

# ONTARIO CAPITAL GROWTH CORPORATION

Annual Report 2015-2016



**Ontario**

Ontario Capital Growth  
Corporation

[www.ontario.ca/ocgc](http://www.ontario.ca/ocgc)



# THE ONTARIO CAPITAL GROWTH CORPORATION

**(OCGC)** was established by the *Ontario Capital Growth Corporation Act, 2008* and launched on February 27, 2009 as a board-governed provincial agency. The principal business of OCGC is to manage the limited partnership interests of the Province of Ontario (the Province) in the Ontario Venture Capital Fund LP (OVCF) and the Northleaf Venture Catalyst Fund LP (NVCF), and to manage and operate the Ontario Emerging Technologies Fund (OETF).

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## ABOUT THE

# ONTARIO CAPITAL GROWTH CORPORATION

The Ontario Capital Growth Corporation (OCGC) was established by the *Ontario Capital Growth Corporation Act, 2008* and launched on February 27, 2009 as a board-governed provincial agency. The principal business of OCGC is to manage the limited partnership interests of the Province of Ontario (the Province) in the Ontario Venture Capital Fund LP (OVCF) and the Northleaf Venture Catalyst Fund LP (NVCF), and to manage and operate the Ontario Emerging Technologies Fund (OETF).

The \$205 million OVCF is a limited partnership between the Province and leading institutional investors. OVCF was established to invest primarily in Ontario-based/focused venture capital and growth equity funds that support innovative, high potential companies. The Province has committed \$90 million, with the balance coming from its partner institutions.

The NVCF was the first fund to launch under the Federal Venture Capital Action Plan (VCAP), in partnership with the Federal Government (through the Business Development Bank of Canada) and private sector investors, including the Canada Pension Plan Investment Board, OpenText Corp. Manulife Financial, Sun Life Financial and major Canadian banks<sup>1</sup>. In July 2015, NVCF successfully held its final closing,

achieving its maximum fund size of \$300 million. OCGC administers the Province's \$50 million partnership interest in the NVCF.

OVCF and NVCF are structured as fund-of-funds, with the ability to also make direct co-investments into innovative, high-potential companies. Northleaf Capital Partners manages both funds and makes all investment decisions. OVCF and NVCF are committed to generating superior risk-adjusted returns. Through their performance the funds seek to attract the attention of the private sector institutional investors and provide the confidence to invest in the world class emerging funds and technologies being developed in Ontario. These funds were designed to ultimately support continued innovation within the province, enhance long-term investment returns of venture capital as an asset class, and contribute to the creation of a globally competitive/self-sustaining venture capital industry in Ontario.

Through the OETF, OCGC makes direct investments alongside qualified co-investors in early stage, emerging technology companies in three designated sectors: clean technologies; life sciences and advanced health technologies; and digital media and information and communication technologies. It is a discretionary, non-entitlement investment fund making equity

<sup>1</sup> BMO Financial Group, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, Scotiabank and TD Bank Financial Group

and quasi-equity investments directly into Ontario-based companies. Any monies returned to it from its investments are to be reinvested. As directed in May 2012 by the Ministry of Research and Innovation (the Ministry), OETF no longer invests in new companies and only makes follow-on investments into its existing portfolio of companies, as warranted.

OCGC's mandate also allows for investments in additional venture capital funds that are managed by a private sector fund manager and that have a goal to promote the creation of a globally competitive venture capital industry in Ontario and Canada.

## MESSAGE FROM

# THE CHAIR AND PRESIDENT/CHIEF EXECUTIVE OFFICER

We are pleased to present the 2015-16 Annual Report of the Ontario Capital Growth Corporation (OCGC). This report highlights OCGC's progress during the fiscal year which ended on March 31, 2016.

OCGC is focused on continuing its important role in developing a long term, sustainable venture capital industry in Ontario, which will in turn strengthen the economy and create Ontario-based employment opportunities in key economic sectors to Ontario. OCGC provides access to capital that will enable Ontario's promising start-up and early stage companies achieve the scale necessary to realize their full economic potential and compete in global markets. To date through OCGC's venture capital initiatives, our portfolio companies have created/retained over 5,400 careers in Canada, with the majority of these in Ontario, and cumulatively recorded approximately \$2.4 billion in revenues and \$750 million R&D expenditures<sup>2</sup>.

The Ontario Venture Capital Fund (OVCF) helped establish nine Ontario-based/focused venture capital funds, providing important lead orders to those funds to raise additional capital available to Ontario companies. OVCF has also made seven direct investments in a number of successful Ontario companies. In May 2015, the OVCF portfolio company Shopify

Inc. filed for its initial public offering, valuing the company at US \$1.27 billion. Through OVCF, over \$1 billion has been made available to Ontario-based/focused companies. More importantly, our market-based approach has attracted the confidence of our institutional partners back into early stage investing.

Through the Ontario Emerging Technologies Fund (OETF), OCGC invests alongside qualified co-investors in emerging technology companies in three designated sectors, thereby providing access to risk capital for these firms. As directed in May 2012, OETF no longer invests in new companies and only makes follow-on investments into its existing portfolio companies, as warranted. To date, OETF has committed investments totalling approximately \$93 million to 27 Ontario-based companies and levered an additional \$243 million in third party investments.

In January 2014, the Northleaf Venture Catalyst Fund (NVCF) was the first fund-of-funds to launch under the Federal Venture Capital Action Plan and builds on the successful OVCF model that has gained the confidence of our investment partners. NVCF successfully completed its final close in July 2015, bringing total capitalization to the maximum \$300 million target. To date, NVCF has committed a total of approximately

<sup>2</sup> Revenues and R&D expenditures have been aggregated since first OVCF, OETF or NVCF investment

\$230 million to nine venture capital funds and nine companies with a Canada/Ontario presence. NVCF is reinforcing the Province's position as a North American leader in venture capital by attracting investments into Ontario and helping businesses compete globally.

Access to capital plays a critical role in accelerating the growth of innovative startups and entrepreneurial firms into medium and large companies. Overall, our partnerships demonstrate the value of holding the same equity stake as other private sector institutional investors.

In 2016-17, OCGC will continue to manage the OETF investment portfolio and the Province's partnership interests in OVCF and NVCF in an efficient and cost-effective manner. We will also continue to support

the development of Ontario's venture capital ecosystem and provide advice and support on the Province's venture capital policies.

We would like to acknowledge the departure of Tony LaMantia from the Board of Directors, effective March 31, 2016. The Board is deeply grateful to Mr. LaMantia for his significant contributions and outstanding service during his tenure with OCGC.

We would also like to thank the OCGC staff for their ongoing effort and commitment to OCGC's success, as well as the members of the Board of Directors for their advice and oversight during the fiscal year. We look forward to working with both staff and the Board in 2016-17.



**Jeff Kehoe**  
Chair



**John Marshall**  
President and Chief Executive Officer



# DISCUSSION AND ANALYSIS

## ONTARIO VENTURE CAPITAL MARKET IN 2015<sup>3</sup>

Venture capital investments in Ontario continued to surge in 2015. During the year, 195 companies in Ontario received venture capital investment totaling over \$1.25 billion, which represents a year-over-year increase of 36% and marks the highest annual totals of investment and companies financed since the dot-com era. Ontario accounted for nearly 50% of total venture investment in Canada in 2015, compared to an annual average of 40% over the previous decade. The increased pace of investment represents a market share increase of approximately 7% over 2014 and also raised Ontario's ranking among North American jurisdictions to 7<sup>th</sup>, compared to 8<sup>th</sup> in the prior year.

Posting consistent year-over-year gains, and with 2015 recording the highest investment total since 2002, Ontario's venture capital investment activity has rebounded from the financial crisis of 2008-2009. During that time, the Ontario Government's intervention and support played an important role in stabilizing and acting as a catalyst in the market. Through OCGC's venture capital

funds and other market trends such as access to new innovative technologies in defined verticals (eg. Fintech), institutional and corporate investors are re-engaging with the venture capital asset class in Ontario/Canada.

In early 2015, the fourth and final fund-of-funds sponsored through the Federal Venture Capital Action Plan (VCAP) was launched. The four VCAP fund-of-funds have reached a combined capitalization of over \$1.35 billion<sup>4</sup> which, together with additional private sector capital, will continue to support and foster economic growth in Ontario/Canada. In partnership with institutional and leading foreign/domestic private sector investors, these funds will provide critical support and financing opportunities for the next generation of successful Ontario-based fund managers, such as XPV, Georgian Capital Partners and Golden Venture Funds, all of whom were originally funded through OVCF and have successfully raised successor funds with investments from NVCF.

The impact of OCGC's venture capital funds can be found in greater detail in the following Operations and Results Achieved section below.

<sup>3</sup> All statistics, figures and data refer to calendar year and are sourced from Thomson Reuters unless otherwise noted.

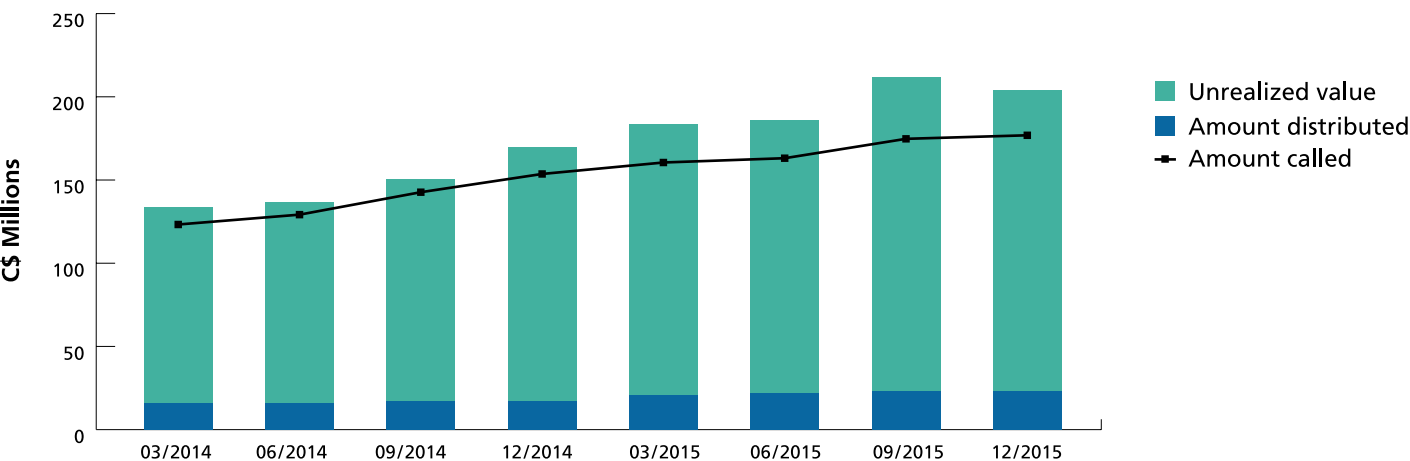
<sup>4</sup> While these funds are not strictly Ontario focused, provincial investment market share suggests Ontario could see as much as 40-50% of the capital invested through the program.

# OPERATIONS AND RESULTS ACHIEVED

## Ontario Capital Growth Corporation

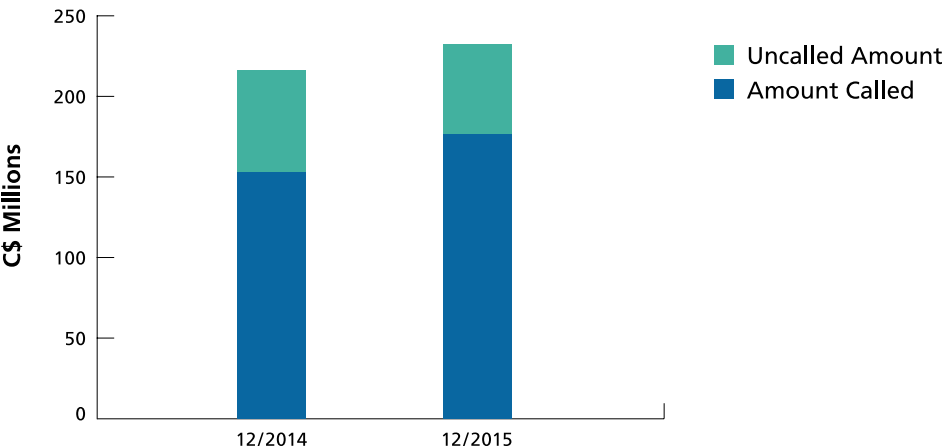
On an aggregated basis, the interim performance of OCGC's venture capital investments has indicated a multiple of capital<sup>5</sup> of 1.15x as of December 31, 2015, compared to 1.11x as of December 31, 2014 (see Figure 1).

Figure 1  
**OCGC INTERIM FUND PERFORMANCE AS AT DECEMBER 31, 2015**



OCGC had an increase of \$16 million in capital commitments in 2015 (see Figure 2). The new commitments are attributed to follow-on investments into OETF portfolio companies and the final commitments to NVCF which reached its hard cap of \$300 million, in July 2015. As of December 31 2015, approximately 76% of OCGC's committed capital has been funded.

Figure 2  
**OCGC COMMITMENTS AS AT DECEMBER 31, 2015**



<sup>5</sup> Multiple of capital as calculated is net of underlying fund manager fees, expenses and carried interest, but before OCGC's operating costs.



## Ontario Venture Capital Fund

OVCF has completed its investment period and is fully committed. In accordance with the OVCF portfolio guidelines, OVCF has made a total of 11 fund commitments to qualified venture capital funds. Of the 11 fund commitments, nine commitments were made to Ontario-based/focused funds totalling approximately \$169 million and two commitments were made to other non-Ontario based/focused funds totalling \$3.5 million. OVCF has also made seven direct co-investments in Ontario-based companies totalling approximately \$21.5 million.

Through its investment lifecycle, capital committed by OVCF, together with third party capital, has collectively provided over \$1 billion for Ontario-based/focused funds and companies. As of December 31 2015, OVCF Ontario-based portfolio companies have cumulatively recorded \$1.7 billion in revenues, \$410 million in R&D expenditures and employ 3,441 people.<sup>6</sup>

OVCF's portfolio includes \$169 million in capital commitments to the following Ontario-based/focused fund managers:



OVCF's direct investment portfolio includes seven co-investments totalling \$21.5 million in the following Ontario-based companies:



<sup>6</sup> Revenues and R&D expenditures have been aggregated since first OVCF investment

## Ontario Emerging Technologies Fund

OCGC continues to actively manage its direct investment activities across a portfolio of 16 Ontario-based, high potential emerging technology companies. In fiscal 2015-16, OCGC approved follow-on co-investments into portfolio companies of the Ontario Emerging Technologies Fund (OETF), which represented new capital commitments of approximately \$4.6 million. During the same period, approximately \$3.1 million in follow-on investment was funded to OETF portfolio companies. Since inception to March 31, 2016, OCGC has conditionally approved approximately \$93 million in co-investments.

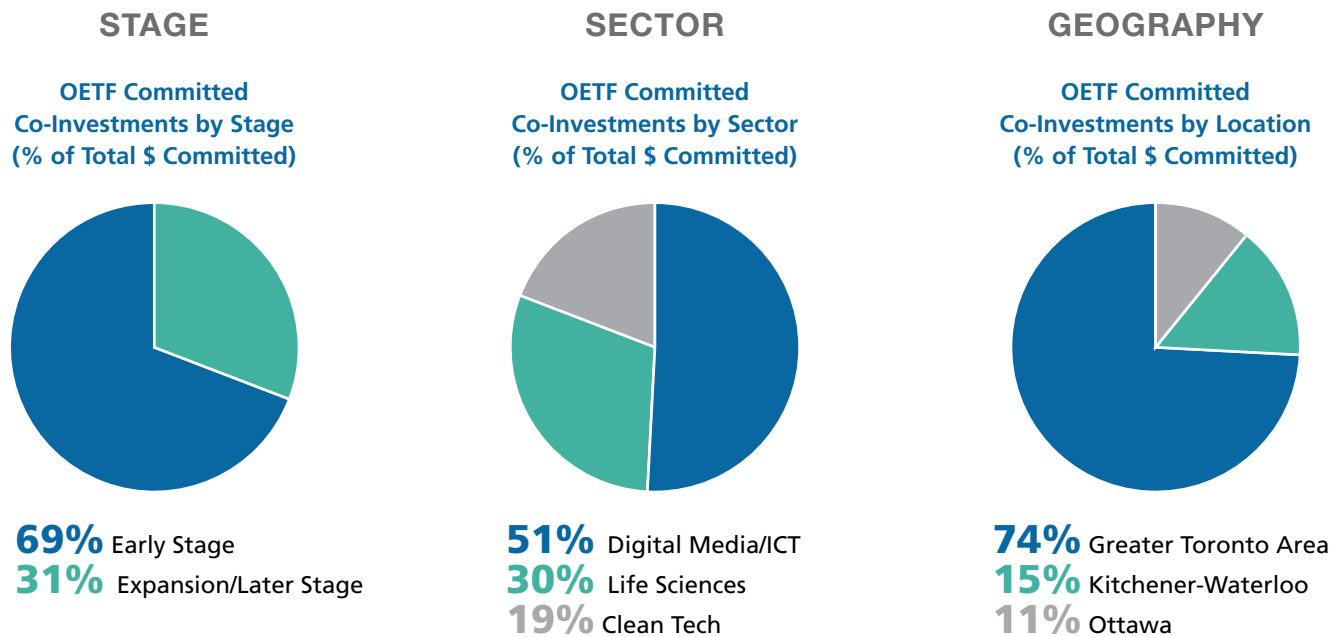
As directed in May 2012 by the Ministry, OETF no longer invests in new companies and only makes follow-on investments into its existing portfolio of companies, as warranted.

As of March 31, 2016, OETF's investment portfolio included the following companies:



As outlined and detailed in the audited financial statements and notes, OCGC has recognized impairments and realized gains on venture capital investments in fiscal 2015-16. OCGC is expected to experience both investment gains and losses, which is typical for funds targeting early stage technology companies.

# Portfolio Diversification



OETF was launched in 2009 in response to the financial crisis to supply much needed capital to high-potential private Ontario companies in the clean technology; life sciences and advanced health technologies; digital media and information & communications technology sectors when access to capital was the most challenging for Ontario’s start-up community. OETF’s portfolio diversification with respect to investment stage and target sectors helps to mitigate the inherent financial risk associated with venture capital investment. OETF’s portfolio of companies is well represented and dispersed throughout the major urban centers of southern Ontario referred to as Ontario’s Innovation SuperCorridor.

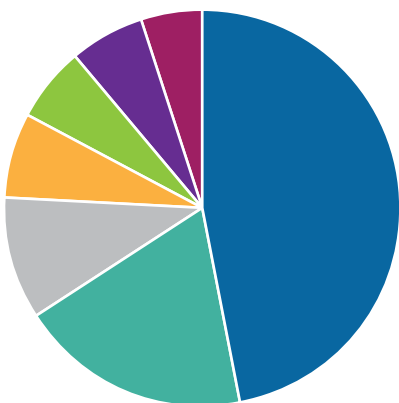
# Capital Leverage

Through its role as a market catalyst, a key measure of OETF’s success is in leveraging third party capital through its co-investments. OCGC’s total capital commitments of approximately \$93 million have leveraged approximately \$243 million dollars in additional third-party capital, a ratio of \$2.6 for every dollar invested.

Variability in the sources of capital that a company can access is critical to a healthy and thriving venture capital market. Through OETF, OCGC has attracted a diverse group of investors to co-invest alongside. In addition to venture capital industry professionals, OETF partners include numerous angel syndicates and corporate investors. (See Figure 3)

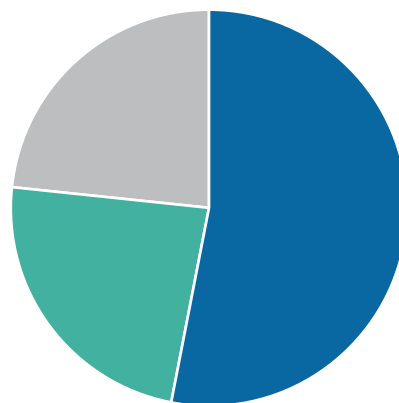
The investment capital partnering with OETF is similarly diverse in geographic origin, illustrating the significance and desire to invest in Ontario’s emerging technology start-ups. As of March 31, 2016, more than half of all dollars leveraged originated from Ontario with the balance shared at approximately equal levels between other Canadian and foreign jurisdictions. (See Figure 4).

Figure 3  
**OETF LEVERAGE  
BY INVESTOR TYPE**  
(% of Total Flowed \$ Leveraged)



**47%** Private Independent  
**19%** Foreign  
**10%** Retail  
**7%** Government  
**6%** Other  
**6%** Corporate  
**5%** Angel Syndicate

Figure 4  
**OETF LEVERAGE  
BY INVESTOR LOCATION**  
(% of Total Flowed \$ Leveraged)



**53.2%** Ontario  
**23.6%** Foreign  
**23.2%** Rest of Canada



## Northleaf Venture Catalyst Fund

As the first fund launched under the Federal VCAP program in January 2014, NVCF is now close to the midpoint of its five-year investment program. NVCF has been very active in providing much needed capital into the Ontario and Canadian venture capital markets. In accordance with the NVCF portfolio guidelines, as of March 31, 2016, NVCF has made a total of nine fund commitments to qualified venture capital funds, six of which are based in Ontario. NVCF has also made nine direct co-investments in Canada-based companies including six located in Ontario.

To date, capital committed by NVCF, together with third party capital, has collectively provided over \$1.5 billion for Canada-based/focused funds and companies. NVCF's Canada-based Portfolio Companies have recorded<sup>7</sup> \$395 million in revenues, \$86 million in R&D expenditures and employ 1,374 people<sup>8</sup>.

As of March 31, 2016, NVCF has committed approximately \$192 million to a number of top Canada-based/focused venture fund managers including:



(Ontario based)



(Ontario based)



(Ontario based)



(Ontario based)



(Ontario based)

NVCF has also made nine direct co-investments totalling approximately \$41 million, including the following Canada-based companies:



(Cambridge, Ontario)



(Toronto, Ontario)



(Toronto, Ontario)



(Toronto, Ontario)



<sup>7</sup> Revenues, R&D expenditures and employment figures recorded as of December 31 2015

<sup>8</sup> Revenues and R&D expenditures have been aggregated since first NVCF investment

## **Ontario Venture Capital Ecosystem Activities**

OCGC supports the development of Ontario's venture capital ecosystem by:

- Participating in venture capital initiatives to raise awareness of OCGC's mandate and potential investment opportunities in Ontario, as well as to gather further market intelligence to support venture capital public policies and gather data on opportunities generated;
- Working with the Ministry on venture capital public policies to support Ontario's efforts to strengthen the venture capital ecosystem in Ontario; and,
- Seeking to enhance the venture capital community's awareness of the full range of other government initiatives that complement the OCGC's mandate.

To that end, OCGC participated in several events this past fiscal year to increase the profile of its portfolio companies and to support Ontario emerging technology companies in gaining access to the broader investment community. OCGC proactively engaged with investors at Canada's Venture Capital and Private Equity Association (CVCA) Annual Conference, participated in the first Venture North conference and attended numerous events hosted by the Canadian Innovation Exchange, the National Angel Capital Organization, C100, the Toronto Stock Exchange, Ontario Centres of Excellence, and several accelerators and incubators.

# FINANCIAL STATEMENTS

March 31, 2016 and 2015

June 24, 2016

## Management's 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 judgment, 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 24, 2016.

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 of Directors 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 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 its opinion.

On behalf of Management:

A handwritten signature in black ink, appearing to read "John Marshall". The signature is stylized with a large, looping initial "J" and a cursive "Marshall".

**John Marshall**

President and Chief Executive Officer





June 24, 2016

## 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, 2016 and 2015 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. These standards require that we comply with ethical requirements and plan and perform the audit 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, 2016 and 2015, and the results of its operations and changes in accumulated operating surplus, its remeasurement gains and losses, 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 Professional Accountants, Licensed Public Accountants**

#### PricewaterhouseCoopers LLP

PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2

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

# Statements of Financial Position

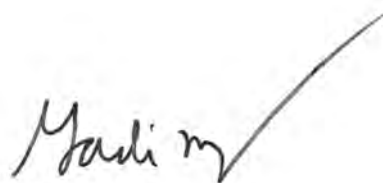
As at March 31, 2016 and 2015

	2016 \$	2015 \$
<b>ASSETS</b>		
Cash and cash equivalents	7,651,779	4,242,043
Marketable securities (note 5)	85,010,689	92,636,653
Accounts receivable (note 4)	22,822	10,015,077
Ontario Venture Capital Fund LP (OVCF) (note 6)	61,519,631	55,046,432
Ontario Emerging Technologies Fund (OETF) (notes 7 and 10)	43,731,441	63,488,462
Northleaf Venture Catalyst Fund LP (NVCF) (note 8)	30,069,727	17,739,398
	<b>228,006,089</b>	243,168,065
<b>LIABILITIES</b>		
Accounts payable (note 13)	221,177	281,327
<b>NET ASSETS</b>	<b>227,784,912</b>	242,886,738
<b>Accumulated surplus</b>	<b>227,784,912</b>	242,886,738
<b>Accumulated surplus comprises</b>		
Accumulated operating surplus	226,829,545	241,419,846
Accumulated remeasurement gains	955,367	1,466,892
	<b>227,784,912</b>	242,886,738

Approved by the Board of Directors



Director



Director

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

# Statements of Operations and Changes in Accumulated Operating Surplus

For the years ended March 31, 2016 and 2015

	2016 \$	2015 \$
<b>REVENUES</b>		
Funding and transfer payments from the Province of Ontario		
OETF (note 7)	6,000,000	8,000,000
Life Sciences Seed Venture Capital Fund (LSSVCF) (note 14)	-	10,000,000
Interest income	876,362	1,346,307
Investment income in funds (note 11)	128,879	79,522
Net realized gains on sale of investment funds	1,105,473	566,476
Foreign exchange gain (note 3)	-	72,197
	<b>8,110,714</b>	20,064,502
<b>EXPENDITURES</b>		
Reimbursements to MRI (note 13)	851,236	820,548
Cash management fees (note 9)	38,261	37,986
Professional services fees (note 9)	377,138	357,641
Board and committee member expenses	13,570	12,008
Foreign exchange loss (note 3)	14,573	-
Impairment of OETF investments (note 12)	21,406,237	6,160,906
	<b>22,701,015</b>	7,389,089
<b>OPERATING (DEFICIT) SURPLUS</b>	<b>(14,590,301)</b>	12,675,413
<b>ACCUMULATED OPERATING SURPLUS - BEGINNING OF YEAR</b>	<b>241,419,846</b>	228,744,433
<b>ACCUMULATED OPERATING SURPLUS - END OF YEAR</b>	<b>226,829,545</b>	241,419,846

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

# Statements of Remeasurement Gains and Losses

For the years ended March 31, 2016 and 2015

	2016 \$	2015 \$
<b>ACCUMULATED REMEASUREMENT GAINS - BEGINNING OF YEAR</b>	<b>1,466,892</b>	1,010,594
Unrealized gains (losses) attributable to		
Foreign exchange	<b>273,512</b>	602,857
Investments	<b>(785,037)</b>	(146,559)
	<b>(511,525)</b>	456,298
<b>ACCUMULATED REMEASUREMENT GAINS - END OF YEAR</b>	<b>955,367</b>	1,466,892

# Statements of Changes in Net Assets

For the years ended March 31, 2016 and 2015

	2016 \$	2015 \$
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>242,886,738</b>	229,755,027
Operating (deficit) surplus	<b>(14,590,301)</b>	12,675,413
Net remeasurement (losses) gains	<b>(511,525)</b>	456,298
(Decrease) increase in net assets	<b>(15,101,826)</b>	13,131,711
<b>NET ASSETS - END OF YEAR</b>	<b>227,784,912</b>	242,886,738

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



# Statements of Cash Flows

For the years ended March 31, 2016 and 2015

	2016 \$	2015 \$
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
(Decrease) increase in net assets	(15,101,826)	13,131,711
Unrealized gains (losses) attributed to investments and foreign exchange	511,525	(456,298)
Impairment of OETF investments	21,406,237	6,160,906
Realized gains on sale of fund investments	(1,105,473)	(566,476)
Changes in non-cash operating balances		
Decrease in accounts receivable	9,992,255	(7,250,405)
Increase (decrease) in accounts payable and accrued liabilities	(60,150)	(31,173)
	<b>15,642,568</b>	10,988,265
<b>INVESTING ACTIVITIES</b>		
Purchase of marketable securities	(205,754,435)	(130,692,947)
Sale of marketable securities	213,163,619	151,478,063
Purchase of investment in OVCF	(7,703,835)	(11,321,558)
Return of capital from OVCF	1,230,636	47,292
Proceeds from investment in OVCF	869,895	46,819
Purchase of investment in NVCF	(12,330,329)	(15,106,678)
Purchase of investments in OETF	(5,007,598)	(10,911,175)
Sale of investments in OETF	3,299,215	1,460,323
	<b>(12,232,832)</b>	(14,999,861)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	<b>3,409,736</b>	(4,011,596)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>4,242,043</b>	8,253,639
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>7,651,779</b>	4,242,043

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

# Notes to Financial Statements

March 31, 2016 and 2015

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## 1 DESCRIPTION OF BUSINESS

The 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 at February 1, 2009 as an agency of the Ministry of Research and Innovation (MRI). As at March 31, 2016, OCGC is responsible to the Minister of Research and Innovation (the Minister).

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;
- 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 regulations.

In July 2009, additional objects were prescribed by Ontario Regulation 278/09 made under the Act:

- 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 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 objectives described in clause 1(a).

In May 2013, additional objects were prescribed by Ontario Regulation 149/13 made under the Act to participate in the formation of one or more funds, to acquire interests in the funds, and to hold, administer and otherwise deal with those interests, where each fund meets the following criteria:

- a) It receives funding directly or indirectly from, among others, one or more of the following:
  - i) the Government of Canada;
  - ii) the Corporation; and
  - iii) private sector entities.
- b) Its goals include promoting the creation of a globally competitive venture capital industry, increasing the supply and effective deployment of early-stage investment capital and increasing the supply of top performing fund managers to manage venture capital investments in Ontario and Canada.
- c) It invests in one or both of the following:
  - i) other funds that supply venture capital to companies; and
  - ii) innovative companies that require venture capital.
- d) It is managed by a private sector fund manager.

In January 2014, as part of a Government of Ontario \$50 million commitment to establish a new Ontario venture capital fund, the Corporation made an initial commitment of \$36.25 million to the Northleaf Venture Catalyst Fund LP alongside the federal government and private sector investors. Through a number of subsequent fund closings, as at July 2015, the commitment was increased to a total of \$50 million.

In May 2014, the Government of Ontario announced a new life sciences seed venture capital fund (LSSVCF) of up to \$30 million. The Corporation will seek to establish the fund in partnership with hospital foundations and the private sector to help finance early-stage Ontario life sciences companies.

As required by the Agencies and Appointments Directive, the Corporation and the Minister have entered into a memorandum of understanding, which outlines the operational, administrative, financial and other relationships that exist between the Minister, MRI and the Corporation.

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 Ontario Venture Capital Fund LP (OVCF) and the Northleaf Venture Catalyst Fund LP (NVCF). OCGC is also responsible for establishing, holding, managing and administering the Ontario Emerging Technologies Fund (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, make 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 makes investments in innovative high potential companies alongside other qualified investors 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: (i) clean technology; (ii) digital media and information and communications technologies; and (iii) life sciences and advanced health technologies.

NVCF is an initiative between the Government of Ontario, the federal government and private sector investors. It is structured as a fund-of-funds that invests primarily in Canadian venture capital and growth funds which, in turn, make investments in innovative, high potential companies. NVCF was established to continue the goals and objectives of OVCF; that is, generate risk adjusted returns by investing in enterprises to help create large, globally competitive companies.

OCGC claims exemption from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act (Canada). As a provincial entity listed in Schedule A of the Canada-Ontario Reciprocal Taxation Agreement, OCGC can claim government rebates of the Harmonized Sales Tax (HST). Under the pay-and-rebate model, OCGC pays the HST on taxable supplies and services, and subsequently applies for a rebate of the HST paid.

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

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Corporation's functional and presentation currency is the Canadian dollar. All financial statement disclosures have been prepared in accordance with Canadian public sector accounting standards (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 into known amounts of cash and that are subject to an insignificant risk of change in value. Cash equivalents include investments that are short-term and highly liquid and have maturities of less than three months from the original purchase date.



## **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 and changes in accumulated operating surplus when that investment is settled. Fair value includes the value of accrued interest, as applicable.

Investments in marketable securities 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 and changes in accumulated operating surplus 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, the 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 statement of operations and changes in accumulated operating surplus on that date.

## **Ontario Emerging Technologies Fund (OETF)**

The investments in OETF are classified as financial instruments and carried at cost or measured at fair value based on whether or not there exists 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 dates 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 and changes in accumulated operating surplus when an investment becomes impaired or is derecognized. Impairment losses that are other than temporary are recorded to the statements of operations and changes in accumulated operating surplus 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 statement of operations and changes in accumulated operating surplus on that date.

Accrued interest, dividends and realized gains on the sale of OETF investments are recorded as described below under revenue recognition. If the Corporation has evidence the amounts owing will be collected, these amounts are accrued as receivable; otherwise, a reserve is taken against these amounts. If, in a future year, the Corporation receives an amount that had been written off, it is recorded as a recovery that had been previously deemed uncollectible. Amounts written off or

recovered are recognized in the statement of operations and changes in accumulated operating surplus in the year in which they occur.

### **Northleaf Venture Catalyst Fund LP (NVCF)**

The investment in NVCF is classified as a financial instrument and carried at cost based on the capital calls made by the NVCF general partner. The investment in NVCF is not traded in an active market and therefore the fair value of the investment is not readily determinable. NVCF investments are subsequently tested for impairment on each statement of financial position date and any losses due to impairment will be recognized in the statement of operations and changes in accumulated operating surplus on that date.

### **Fair value and impairment**

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 values of investments in OVCF and NVCF are not readily determinable and have been recorded at cost. Both OVCF and NVCF do not have a quoted market price in an active market. Subject to an impairment assessment policy, the Corporation may carry out periodic testing of fund investments to determine whether there has been another than temporary loss in value that would indicate impairment. If the investment is determined to be impaired, it is written down to the new carrying value and the resulting impairment loss is recognized immediately in the statements of operations and changes in accumulated operating surplus.

The co-investments made in 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 the statements of financial position dates. Any unrealized gain or loss at these dates is recognized in 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 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 impairment expense is recognized immediately in the statements of operations and changes in accumulated operating surplus. 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, the derivative would be required 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 the absence of this, by applying a suitable valuation technique.

## **Revenue recognition**

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

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

Realized gains on the sale of OETF investments are recognized in the year the Corporation becomes entitled to receive the proceeds as per the terms and conditions of the respective disposition.

Revenue on distributions from OVCF and NVCF are recognized in the year the Corporation becomes entitled to receive the distribution as per the terms and conditions of the respective limited partnership agreement.

OETF and LSSVCF funding received represents monies transferred from MRI to the Corporation, as described in notes 7 and 14, respectively.

## **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 Agencies and Appointments Directive of Management Board of Cabinet (February 2015). In 2015, the Canada Revenue Agency (CRA) ruled that part-time per diem appointees (PTPDAs) are to be treated as employees for tax purposes only. This means that HST may not be paid for per diem services, since CRA does not consider appointee services (a) to be taxable supply; and (b) Employment Insurance is applicable. PTPDAs cannot participate in the Canada Pension Plan with respect to their PTPDA services.

Reimbursements to MRI represent direct OCGC expenses paid by MRI 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 and changes in accumulated operating surplus. Unrealized foreign currency gains and losses on marketable securities, investments in OVCF, investments in NVCF 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 and changes in accumulated operating surplus 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. 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 those estimates.

## **3 FINANCIAL INSTRUMENTS**

The Corporation has exposure to credit risk, liquidity risk, currency risk, interest rate risk and other price risk arising from financial instruments. This note presents information about OCGC's exposure to each of these risks.

### **Credit risk**

Credit risk arises from the potential 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 relatively risk-free (note 5).

### **Liquidity risk**

Liquidity risk is the risk an entity will encounter difficulty in raising funds to meet both expected and unexpected cash demands associated with its financial liabilities. The Corporation manages liquidity risk by maintaining holdings of cash or highly liquid investments. In addition, MRI provides funding to the Corporation to meet obligations as required.

### **Currency risk**

Currency risk is the risk to the Corporation's results of operations 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 \$5,009,838

to the US dollar as at March 31, 2016 (2015 – \$5,278,556). A 5% increase (5% decrease) of the Canadian dollar against the US dollar as at March 31, 2016 would result in an impact of \$250,492 (2015 – \$263,928) on the statements of remeasurement gains and losses with no impact on the operating surplus. In practice, the actual trading results may differ from this sensitivity analysis and the impact could be material.

### **Interest rate risk**

Interest rate risk is the risk the value of a financial instrument might be adversely affected by a change in 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 investments. 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 and NVCF drawdowns projected by the OVCF and NVCF 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.

### **Other price risk**

Other price risk is the risk 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, 2016, if the value of the investments in OVCF, NVCF and OETF had increased or decreased by 5% and all other variables held constant, the value of the investments would have changed by \$6,766,040 (2015 – \$6,813,715). Investments made through OVCF, NVCF 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 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 less changes for any other than temporary impairment in value at the statement of financial position date; however, the amounts that may ultimately be realized could be materially different.

## **4 ACCOUNTS RECEIVABLE**

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, 2016 amounted to \$21,935 (2015 – \$15,077).

Realized gains on the sale of OETF investments are recognized in the year the Corporation becomes entitled to receive the proceeds as per the terms and conditions of the respective dispositions. There were no receivables as a result of dispositions of OETF investments made in 2016 (2015 – \$nil).

## 5 MARKETABLE SECURITIES

OCGC may temporarily invest any monies not immediately required to carry out its objectives 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 deposit issued or guaranteed by a chartered bank, trust company, credit union or caisse populaire.

The value of investments in marketable securities as at March 31 is as follows:

	2016		2015	
	Par value	Fair value	Par value	Fair value
	\$	\$	\$	\$
Province of Ontario treasury bills, due dates ranging from May 4, 2016 to March 22, 2017, average coupon rate of 0.00%	<b>56,134,000</b>	<b>56,047,259</b>	74,325,000	74,111,483
Province of Ontario treasury bills, due dates ranging from May 25, 2016 to July 27, 2016, average coupon rate of 0.00%	<b>29,000,000</b>	<b>28,963,430</b>	18,577,000	18,525,170
	<b>85,134,000</b>	<b>85,010,689</b>	92,902,000	92,636,653

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

The fair value of the marketable securities may fluctuate depending on changes in interest rates. For the year ended March 31, 2016, a change in interest rates of 1.0% would result in an impact of \$1 million (2015 – \$1.1 million) to the results of operations.



## **6 ONTARIO VENTURE CAPITAL FUND LP (OVCF)**

In June 2008, the OVCF was established with an investment commitment from the Province of Ontario of \$90 million. OVCF is a \$205 million joint initiative of the Government of Ontario and private institutional investors, formed to invest primarily in Ontario based and Ontario focused venture capital and growth equity funds that support innovative, high potential companies.

The investment in OVCF is carried at cost, based on the capital calls made by the OVCF general partner. As OVCF is not traded in an active market, the fair value of the investment is not readily determinable.

## **7 ONTARIO EMERGING TECHNOLOGIES FUND (OETF)**

OETF was launched in July 2009 with a commitment from the Province of Ontario to provide funding of \$250 million. OETF, as a direct co-investment fund, makes investments in innovative high potential companies alongside other qualified investors with a proven track record of success. Investments are in three strategic sectors: (a) clean technology; (b) digital media and information and communication technologies; and (c) life sciences and advanced health technologies.

On May 30, 2012, the Corporation implemented a pause on any new investments under OETF for an indefinite period of time. This decision did not affect the Corporation's ability to continue to make follow-on investments in existing portfolio companies and did not affect investments-in-process that had already been approved by OCGC's Board of Directors but had not yet closed.

For the year ended March 31, 2016, the aggregate OETF transfer payments received from MRI were \$6,000,000 (2015 – \$8,000,000).

## **8 NORTHLEAF VENTURE CATALYST FUND LP (NVCF)**

In January 2014, the NVCF was established with an initial investment commitment of \$36.25 million from the Ontario Capital Growth Corporation. As at March 31, 2016, OCGC had increased its commitment to a final total of \$50 million. NVCF is a \$300 million joint initiative of the Government of Ontario, Government of Canada and the private sector, formed to invest primarily in Canadian venture capital funds that support innovative, high potential companies.

The investment in NVCF is carried at cost, based on the capital calls net of any return of callable capital made by the NVCF general partner. As NVCF is not traded in an active market, the fair value of the investment is not readily determinable.

## 9 CONTRACTUAL COMMITMENTS

OCGC has the following contractual commitments:

- a) In accordance with a financial service agreement between the OFA and OCGC, OFA conducts investment and cash management services and activities for 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, 2016, the total uncalled commitment is \$27,675,537 to be drawn down over the remaining years of the limited partnership.
- c) In accordance with the contract between Ernst & Young LLP (E&Y) and OCGC, E&Y conducts due diligence services and activities to qualify OETF co-investors. OCGC pays both fixed and hourly rates for these services and activities, respectively.
- d) In accordance with the contract between Covington Capital Corporation (Covington) and OCGC, Covington conducts services and activities to qualify, monitor, and exit OETF's investments. OCGC pays both fixed and hourly rates for these services and activities, respectively.
- e) In accordance with the contract between Weiler & Company and OCGC, Weiler & Company performs accounting functions relating to the operations of OCGC. OCGC pays an hourly rate for these services.
- f) Pursuant to the NVCF limited partnership agreement, OCGC is committed to making capital contributions on notice of capital calls. As at March 31, 2016, the total uncalled commitment is \$19,930,273 to be drawn down over the remaining years of the limited partnership.

## 10 INVESTMENTS IN OETF

Investments in OETF can take the form of warrants or convertible debt transacted in Canadian dollars (CAD) or US dollars (USD). The investments in OETF as at March 31 are summarized as follows:

	2016			2015		
	Acquisition cost \$ *	Carrying value \$	Contingent \$ **	Acquisition cost \$ *	Carrying value \$	Contingent \$ **
CAD investments	<b>45,168,706</b>	<b>37,643,673</b>	<b>1,938,275</b>	65,106,802	58,759,822	350,000
USD investments	<b>6,314,792</b>	<b>6,087,768</b>	-	5,893,925	4,728,640	422,200
	<b>51,483,498</b>	<b>43,731,441</b>	<b>1,938,275</b>	71,000,727	63,488,462	772,200

\* Represents historical cost net of investments exited and investments written off to \$nil.

\*\* Represents follow-up on investments committed to by the Corporation but not yet executed.

All investments have been made in accordance with OETF guidelines. As at March 31, 2016, the OETF investment portfolio consisted of investments in 16 different companies, ranging from 0.21% to 4.11% of net assets. The percentage calculations exclude impaired investments in companies with a nominal or \$nil carrying value.

## 11 INCOME ON INVESTMENT IN FUNDS

During the year ended March 31, 2016, the Corporation recognized \$128,879 (2015 – \$79,522) of investment income in funds.

## 12 IMPAIRMENT OF OETF INVESTMENTS

For the year ended March 31, 2016, impairment charges of \$21,406,237 (2015 – \$6,160,906) in OETF investments were identified by management and were recognized in the statements of operations and changes in accumulated operating surplus.

## 13 ACCOUNTS PAYABLE

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

Recognition and measurement of any reimbursement is subject to annual reconciliation between the Corporation and MRI, and approval of the extent and scope of MRI services to be provided. For the period ending March 31, 2016, the Corporation will seek certification from MRI that any further potential financial liability with respect to eligible expenses incurred on behalf of the Corporation is fully satisfied without further recourse.

The Corporation accrues eligible expenses reimbursable to MRI under accounts payable based on estimates provided by MRI that can be independently verified by the Corporation. Reimbursement payable in arrears as at March 31, 2016 amounted to \$93,125 (2015 – \$136,196).

The remaining balance as at March 31, 2016 in the amount of \$128,052 (2015 – \$145,131) represents payables in arrears to miscellaneous service providers.

#### **14 LIFE SCIENCES SEED VENTURE CAPITAL FUND (LSSVCF)**

On March 27, 2015, MRI entered into the LSSVCF transfer payment agreement with OCGC to establish and invest in a new Ontario life sciences seed venture capital fund. The size of the proposed fund is up to \$30 million with capital commitments from the Government of Ontario, hospital foundations and the private sector.

As at March 31, 2015, the Corporation met the terms and conditions of the LSSVCF transfer payment agreement for MRI to disburse the entire \$10 million funding obligation which was subsequently received.

As at March 31, 2016, the LSSVCF initiative remains in development.

#### **15 NON-FINANCIAL ASSETS**

The Corporation does not have any tangible capital assets or prepaid expenses. An inventory of office supplies is held for use and expensed in the period in which they are purchased. The total cost of these supplies is not material to the financial statements and they are expected to be used up in a period of less than one year from their purchase date.

## **16 SUBSEQUENT EVENT**

As at March 31, 2016, the LSSVCF initiative remains in development. In May 2016, a Minister's Letter of Direction was directed to help develop a new Scale Up Venture Fund in a partnership between the Province and the private sector investors. The new fund would invest in Ontario-based companies that are growing their operations to the point of attracting follow-up financing. The proposed initiative was originally announced in the 2015 Ontario budget.

## **17 COMPARATIVE BALANCES**

Certain prior period balances in the statement of cash flows have been reclassified to conform to current year presentation.

# CORPORATE GOVERNANCE

## OVERVIEW

OCGC is an agent of the Crown characterized by Management Board of Cabinet Directive as a board-governed provincial agency.

Corporate governance involves processes that permit the effective supervision and management of OCGC's activities by senior management, the Board of Directors and the Minister of Research and Innovation. It includes identifying individuals and groups responsible for activities and specifying their roles.

## ACCOUNTABILITY AND RESPONSIBILITIES

OCGC's accountability structure flows from its governing statute, the *Ontario Capital Growth Corporation Act, 2008* (the Act). The Minister of Research and Innovation is responsible for the administration of the Act with respect to OCGC. The Act, together with directives issued by Management Board of Cabinet, the Minister of Research and Innovation and the Public Service Commission relating to Crown agencies, form a framework under which OCGC is governed.

Each year, the Minister of Research and Innovation is required to submit the Annual

Report to the Lieutenant Governor in Council and then table the report in the Legislature. In addition, the Minister reviews and approves OCGC's annual business plan. The Minister also maintains communications with OCGC, through its Chair, regarding government policies and expectations relevant to OCGC.

The Chair is accountable to the Minister of Research and Innovation for the performance of OCGC in fulfilling its mandate. The Chair is responsible for providing advice and information to the Minister with regard to the operation and affairs of OCGC. In addition, the Chair provides leadership to OCGC. The Deputy Minister of the Ministry of Research and Innovation ensures organizational capacity in the Ministry to monitor OCGC, and ensuring it manages its risks appropriately.

The Board is appointed by the Lieutenant Governor in Council and is accountable to the Minister through the Chair. The Board performs a supervisory role. It oversees the management of the business and affairs of OCGC to ensure that OCGC's mandate is fulfilled. The Board is comprised of both public servants employed by the Crown and independent directors. The Board meets at least quarterly and receives regular reports from the CEO and OCGC staff concerning the operations of OCGC and its compliance with applicable laws and policies.



Standards of conduct for Board members are set out in a Board-approved Code of Conduct.

There are also two committees of the Board to assist it in supervising the management of OCGC. The Audit & Risk Committee approves an annual audit plan prepared by OCGC's independent external auditors and liaises as appropriate with OCGC's internal auditors and the Auditor General of Ontario regarding financial reporting and internal controls. The Audit & Risk Committee also reviews financial policies and financial statements and recommends them to the Board. Another function of the Audit & Risk Committee is to review OCGC's major risks and mitigation strategies. The Human Resource Committee assists the Board in ensuring appropriate measures are in place relating to compensation, performance evaluation, and training for staff in critical areas.

The CEO is accountable to the Board through the Chair and provides regular reports on OCGC's performance to the Board. Given that the CEO is employed under Part III of the *Public Service of Ontario Act, 2006*, the CEO is also accountable to the Deputy Minister of the Ministry of Research and Innovation. The CEO is responsible for managing the day-to-day operations and ongoing activities of OCGC, including the supervision of staff, in accordance with government policies.

## FINANCIAL REPORTING REQUIREMENTS

OCGC prepares audited annual financial statements in accordance with the Canadian

Public Sector Accounting Board Standards (PSAB) of the Chartered Professional Accountants of Canada. The financial statements are reviewed and recommended by the Audit & Risk Committee and approved by the Board. The annual financial statements are audited by OCGC's independent external auditor who expresses an opinion on whether they present the financial results fairly and in accordance with Canadian Public Sector Accounting Standards. The findings are reviewed by the Audit & Risk Committee and the Board. These audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included in Volume 2 of the Public Accounts of the Province. Unaudited financial statements are prepared quarterly and presented to the Audit & Risk Committee and the Board.

## INTERNAL CONTROLS

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting, to safeguard OCGC's assets and to manage its liabilities.

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. The system of internal controls includes:

- Business planning;
- Written communications of policies and procedures governing corporate conduct and risk management;

- Segregation of duties;
- Maintenance and retention of detailed records;
- Responsible delegation of authority and personal accountability;
- Careful selection and training of personnel; and
- Maintenance of updated accounting and financial risk policies.

As part of its annual business plan, OCGC conducts an overall assessment of corporate-wide risks and develops appropriate mitigation strategies.

## OPERATIONS

In keeping with the original OCGC model and to support its mandate, OCGC remains a small agency with a limited staff involved in operations, governance, financial controls and investments, and supported by a limited number of external service providers having specialized investment knowledge in fund evaluation, direct co-investment and fund-of-fund investments, as well as audit and bookkeeping.



## MEMBERS OF **THE BOARD OF DIRECTORS**

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### **JEFF KEHOE**

**Chair, OCGC Board of Directors**

**Date of Initial Appointment to OCGC Board of Directors: July 2014**

**End of Current Term: July 2017**

Jeff Kehoe was previously with Difference Capital Inc. and was Managing Partner and General Counsel until April 2014. He has over a decade of experience overseeing the Canadian Capital Markets as Director and Vice-President of Enforcement at the Investment Industry Regulatory Organization of Canada (IIROC).

Prior to IIROC, he served as a Crown Attorney and Department of Justice Crown Counsel. Mr. Kehoe has a Bachelor of Laws degree from the University of Windsor, a Juris Doctor degree from the University of Detroit Mercy, a Master of Laws degree specializing in securities law from Osgoode Hall Law School, a Certified Regulatory and Compliance Professional certificate from Wharton University of Pennsylvania and has received securities regulation training from Harvard. He currently serves on both private and public boards including charitable non-profit organizations. He recently completed the Rotman Institute Corporate Directors program (ICD. D).

In 2012, he received the Queen's Diamond Jubilee Medal for contributions to Canada and was a member of the Justices of the Peace Appointments Advisory Council in Ontario. Mr. Kehoe is Chair of the Ontario Capital Growth Corporation and a member of Ontario Place Corporation.

## **GADI MAYMAN**

**Vice-Chair, OCGC Board of Directors**

**Date of Initial Appointment to OCGC Board of Directors: February 2009**

**End of Current Term: January 2017**

As CEO of the Ontario Financing Authority (OFA), Gadi Mayman is responsible for the Province's borrowing and debt management strategy, corporate and electricity finance projects, and its banking and capital markets relationships. He is also CEO and Vice-Chair of the Ontario Electricity Finance Corporation (OEFEC).

Prior to joining the Ontario Ministry of Finance, Mr. Mayman worked at the Export Development Corporation in Ottawa and in the International Division of the TD Bank. Mr. Mayman earned a Bachelor of Applied Science in Industrial Engineering from the University of Toronto in 1981, and a Master of Business Administration from the University of Western Ontario in 1988.

Mr. Mayman is also on the board of Infrastructure Ontario, and is Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and Ontario Power Generation Committee.

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## **ANNIE ROPAR**

**Date of Initial Appointment to OCGC Board of Directors: April 2014**

**End of Current Term: April 2017**

Annie Ropar is Chief Financial Officer at Aequis NEO Exchange Inc., a new stock exchange in Canada launched in March 2015. Prior to joining Aequis, she was Managing Director, Business Manager of Global Equities at RBC Capital Markets and a Partner of RBC Capital Partners.

Ms. Ropar's past community involvement includes serving as a member of the Wellspring Cancer Support Foundation Emerging Leaders Committee, an honorary Chair for Team RBC for the Princess Margaret Foundation Weekend to End Women's Cancer and a member of the Schulich School of Business Career Development Centre Advisory Council.

She holds a Bachelor of Business Management degree (with honours) from Ryerson University, is a Chartered Professional Accountant and also holds a U.S. CPA designation.

## **TONY ROCKINGHAM**

**Date of Initial Appointment to OCGC Board of Directors: February 2009**

**End of Current Term: March 2017**

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

Previously, Mr. Rockingham occupied senior positions at the Ministries of Energy and Environment. In his early career, Mr. Rockingham worked in the British electrical power industry.

Mr. Rockingham earned a Bachelor's degree in Industrial Engineering at the University of Toronto in 1975 and a Ph.D. in Mechanical Engineering from the Imperial College of Science and Technology in London, England in 1981.

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## **DIRECTORS WHOSE APPOINTMENT ENDED DURING FISCAL 2015-16:**

**Tony LaMantia**

**End of Appointment: March 31, 2016**

## **BOARD REMUNERATION**

The total remuneration paid to board members in fiscal 2015-16 was \$11,675.

## RISK MANAGEMENT

# POLICIES AND PROCEDURES

As part of its annual business plan, OCGC conducts an overall assessment of corporate-wide risks and develops appropriate mitigation strategies. OCGC's risk management plan is based on the requirements contained in the *Agencies & Appointments Directive*.<sup>9</sup> The risk management plan considers the management of both internal and external risk exposures. The framework for OCGC's risk management plan, includes, but is not limited to the following risks:

- Financial risk;
- Human Resources risk;
- Operational risk; and
- Strategic risk.

In addition to OCGC's Annual Business Plan, a full risk assessment is completed semi-annually at a minimum and provided to the Board. The Board is also informed of real or potential exposure to risk through regular updates by the CEO.

## OUTLOOK FOR

# FISCAL 2016-17

Based on OCGC's strategy and mandate, a number of priorities have been identified for the 2016-17 fiscal year:

- Continue to manage the OETF investment portfolio;
- Administer the Province's partnership interests in OVCF and NVCF; and
- Continue to support the development of Ontario's venture capital ecosystem and the implementation of the Province's venture capital policies.

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<sup>9</sup> Effective February 2015 and may be amended from time to time





## CONTACT INFORMATION

For general inquiries and information, please contact OCGC at:

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