Lussenburg is a member of the Advisory Board of the Canadian Innovation exchange, a director of the Association of Corporate Counsel (Ontario Chapter), Canadian Co-Chair of the Business Outreach Committee of the Trade Ministers NAFTA 2022 Advisory Committee on the Resolution of Private Commercial Disputes and an Executive Committee Member of the Canada-U.S. Law Institute Advisory Board.

Ms. Lussenburg holds degrees from the University of Ottawa (BA & LLB, Cum Laude) and the Australian National University (LLM), and she is a Chartered Director from the Directors College, DeGroote School of Business, McMaster University. Ms. Lussenburg is a member of the Institute of Corporate Directors and the Centre for Ethics and Corporate Policy.

## **Wendy Tilford – Vice-Chair**

*Appointment to Board: February 2012*

Wendy Tilford was appointed Deputy Minister of Economic Development and Innovation (MEDI) on December 5, 2011.

Prior to this appointment, Ms. Tilford held the position of Deputy Minister of Economic Development and Trade (MEDT) which she assumed when she joined the provincial government in early 2010. With a mandate to help grow a strong economy that provides jobs and prosperity for all Ontarians, Ms. Tilford led MEDT to successfully bring investments to the Province while developing and improving existing policies and programs.

She has held senior executive leadership positions in large, complex organizations, start-ups and

midsize companies such as Bell Canada, Norigen Communications and Canadian Standards Group.

Ms. Tilford has a Bachelor of Arts from the University of Toronto.

## **Tony Rockingham**

*Appointment to Board: February 2009*

Tony Rockingham was the Assistant Deputy Minister, Innovation and Commercialization Division, Ministry of Research and Innovation until his retirement in September 2011.

Previously, Mr. Rockingham was the Assistant Deputy Minister responsible for Ontario's conservation and strategic policy at the Ministry of Energy.

He studied Industrial Engineering at the University of Toronto and earned a Ph.D. in Mechanical Engineering from the Imperial College of Science and Technology in London, England.

## **Gadi Mayman**

*Appointment to Board: February 2009*

As CEO of the Ontario Financing Authority (OFA), Gadi is responsible for Ontario's borrowing and debt management strategy, its banking and capital markets relationships, and providing leadership and strategic advice on the commercialization of government assets. He is also CEO and Vice Chair of the Ontario Electricity Financial Corporation (OEFC).

Prior to joining the Ontario Ministry of Finance, Gadi worked at the Export Development Corporation in Ottawa and in the International Division of TD Bank. He received a B.A.Sc. in Industrial Engineering from the University of Toronto in 1981, and an MBA from the University of Western Ontario in 1988.

Gadi is also on the board of the Ontario Infrastructure and Lands Corporation, and is Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and Ontario Power Generation (OPG) Committee.

## **Tony Vander Voet**

*Appointment to Board: February 2009*

Dr. Vander Voet was the Acting Assistant Deputy Minister, Science and Research Division, Ministry of Research and Innovation until his retirement in 2009.

Since 1980, Dr. Vander Voet held a number of roles of increasing responsibility in several Ontario government ministries and agencies, including the Ministry of Northern Development and Mines, the Ontario Science Centre, the Ministry of Culture, Tourism and Recreation, the Ministry of Solicitor General and Correctional Services, the Ministry of Economic Development and Trade and the Ministry of Research and Innovation.

Dr. Vander Voet received his B.Sc. and M.Sc. in Chemistry from the University of Alberta and holds a Ph.D. in Chemistry from the University of Toronto.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Venture Capital Markets in 2011<sup>1</sup>

The Canadian venture capital market continued to experience growth in 2011 as \$1.59 billion was invested representing a significant 36.6% increase from the \$1.16 billion invested in 2010. Similarly the total number of Canadian companies receiving venture financing in 2011 showed a substantial gain totalling 453 compared with 361 in the prior year, a year-over-year increase of 25.4%. Though deal size, as compared to 2010, rose only marginally, the average investment per company increased approximately 9% to \$3.5 million from its previous \$3.2 million in 2010. While the \$1.59 billion of invested capital remains below levels seen between 2005 through 2007, it nonetheless represents positive traction from the over 10 year lows experienced in 2008 through 2010.

Similarly, though less substantial, 2011 growth was also seen in the US market where the \$28.5 billion (USD) invested represented a 23% increase over 2010 venture financings. US and Canadian markets continue to rebound from the recent financial crisis at a historically mirrored pace. (Figure 1) While 2011 showed increased revitalization for the Canadian venture market, access to capital remains

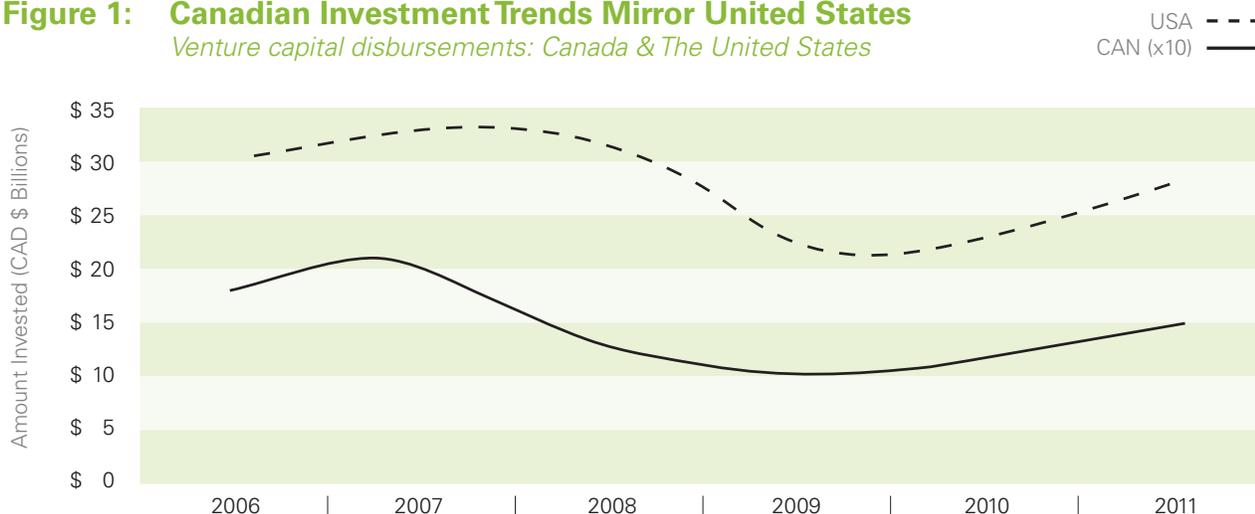
a challenge as the average amount invested per Canadian company remains well below their US counterparts, continuing a trend which has not seen any noticeable improvement since 2007. (Figure 2)

Foreign investment into Canadian start-ups rose significantly in 2011, with Canadian portfolio companies receiving \$476 million in 2011. This amounted to a 47.5% year-over-year increase and the highest total since 2007. Foreign investment in Ontario similarly showed major gains after experiencing record lows in 2010, accounting for only 18.7% of total investment. The \$205 million invested in Ontario returned foreign investment levels to a more statistically normal level of 36.5% of total capital. The resurgence of foreign venture capital investment in both Canada and Ontario highlights a continued interest by foreign firms in Canada's developing tech hubs, especially those in the Toronto, Waterloo and Ottawa regions.

Ontario venture capital financings also experienced considerable growth in 2011. In total, \$562 million was invested into 108 companies as compared to the \$437 million invested into 98 companies in 2010. The year-over-year growth continues to show recovery from 2009's record low of \$303 million invested. Along with the increase in deal count and

**Figure 1: Canadian Investment Trends Mirror United States**

*Venture capital disbursements: Canada & The United States*



Source: Thomson Reuters

1) All statistics, figures and data sourced from Thomson Reuters unless otherwise noted.

**Figure 2: Average Canadian Company Secures Less Than Its U.S. Counterpart**

*Amounts invested per company: Canada & The United States*



Source: Thomson Reuters

total invested capital, the level of capital invested per company continued to increase, as an average of \$5.2 million was invested in 2011 – a notable increase from \$4.5 million in the prior year and the highest since 2007.

Venture investment by industry in Ontario showed continued gains from the lows experienced in 2009. The communications and other IT sector once again led all others receiving \$372 million, accounting for 66% of Ontario’s 2011 total. The life sciences sector also built on the solid growth of 2010, increasing from \$86 million to \$113 million invested. Investment in clean tech companies however did not see continued growth in the past year, holding steady at \$74 million for 2011.

With the Ontario venture capital market continuing to see growth, it is interesting to note that smaller deals, those under one million dollars, as a percentage of total deals, have increased significantly. Between 2005 and 2007, smaller deals on average accounted for only 13.6% of total deals per year. Since 2008, deals less than one million dollars have accounted for nearly one-third of total deals transacted annually. This trend could be due to any number of possibilities, including an increase in the number of active angel investors supporting early start-up companies, as well as tighter controls and more stringent fiscal management by venture

capital fund managers in advancing smaller rounds of capital to the portfolio companies.

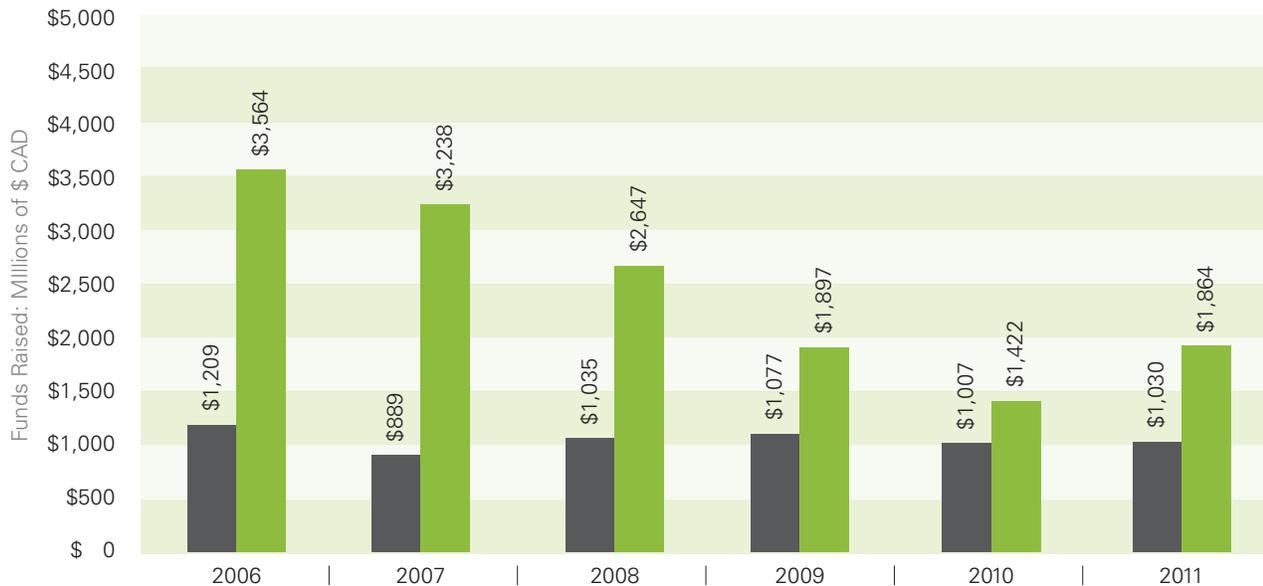
Venture capital fundraising in Canada continued to struggle in 2011. The \$1.03 billion of new capital commitments showed little deviation from the norm when averaged across the previous six years. (Figure 3) Reduced fundraising by private independent funds, amounting to only \$368 million in 2011, continues a trend which has seen a steady decline in recent years down nearly 50% from the \$719 million raised in 2008. Noteworthy however, Canadian fundraising appears to have been relatively unaffected through the recent financial crisis where US capital commitments have consistently dropped since 2006 and have only in 2011 begun to rebound and remain still well below pre-crisis levels.

Despite the continued fundraising challenges facing Canada in 2011, two Ontario-based funds with lead commitments from OVCF closed. A further three funds supported by OVCF commitments have closed in early 2012. Since OVCF’s 2008 inception, seven Ontario-based/Ontario-focused funds supported by OVCF commitments have closed. This represents an important success during a very challenging fundraising environment. Due in no small part to OVCF’s commitments, 2012 is shaping out to be a positive year for Canadian fundraising with \$742 million having already been raised in Q1. This value

**Figure 3: Canadian Fundraising Holding Steady**

*New Capital Commitments By Nation*

USA (x0.10) ■  
CAN ■



Source: Thomson Reuters

is nearly double the amount raised during the first quarter of 2010 and, should this pace continue, could lead to a break out year similar to 2005, which saw in excess of \$1.7 billion raised.

While venture financings continued to build on the gains of the previous year, the same cannot be said for Canadian exit activity. The number of venture-backed exits retreated in 2011. In total there were 27 exits from venture-backed companies in 2011, down 31% from the 39 experienced in 2010. Mergers and acquisitions (M&A) accounted for the decrease, as M&A transactions dropped 36.8% to a total of 24 on the year, while exits through an initial public offering showed some signs of revitalization with three offerings, up from only one in each of 2009 and 2010.

2011 saw renewed activity amongst corporate investors. Capital invested by corporations, though still a small portion of the overall Canadian venture capital landscape, was at its highest level since 2006. In total \$48.5 million was invested, representing an increase of more than three times the 2010 levels. Though M&A transactions were down as compared to 2010, corporate influence remains prominent on the exit market as Google (Pushlife, PostRank), Salesforce (Radian6, Rypple) and other large multi-nationals, have all completed acquisitions of Canadian tech firms in 2011. With strong cash positions on large multi-national corporations' balance sheets, the level of corporate venture activity to gain access to transformative technology companies at an early stage will likely continue.

## 2011-2012 Operations and Results Achieved

### Ontario Venture Capital Fund

To March 31, 2012, in accordance with the OVCF portfolio guidelines, OVCF has made a total of nine fund commitments or conditional commitments to qualified venture capital funds, including seven commitments totalling approximately \$140 million to Ontario-based or Ontario-focused funds and \$3.4 million to two other funds. As of March 31, 2012, OVCF had also made five direct investments to Ontario-based companies. As of April 30, 2012, these commitments have successfully leveraged approximately \$634 million in capital from other investors for Ontario-based/focused funds and companies.

During OCGC's fiscal year, OVCF approved conditional commitments to Celtic House Venture Partners Fund IV, Rho Canada Ventures II and Lumira Capital II for an aggregate commitment of \$70 million. OVCF also closed on a fund commitment into Extreme Venture Partners Annex Fund I, as well as three direct investments – Dealfind.com Inc., Polar Mobile Group Inc. and Fresco Microchip. Consistent with the terms of the OVCF Limited Partnership Agreement, 56 funds were reviewed by OVCF during the past calendar year<sup>2</sup>. Some of these funds may still be under review and considered for inclusion in the OVCF portfolio.

OVCF fund investments as of May 31, 2012 include:



GEORGIAN  
PARTNERS



EXTREME  
VENTURE PARTNERS



2) As part of OVCF's diligence process, select funds may be reviewed multiple times during a given 12-month period.

OVCF direct investments as of May 31, 2012 include:



### Ontario Emerging Technologies Fund

#### Qualified Investors

In the fiscal year 2011-2012, OCGC approved 9 investors bringing the total number of OETF investors since the launch of the fund to 32. During the fiscal year, OCGC saw increased interest from angel investors and angel syndicates who accounted for a third of the new investors in the year. Of the 26 companies OETF has invested in since commencement, five were alongside angel investors or angel syndicates. The new investors qualified in 2011-2012 include:



OCGC is pleased to have added the investors on the previous page to the diverse list of existing qualified investors shown below:



## Investments

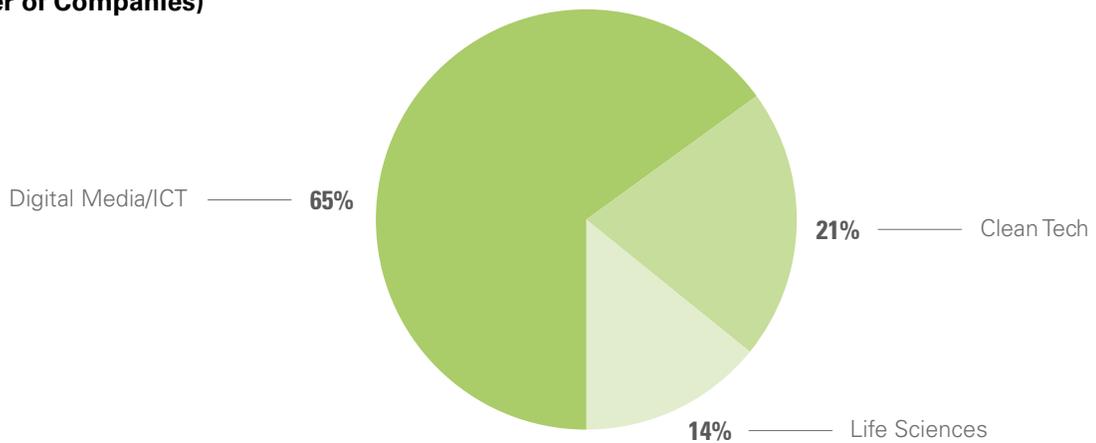
In fiscal year 2011-2012, OCGC through OETF, approved and/or closed 18 co-investments, representing a total investment commitment from OCGC of approximately \$24 million. The 18 co-investments were comprised of 11 initial investments and 7 follow-on investments in OCGC's portfolio companies. The new co-investments approved and/or closed in 2011-2012 include:



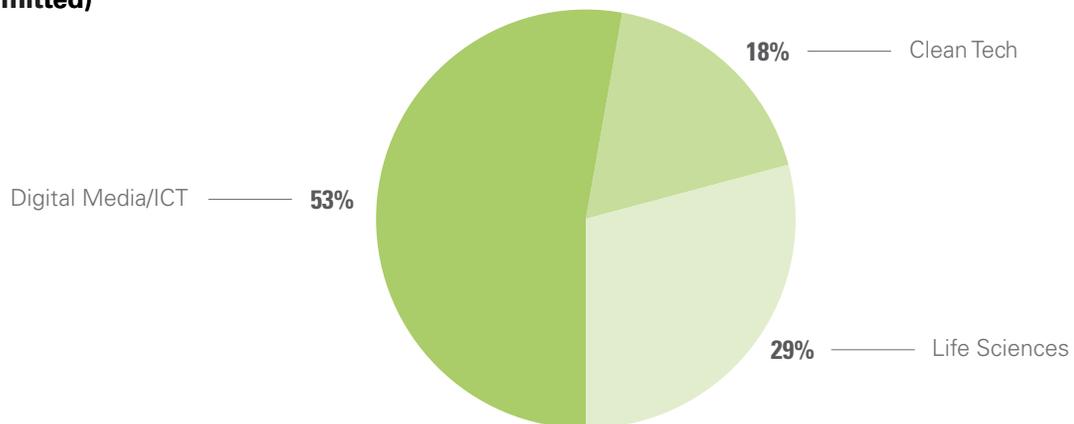
Since inception to March 31, 2012, OCGC has conditionally approved 37 co-investment opportunities (initial and follow-on) for a total capital commitment of approximately \$56.16 million expected to leverage over 2 dollars in additional capital for every dollar invested.

Similar to the overall Ontario venture capital market a large portion of OETF commitments both in number of companies and dollar value have been committed to companies in the digital media and information and communication technologies sector. In terms of sector, the majority of OETF co-investments have been committed to early-stage companies and specifically companies just beyond the seed and start-up stage.

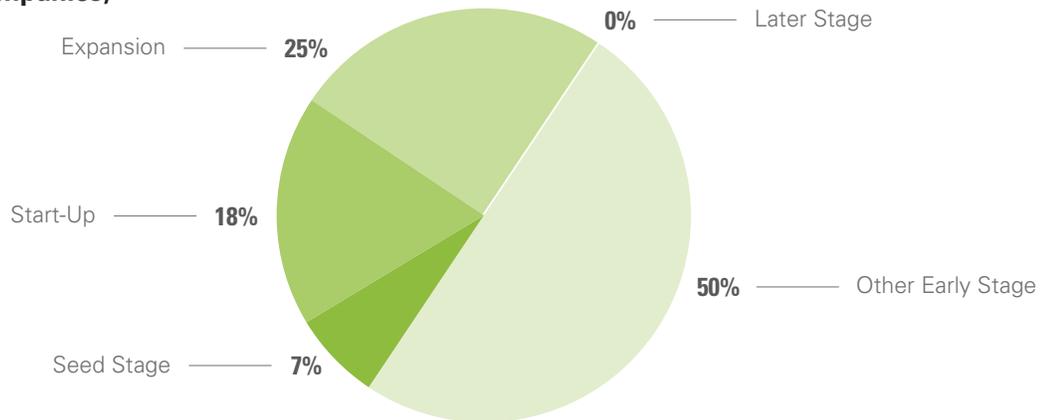
### OETF Committed Co-Investments by Sector (Number of Companies)



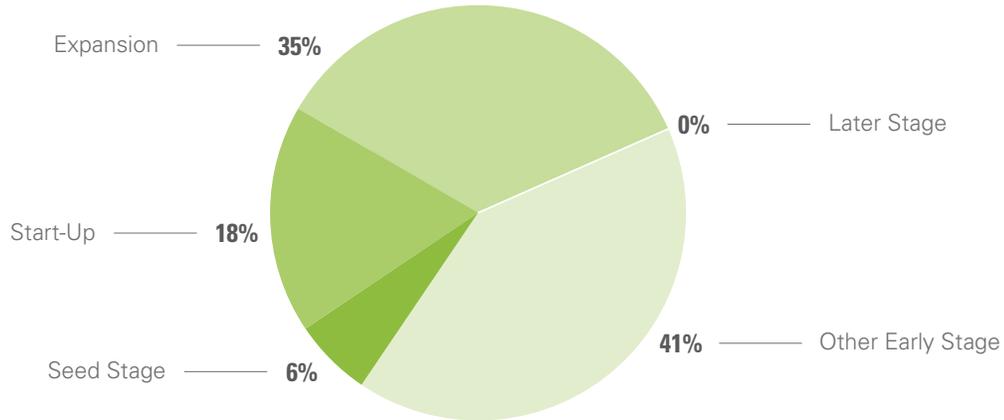
### OETF Committed Co-Investments by Sector (\$ Committed)



**OETF Committed Co-Investments by Stage  
(Number of Companies)**



**OETF Committed Co-Investments by Stage  
(\$ Committed)**



During the 2011-2012 fiscal year, as noted in the audited financial statements and notes, OCGC realized a loss from a sale of an asset and recognized an impairment on financial assets held by OCGC. As is expected in any venture capital fund when investing in early stage technology companies, OCGC will experience both losses and gains. Typically the losses will occur early on in the investment period compared to positive returns which will be realized in the long term.

## Ontario Venture Capital Ecosystem Activities

One of the objectives of OETF is to increase the amount of capital available to emerging Ontario-based companies from a wide-range of capital sources both domestically and internationally. To support Ontario emerging technology companies gain access to the broader investment community, OCGC participated in several events this year to increase the profile of its companies to the investment community in support of its mandate. This is particularly relevant to OCGC, as it is a co-investor that is reliant on other investors to commit to an investment and bring that investment to OCGC. Marketing OETF and OETF portfolio companies to US funds, other Canadian investors and corporate investors has enabled OCGC to attract 41% of its levered capital from outside Ontario. Through these outreach activities, OCGC has also attracted a number of investors who wish to become qualified investors under OETF. These include a broad range of investors such as multinational companies with venture capital arms, larger foreign-based venture capital and/or private equity investors or pension funds with an interest in Ontario technology companies.

OCGC recognizes that continuous engagement of the stakeholder community is essential to the ongoing growth and success of OETF as part of the need to attract a wide range of investors to invest in Ontario companies. This work is facilitated by OCGC proactively engaging with investors at targeted investor events such as CVCA Annual Conference, C100 Events, Canadian Innovation Exchange 2011, BioFinance 2011, Ontario Centres of Excellence Discovery Days and ONE events.

# FINANCIAL STATEMENTS

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## Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Capital Growth Corporation (OCGC) have been prepared in accordance with Canadian public sector accounting standards and are the responsibility of Management. The preparation of financial statements necessarily involves the use of estimates based on Management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 19, 2012.

Management maintains a system of internal controls designed to provide a reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provide for appropriate delegation of authority and segregation of responsibilities. The Ontario Internal Audit Division of the Ministry of Finance has the ability to independently evaluate the effectiveness of these internal controls on an ongoing basis and, as applicable, report its findings to Management and the Audit and Risk Committee of the Board of Directors.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Audit and Risk Committee assists the Board in carrying out these responsibilities. It meets periodically with Management, internal auditors and the external auditor, as applicable, to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been audited by an independent third-party auditor, PricewaterhouseCoopers LLP. The Auditor's responsibility is to express an opinion on whether OCGC's financial statements fairly represent OCGC's financial position in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and their opinion.

On behalf of Management:



**John Marshall**  
President and Chief Executive Officer



June 19, 2012

## **Independent Auditor's Report**

### **To the Board of Directors of Ontario Capital Growth Corporation**

We have audited the accompanying financial statements of Ontario Capital Growth Corporation, which comprise the statements of financial position as at March 31, 2012 and March 31, 2011 and the statements of operations and changes in accumulated operating surplus, remeasurement gains and losses, changes in net assets and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Capital Growth Corporation as at March 31, 2012 and March 31, 2011 and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with Canadian public sector accounting standards.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**

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#### **PricewaterhouseCoopers LLP Chartered Accountants**

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"PwC" refers to PricewaterhouseCoopers LLP an Ontario limited liability partnership.

## Ontario Capital Growth Corporation

# STATEMENT OF FINANCIAL POSITION

As at March 31, 2012 and March 31, 2011

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
<i>Cash and cash equivalents</i>	\$ 2,255,982	\$ 1,918,605
<i>Marketable securities (note 6)</i>	58,582,152	77,236,734
<i>Accounts receivable (note 5)</i>	3,515,811	739,468
<i>Ontario Venture Capital Fund LP (note 7)</i>	35,790,326	16,442,037
<i>Ontario Emerging Technologies Fund (notes 8 and 10)</i>	42,734,401	27,448,706
	\$ 142,878,672	\$ 123,785,550
<b>LIABILITIES</b>		
<i>Accounts payable (note 12)</i>	\$ 800,000	\$ 585,716
	142,078,672	123,199,834
<b>NET ASSETS</b>		
<i>Non-financial assets</i>	-	-
<i>Accumulated surplus</i>	142,078,672	123,199,834
	142,078,672	123,199,834
<b>Accumulated surplus is comprised of</b>		
<i>Accumulated operating surplus</i>	142,001,135	123,214,713
<i>Accumulated remeasurement losses</i>	77,537	(14,879)
	\$ 142,078,672	\$ 123,199,834

### Approved by the Board of Directors



Director



Director

The accompanying notes are an integral part of these financial statements.

## Ontario Capital Growth Corporation

# STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED OPERATING SURPLUS

For the years ended March 31, 2012 and March 31, 2011

	<b>2012</b>	<b>2011</b>
<b>REVENUES</b>		
<i>Funding and transfer payments from the Province of Ontario - Ontario Emerging Technologies Fund (note 8)</i>	\$ 27,435,630	\$ 23,067,176
<i>Interest income</i>	770,312	889,868
	\$ 28,205,942	\$ 23,957,044
<b>EXPENDITURES</b>		
<i>Reimbursements to Ministry of Economic Development and Innovation (note 12)</i>	\$ 1,083,129	\$ 926,716
<i>Cash management fees (note 9)</i>	36,916	42,423
<i>Professional services fees (note 9)</i>	674,136	335,036
<i>Board and committee member fees</i>	51,900	-
<i>Loss on sale of Ontario Emerging Technologies Fund portfolio investment (note 10)</i>	1,941,576	-
<i>Impairment of Ontario Emerging Technologies Fund portfolio investments (note 11)</i>	5,643,117	-
<i>Foreign currency exchange (gain) loss (note 3)</i>	(11,254)	572,826
	\$ 9,419,520	\$ 1,877,001
<b>OPERATING SURPLUS</b>	18,786,422	22,080,043
<b>ACCUMULATED OPERATING SURPLUS - BEGINNING OF YEAR</b>	123,214,713	101,134,670
<b>ACCUMULATED OPERATING SURPLUS - END OF YEAR</b>	142,001,135	123,214,713

The accompanying notes are an integral part of these financial statements.

Ontario Capital Growth Corporation

**STATEMENTS OF REMEASUREMENT GAINS AND LOSSES**

For the years ended March 31, 2012 and March 31, 2011

	<b>2012</b>	<b>2011</b>
<b>ACCUMULATED REMEASUREMENT LOSSES - BEGINNING OF YEAR</b>	\$ (14,879)	-
<i>Unrealized gains (losses) attributable to</i>		
<i>Foreign exchange</i>	77,537	-
<i>Portfolio investments</i>	14,879	(14,879)
	92,416	(14,879)
<b>ACCUMULATED REMEASUREMENT LOSSES - END OF YEAR</b>	\$ 77,537	\$ (14,879)

Ontario Capital Growth Corporation

**STATEMENTS OF CHANGES IN NET ASSETS**

For the years ended March 31, 2012 and March 31, 2011

	<b>2012</b>	<b>2011</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	\$ 123,199,834	\$ 101,134,670
<i>Operating surplus</i>	18,786,422	22,080,043
<i>Net remeasurement gains (losses)</i>	92,416	(14,879)
<i>Increase in net assets</i>	18,878,838	22,065,164
<b>NET ASSETS - END OF YEAR</b>	\$ 142,078,672	\$ 123,199,834

The accompanying notes are an integral part of these financial statements.

## Ontario Capital Growth Corporation

### STATEMENTS OF CASH FLOWS

For the years ended March 31, 2012 and March 31, 2011

	2012	2011
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
<i>Increase in net assets</i>	\$ 18,878,838	\$ 22,065,164
<i>Unrealized (gains) losses attributable to portfolio investments</i>	(14,879)	14,879
<i>Changes in non-cash operating balances</i>		
<i>(Increase) decrease in accounts receivable</i>	(2,776,343)	1,840,532
<i>Increase (decrease) in accounts payable</i>	214,284	(572,380)
<i>Loss on sale of Ontario Emerging Technologies Fund portfolio investment</i>	1,941,576	-
<i>Impairment of Ontario Emerging Technologies Fund portfolio investment</i>	5,643,117	-
	\$ 23,886,593	\$ 23,348,195
<b>INVESTING ACTIVITIES</b>		
<i>Purchase of marketable securities</i>	\$ (206,879,054)	\$ (233,203,970)
<i>Sale of marketable securities</i>	225,548,515	240,941,660
<i>Purchase of Ontario Venture Capital Fund LP</i>	(19,348,289)	(8,505,309)
<i>Purchase of Ontario Emerging Technologies Fund</i>	(23,020,388)	(21,468,706)
<i>Sale of Ontario Emerging Technologies Fund</i>	150,000	-
	\$ (23,549,216)	\$ (22,236,325)
<b>INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	\$ 337,377	\$ 1,111,870
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	1,918,605	806,735
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 2,255,982	\$ 1,918,605

The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

### 1. Description of business

Ontario Capital Growth Corporation (OCGC or the Corporation) is a corporation without share capital, established under the *Ontario Capital Growth Corporation Act, 2008* (the Act), which was proclaimed in force as of February 1, 2009 as an agency of the Ministry of Research and Innovation (MRI). The MRI and the Ministry of Economic Development and Trade were amalgamated in November 2011 to form the Ministry of Economic Development and Innovation (MEDI).

The legislative authority of the Corporation is set out in the Act. Under Section 4 of the Act, the objects of the Corporation are:

- a) to receive, hold, administer and otherwise deal with the interest of the Government of Ontario in the limited partnership known as the Ontario Venture Capital Fund LP (OVCF);
- b) to receive, hold and deal with property, whether real or personal, in connection with the objects described in Section 4(a); and
- c) to carry out the other objects that are prescribed by Ontario Regulation 278/09 (the Regulations).

Under Section 1 of the Regulations, made under the Act, the following are prescribed as additional objects of the Corporation:

- a) to acquire, manage and otherwise deal with a portfolio of investments in businesses that the Corporation considers constitute emerging technologies businesses, which portfolio is known in English as the Ontario Emerging Technologies Fund (OETF) and in French as Fonds ontarien de développement des technologies émergentes; and
- b) to receive, hold, invest, sell or otherwise deal with property, whether real or personal, in connection with the objects described in clause 1(a).

As required by the Agency Establishment and Accountability Directive, the Corporation and MEDI have entered into a memorandum of understanding, which outlines the operational, administrative, financial and other relationships that exist between OCGC and MEDI.

OCGC is classified as an Operational Enterprise Agency. OCGC is responsible for fulfilling the Province of Ontario's contractual obligations as a limited partner in the OVCF. OCGC is also responsible to establish, hold, manage and administer the OETF.

OVCF is a joint initiative between the Province of Ontario and leading institutional investors. It is structured as a fund-of-funds that invests primarily in Ontario-based and Ontario-focused venture capital and growth funds, which, in turn, makes investments in innovative, high-growth companies. OVCF was established to provide investment funding to venture capital and growth equity managers capable of generating superior returns by investing in enterprises with a view to creating large, globally competitive companies.

OETF is structured as a direct co-investment fund that will only make investments in innovative high-potential companies alongside other qualified investor(s) with a proven track record of success. OETF is an initiative of the Government of Ontario to invest in innovative high-potential companies with an Ontario footprint in three strategic sectors: (a) clean technology; (b) digital media and information and communications technologies; and (c) life sciences and advanced health technologies.

OCGC claims exemption from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act (Canada). OCGC also claims exemption from the federal goods and services tax imposed by the Excise Tax Act (Canada). In November 2009, the Canada Revenue Agency confirmed exemption from the goods and services tax effective February 1, 2009.

As part of the change to the harmonized sales tax (HST) and in accordance with the HST agreement between the Governments of Ontario and Canada, provincial government entities (ministries and agencies) no longer have an exemption from paying the GST/HST. As of July 1, 2010, a pay and rebate model applies. This means that OCGC now pays the 13% HST on taxable supplies, and then applies for a rebate of the full 13% amount.

OCGC operates in the same fiscal year ending March 31 as the Government of Ontario.

## 2. Conversion to public sector accounting standards

Commencing with the 2012 fiscal year, the Corporation has adopted Canadian public sector accounting standards (PSAS). These financial statements are the first financial statements for which the Corporation has applied PSAS. Also, on April 1, 2011, the Corporation adopted PSAS Section 1201 - Financial Statement Presentation, PSAS

Section 2601 - Foreign Currency Translation and PSAS Section 3450 - Financial Instruments.

On transition to PSAS, investments other than marketable securities previously accounted for at fair value are accounted for at cost. There was no impact to the accumulated surplus of the Corporation upon conversion to PSAS. In addition, first time adoption of the new standard did not require any retroactive restatement of prior period financial statements.

## 3. Summary of significant accounting policies

The Corporation's functional and presentation currency is the Canadian dollar. The financial statements have been prepared in accordance with PSAS established by the Canadian Public Sector Accounting Board. The more significant accounting policies of the Corporation are summarized below.

### Cash and cash equivalents

Cash and cash equivalents include demand deposits that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

### Marketable securities

Marketable securities quoted in an active market are measured at fair value as at the dates of the statements of financial position with any unrealized gain or loss recognized on the statements of remeasurement gains and losses. Remeasurement gains and losses related to a particular investment are reclassified to the statements of operations when that investment is settled. Fair value includes the value of accrued interest, as applicable.

Portfolio investments that are not traded in an active market are measured at cost. Impairment losses, which are other than temporary, are recognized in the statements of operations when they occur.

### Ontario Venture Capital Fund LP (OVCF)

The investment in OVCF is classified as a financial instrument and carried at cost based on the capital calls made by the general partner of OVCF. The investment in OVCF is not traded in an active

market; therefore, fair value of the investment is not readily determinable. OVCF investments are subsequently tested for impairment on each statement of financial position date and any losses due to impairment are recognized in the statements of operations on that date.

### Ontario Emerging Technologies Fund (OETF)

Investments in OETF are classified as financial instruments and carried at cost or measured at fair value based on the existence of an active market for the securities. OETF investments quoted in an active market are measured at fair value as at the statements of financial position date with any unrealized gain or loss recognized on the statements of remeasurement gains and losses. Remeasurement gains and losses are reclassified to the statements of operations when an investment becomes impaired or is derecognized. Impairment losses which are other than temporary are recorded to the statements of operations when recognized. Fair value includes the value of accrued interest or dividends payable, as applicable.

When an OETF investment is not traded in an active market, it is measured at cost. OETF investments are tested for impairment on each statement of financial position date and any impairment losses are recognized in the statements of operations on those dates.

Accrued interest and dividends on OETF investments are recorded as described in note 3, revenue recognition. If the Corporation has evidence that the amounts owing will be collected, these amounts are accrued as receivable; otherwise, a reserve is taken against these amounts. If in a future period the Corporation receives an amount that

had been written off, it is recorded as a recovery of interest that had been previously deemed uncollectible. Amounts written off or recovered are recognized in the statements of operations in the period in which they occur.

### **Revenue recognition**

Interest revenue is recognized as it is earned. For marketable securities and OETF investments, interest revenue is accrued using the effective interest rate method.

Dividend revenue is recognized in the period that the Corporation becomes entitled to receive the dividend as per the terms and conditions of the share issuance.

OETF funding received represents monies transferred from MEDI to the Corporation, as described in note 8.

### **Expense categories**

Cash management fees primarily represent fees paid to the Ontario Financing Authority (OFA) for cash management and related services.

Professional fees relate to fees paid to third party service providers.

Board and committee member expenses represent monies paid to board and committee members according to the Board and Committee Members Remuneration Policy which conforms with the Government Appointees Directive of Management Board of Cabinet (May 1, 2011).

Reimbursements to MEDI represent direct OCGC expenses paid by MEDI on its behalf for administrative purposes only.

### **Foreign currency translation**

Foreign currency gains and losses on monetary items are recognized immediately in the statements of operations. Unrealized foreign currency gains and losses on portfolio investments, OVCF investments, and OETF investments are recognized in the statements of remeasurement gains and losses. Unrealized foreign currency exchange gains and losses are reclassified from the statements of remeasurement gains and losses to the statements of operations when the financial instrument is derecognized.

### **Measurement uncertainty**

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates are based on the best information available at the time of preparation of the financial statements and are periodically reviewed to reflect new information as it becomes available. Actual results could differ from these estimates.

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## **4. Financial instruments**

### **Credit risk**

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Corporation is currently exposed to credit risk through its holdings of convertible debt instruments in OETF. The Corporation considers obligations of the Governments of Ontario and Canada to be risk-free (note 6).

### **Fair value**

The Corporation's carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values due to the immediate or short-term nature of these financial instruments.

The fair value of the investment in the OVCF is not readily determinable and has been recorded at cost. The OVCF does not have a quoted market price in an active market.

The co-investments made in the OETF are recorded at cost, which represents fair value at the time

of acquisition. Investments that are quoted in an active market are measured at fair value at subsequent statement of financial position dates. Any unrealized gain or loss at this date is recognized on the statements of remeasurement gains and losses until the investment is derecognized or other than temporarily impaired. All other OETF investments are measured at cost or amortized cost. As part of the reporting process to the Province of Ontario, the Corporation is required to carry out periodic valuations of OETF portfolio investments to determine whether there has been an other than temporary loss in value that would indicate impairment. If the investments are determined to be impaired, they are written down to the new carrying value and the resultant impairment expense is recognized immediately in the statements of operations. Furthermore, to the extent that a security held in OETF represents a compound financial instrument with an embedded derivative, such as an equity conversion option, the value of that derivative at acquisition should be measured at fair value unless that derivative is linked to and must be settled by delivery of unquoted equity instruments, in which case would require the derivative to be measured at cost. For derivatives classified to the fair value category, value is first determined by referencing a quoted price in an active market, or, in absence of this, applying a suitable valuation technique.

### **Currency risk**

Currency risk is the risk to the Corporation's income that arises from fluctuations of foreign currency exchange rates and the degree of volatility of these rates. The Corporation's exposure to foreign currency exchange risk is limited to holding US dollar cash and cash equivalents and holding OETF investments denominated in US dollars. OCGC does not hedge its US dollar exposure. The Corporation had a net exposure of \$5,889,580 to the US dollar as at March 31, 2012 (2011 - \$8,660,018). A 5% strengthening (5% weakening) of the Canadian dollar against the US dollar at March 31, 2012 would result in a \$294,479 increase (\$294,479 decrease) on the statements of remeasurement gains and losses (2011 - \$433,000) with no impact on the operating surplus. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

### **Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Corporation manages exposure through its normal operating and financing activities. The Corporation is exposed to interest rate risk primarily through its short-term marketable securities and OETF portfolio. Risks from interest rate fluctuations for marketable securities are minimal due to the investments being held for a term of three years or less to match the OVCF draw downs projected by the OVCF fund manager. The impact of interest rate fluctuations on OETF investments are considered minimal as these instruments are primarily held for purposes of capital appreciation, as further described in note 6.

### **Other price risk**

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices or from factors specific to an individual investment. The maximum risk resulting from the financial instruments is equivalent to their fair value. The marketable securities consist of treasury bills that are not subject to significant price risk. As at March 31, 2012, if the value of the investments in OVCF and OETF had increased or decreased by 5%, all other variables held constant, the value of the investments would have increased or decreased by \$3,926,236 (2011 - \$2,194,537). Investments made through OVCF or in OETF are highly illiquid, do not have a readily determinable market price, and are generally in early stage companies where the ultimate value that may be realized by the OCGC on eventual disposition is inherently unpredictable.

Returns on these investments will depend on factors specific to each company (such as financial performance, product viability and quality of management), and external forces (such as the economic environment and technological progress by competitors). The carrying value of the OETF portfolio is measured at cost at the statements of financial position dates; however, the amounts that may ultimately be realized could be materially different.

## 5. Accounts receivable

For each fiscal year ending March 31, disbursements under OETF transfer payment agreement to the Corporation may be overdue from the Province of Ontario due to year-end payment processing delays. For fiscal 2011 and 2012, overdue payments of \$700,000 and \$3,500,000 were received in full subsequent to the March 31 year ends, respectively.

As a Schedule A provincial agency, OCGC is required to follow the pay and rebate model with respect to HST applied to direct purchases. The Corporation pays the HST on its purchases and, subsequently, files a monthly rebate claim with the Canada Revenue Agency for the HST paid. HST rebates receivable as at March 31, 2012 amounted to \$15,811.

## 6. Marketable securities

The OCGC may temporarily invest any monies not immediately required to carry out its objects in:

- a) debt obligations of or guaranteed by the Government of Canada or a province of Canada; or

- b) interest bearing accounts and short-term certificates of deposits issued or guaranteed by a chartered bank, trust company, credit union or caisse populaire.

Fair value of portfolio investments as at March 31 is as follows:

	2012	2011
<i>Aggregate par value \$58,814,000 (Province of Ontario treasury bills, due dates ranging from June 6, 2012 to September 12, 2012 average coupon rate of 0.000%)</i>	\$ 58,582,152	\$ 77,236,734

Fair value includes any accrued interest owing on the treasury bills.

\$0.22 million (2011 - \$0.18 million) for a 1.00% change in rates.

The market value sensitivity of the marketable securities for the year ended March 31, 2012 was

## 7. Ontario Venture Capital Fund LP (OVCF)

The investment in the OVCF is carried at cost, based on the capital calls made by the general partner of

OVCF. As the OVCF is not traded in an active market, the fair value of the investment is not readily determinable.

## 8. Province of Ontario - Ontario Emerging Technologies Fund (OETF)

The OETF was launched in July of 2009 with a commitment from the Province of Ontario to provide funding of \$250 million. The OETF, as a direct co-investment fund, will only make investments into

innovative high potential companies alongside other qualified investor(s) with a proven track record of success. Investments will be in: (a) clean technology; (b) digital media and information and communication technologies; and (c) life sciences.

## 9. Contractual commitments

OCGC has the following contractual commitments:

- a) In accordance with a financial service agreement between OFA and OCGC, OFA conducts investment and cash management services and activities for the OCGC. OFA is the agency of the Province of Ontario responsible for providing financial and centralized cash management services for the government. OCGC pays OFA a fee for these services based on assets under management and reimburses for other related activities on a cost recovery basis.
- b) Pursuant to the OVCF limited partnership agreement, OCGC is committed to making capital contributions on notice of capital calls. As at March 31, 2012, the total uncalled commitment is \$54,208,077 to be drawn down over the remaining years of the OVCF 13-year lifecycle.
- c) In accordance with the contract between Northwater Capital Management Inc. (Northwater) and OCGC, Northwater conducts due diligence services and activities to qualify OETF co-investors. This contract was terminated effective December 26, 2011. Via a competitive procurement process, Ernst & Young was contracted to perform the aforementioned advisory services on a fixed rate basis effective September 1, 2011. The full transition from Northwater to Ernst & Young for provision of these services was completed December 31, 2011.
- d) In accordance with the contract between Covington Capital Inc. (Covington) and OCGC, Covington conducts services and activities to qualify, monitor, and exit OETF's investments. OCGC pays both a fixed rate and hourly rates for these services and activities, respectively.
- e) In accordance with the contract between Weiler & Company (Weiler) and OCGC, Weiler performs accounting functions relating to the operations of OCGC, OVCF investments, and OETF investments. OCGC pays an hourly rate for these services.

## 10. Investments in OETF

OETF portfolio as at March 31, 2012 and March 31, 2011, respectively (in Canadian dollars):

	ACQUISITION COST	CARRYING VALUE	2012 CONTINGENT
<b>Canadian dollar investments</b>	\$ 38,914,000	\$ 37,714,100	\$ 5,086,927
<b>US dollar investments</b>	9,591,371	5,020,301	1,346,563
	<u>\$ 48,505,371</u>	<u>\$ 42,734,401</u>	<u>\$ 6,433,490</u>

	<b>ACQUISITION COST</b>	<b>CARRYING VALUE</b>	<b>2011 CONTINGENT</b>
<b>Canadian dollar investments</b>	\$ 19,234,505	\$ 19,234,505	\$ 6,187,801
<b>US dollar investments</b>	8,214,201	8,214,201	969,600
	<u>\$ 27,448,706</u>	<u>\$ 27,448,706</u>	<u>\$ 7,157,401</u>

Investments in OETF can take the form of shares or convertible debt. All investments have been made in accordance with OETF guidelines. As at March 31, 2012, the OETF portfolio consisted of investments in 24 different companies, ranging from 0.4% to 3.5% of net assets. The percentage calculations exclude impaired investments in companies with a nominal or nil carrying value (if any).

During the year ended March 31, 2012, the Corporation realized an aggregate loss of \$1,941,576 on the sale of OETF investments. The Corporation received an aggregate of \$150,000 in consideration for the OETF investments that had an aggregate cost basis of \$2,091,576.

## 11. Impairment of OETF portfolio investments

An impairment of \$5,643,117 in OETF portfolio investments is identified by management and is reported on the statements of operations. In the

opinion of management, conditions as at March 31, 2012 indicated that certain positions in the OETF portfolio had actual values that were below their cost and that these declines in value were other than temporary.

## 12. Accounts payable

The Corporation and MEDI carry out their respective operations on a shared-cost basis. The Corporation reimburses MEDI for certain expenses incurred on its behalf. These expenses may include but are not limited to staff salaries, benefits, information technology and rent allocations per staff member, external legal services, website development, French language translation, and other services.

Recognition and measurement of any reimbursement is subject to annual negotiations between the Corporation and MEDI, and approval of the extent and scope of MEDI services to be provided. For each fiscal year ending March 31, the Corporation will seek certification from the MEDI

that any further potential financial liability with respect to eligible expenses incurred on behalf of the Corporation is fully satisfied without further recourse. Any financial liability to MEDI with respect to reimbursements of eligible expenses incurred prior to March 31, 2012 has been extinguished.

The Corporation accrues eligible expenses reimbursable to MEDI under accounts payable based on estimates provided by MEDI that can be independently verified by the Corporation. Reimbursement payable in arrears as at March 31, 2012 amounted to \$645,921 (2011 - \$392,900).

The remaining balance as at March 31, 2012 in the amount of \$154,079 represents payables in arrears to miscellaneous service providers (2011 - \$192,816).

### **13. Subsequent events**

MEDI has caused the Corporation to implement a pause on any new investments under the OETF for an indefinite period of time.

This decision does not affect the Corporation's ability to continue to make follow-on investments into existing portfolio companies and does not affect investments in process that have already been approved by the OCGC Board of Directors but have not yet closed.

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### **14. Comparative figures**

Certain comparative amounts have been reclassified to conform to new presentation standards adopted in conjunction with the conversion to PSAS.

Other comparative amounts have been reclassified for purposes of increased relevancy and comparability.

# CORPORATE GOVERNANCE

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## Overview

OCGC is an agent of the Crown and is classified as an operational enterprise agency of the Ministry of Economic Development and Innovation.

OCGC's governance framework is based on Management Board of Cabinet's (MBC) Agency Establishment and Accountability Directive<sup>3</sup> and is set out in its corporate governance policy.

Corporate governance at OCGC is based on processes that permit the effective supervision and management of activities by senior management, the Audit and Risk Committee, the Human Resources Committee, the Board of Directors and the Minister of Economic Development and Innovation.

## Accountability

OCGC's accountability structure flows from its governing statute, the *Ontario Capital Growth Corporation Act, 2008* and from the Memorandum of Understanding between OCGC and the Minister of Economic Development and Innovation, as well as applicable directives issued by MBC relating to Crown agencies. Together, these provide that the Minister of Economic Development and Innovation reports and responds to the Legislative Assembly and Cabinet regarding OCGC.

The Chair of the Board of Directors is accountable to the Minister for the Corporation's performance in fulfilling its mandate. The Board of Directors is appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Economic Development and Innovation and is accountable to the Minister, through the Chair, for supervising the management of the Corporation's business.

The President and Chief Executive Officer is accountable to the Chair of the Board for the day-to-day management of OCGC's operations and the management and supervision of staff. Staff are appointed pursuant to the *Public Services Act* and are subject to MBC policies and directives applicable to public servants. Employees are accountable to the President and Chief Executive Officer.

## Roles and Responsibilities

The Minister of Economic Development and Innovation maintains communications with OCGC, through the Chair, regarding government policies, expectations and new directions relevant to OCGC. The Minister is responsible for reviewing and approving OCGC's annual business plan. The Minister is also responsible for receiving and making OCGC's annual report available to the public through tabling it in the Legislative Assembly.

The Chair provides leadership and direction to the President and Chief Executive Officer and the Board and ensures that OCGC complies with government policies and directives. The President and Chief Executive Officer is responsible for the ongoing activities of the Corporation and ensures that policies and procedures, including financial reporting, remain relevant and effective.

The Board of Directors is currently comprised of three private sector members and two public servants. The Board meets once a month and receives regular reports from the President and Chief Executive Officer concerning the Corporation's operations and its compliance with applicable laws and policies.

The Board's Audit and Risk Committee approves an annual audit plan in regard to OCGC's independent external audit and liaises as necessary with the Corporation's internal and external auditors and the Auditor General of Ontario regarding financial reporting and controls. It also reviews financial policies and financial statements and recommends them to the Board.

## Financial Reporting

OCGC prepares both unaudited quarterly and audited annual financial statements in accordance with Public Sector Accounting Board (PSAB) standards. These statements are reviewed and recommended by the Audit and Risk Committee and submitted to the Board of Directors for approval. The 2011-2012 audited financial statements were prepared by PricewaterhouseCoopers LLP (PWC).

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3) As may be amended from time to time.

Consistent with the forgoing process, the Board approved the audited financial statements and received the Auditor's report thereon on the recommendation of the Audit and Risk Committee. The 2011-2012 audited financial statements are incorporated in Volume 2 reporting of the Public Accounts of Ontario.

## **Internal Controls**

Management is responsible for establishing and maintaining adequate internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements to safeguard its assets and control its liabilities.

In keeping with good governance, OCGC will continue to evolve its internal controls to ensure they reflect leading industry practices. In meeting

its responsibility for the reliability and timeliness of financial information, OCGC uses a comprehensive system of internal controls, including organizational and procedural controls.

## **Operations**

In support of its mandate, OCGC has both a limited number of staff involved in operations, governance, financial controls and investments, and a limited number of external expert service providers/ agreements with external firms having specialized investment knowledge in fund evaluation, direct co-investment and fund-of-fund investments, as well as audit, bookkeeping and procurement.

# RISK MANAGEMENT POLICIES AND PROCEDURES

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As part of its annual business plan, OCGC, conducts an assessment of corporate-wide risks and develops appropriate mitigating strategies. OCGC's risk management plan is based on the requirements contained in the Agency Establishment and Accountability Directive.<sup>4</sup> It considers the management of both internal and external risk exposures. The framework for OCGC's risk management plan is based on: strategic, policy

and performance risk; accountability and compliance risk; operational risk; workforce compensation risk; information technology and infrastructure risk; and, other applicable risks.

The Board is also informed of real or potential exposure to risk through regular updates by the President and Chief Executive Officer.

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<sup>4</sup>) As may be amended from time to time.

## OUTLOOK FOR 2012-2013

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In the first quarter of 2012-2013, the Ontario Capital Growth Corporation (OCGC) was directed to pause making any new investments under the Ontario Emerging Technologies Fund (OETF) until advised otherwise. OCGC will continue to manage its existing portfolio of companies and make follow-on investments as required and appropriate. OCGC will also work to close any new investments that were approved by OCGC's Board of Directors prior to the announcement, but have not yet closed. The government's decision to pause OETF follows the recent announcement of a new Jobs and Prosperity Council to review government business support programs and ensure a strong focus on job creation and productivity growth.

Based on OCGC's strategy and mandate, a number of priorities have been identified for the 2012-2013 fiscal year:

- Continue to manage the Province of Ontario's limited partner interest in the OVCF
- Manage OCGC's portfolio investments through OETF in early-stage Ontario companies
- Continue OCGC's outreach activities to showcase OETF portfolio companies to international investors
- Continue to expand OCGC's partnerships with international investors in relation to future investments once OETF can make new investments following the report of the Jobs and Prosperity Council
- Continue to improve OCGC's governance practices, including its reports and analysis to the Board of Directors, as well as the administrative and operating systems
- Increase reporting on the impact and successes created by the OETF and the OVCF

OCGC, as a limited partner, will look to continue to monitor the OVCF as it approaches being fully committed during the balance of 2012. OVCF will continue to serve as a catalyst for the creation of high-performing venture funds and will work to raise limited partner confidence in the venture capital asset class through fund commitments that generate superior returns.

Finally, OCGC will focus on the continuous improvement of its administrative and operating systems, as well as developing relevant materials, analysis and presentation of its results, impact and successes.

# CONTACT INFORMATION

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**Ontario**

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