# ONTARIO CAPITAL GROWTH CORPORATION
## 2009/2010 ANNUAL REPORT

Ontario

Ontario Capital Growth Corporation

www.ontario.ca/ocgc

## The Ontario Capital Growth Corporation (OCGC)

was established by the *Ontario Capital Growth Corporation Act, 2008* and was launched on February 27, 2009. The principal business of the 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).

# MANDATE

The Ontario Capital Growth Corporation (OCGC, or the Corporation) was established through the *Ontario Capital Growth Corporation Act, 2008* 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.

In July 2009, additional objects of the Corporation were prescribed by Ontario Regulation 278/09 made under the Act (the Regulations). The Corporation's expanded objects are to:

- Acquire, manage and otherwise deal with a portfolio of emerging technology businesses referred to as the Ontario Emerging Technologies Fund (OETF), and to review, hold, invest, sell and otherwise deal with such portfolio holdings; and
- Perform any additional objects specified by the Lieutenant Governor in Council.

Launched in 2008, the $205 million Ontario Venture Capital Fund (OVCF) is a joint initiative between the Government of Ontario and leading institutional investors 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 partner institutions. The OVCF is structured as a fund-of-funds with the primary objective of generating attractive returns for its investors. The Fund is managed by Northleaf Capital Partners Ltd., formerly known as TD Capital Private Equity Investors. OCGC is one of the limited partners in this new fund-of-funds.

Launched in 2009, the $250 million Ontario Emerging Technologies Fund is a direct co-investment fund established by the Government of Ontario. The OETF, a direct co-investment fund, is a $250 million fund that co-invests alongside qualified investors into innovative, high-potential private Ontario companies in the following sectors: clean technology; life science and advanced health technologies; digital media and information and communication technology. The OETF is expected to be a self-sustaining investment fund by reinvesting any net capital or profits returned to OCGC from its investments. Once OETF's funding allocation has been reached, it will make new and follow-on investments from any capital or profits returned to OCGC from its investments.

OCGC is in its start-up phase of development. The Agency will review and assess investment opportunities brought to it, and will utilize the services of experts in evaluating venture capital and private equity investors and investments.

OETF is a co-investment fund, one where OCGC is following the market-based investment decisions of private sector investors which identify potential investee companies for OCGC to evaluate and potentially co-invest in. OCGC is investing on the same market terms as its co-investors.

OCGC uses the services of the Ministry of Research and Innovation (MRI) to carry out certain daily operations on a cost-recovery basis, as applicable. OCGC also receives cash management services from the Ontario Financing Authority (OFA) based on a management fee. The OFA is the agency of the Province of Ontario responsible for providing financial and centralized cash management services for the government.

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# MESSAGE FROM THE CHAIR AND PRESIDENT/ CHIEF EXECUTIVE OFFICER

Despite challenging market conditions continuing through fiscal 2009-10, OCGC is pleased to report a productive year.

OCGC continued to support the Province of Ontario's priorities in assisting venture capital funds via the OVCF, and in July, the government expanded the OCGC's mandate to include the OETF. OCGC successfully launched OETF on July 31, 2009, just four months after the government announced that this new fund would be created as a response to the challenges emerging technology companies are experiencing in raising capital due to tightening credit markets.

The OETF is designed to increase the amount of capital available to innovative, high-potential, Ontario-based companies to help them to grow and compete globally in industry sectors of strategic importance to Ontario.

During its initial period, OETF was off to a strong start, closing investments in four companies, representing an OETF investment commitment of $8.98 million.

Since launching in 2008, the OVCF has helped to attract institutional and corporate investors back into venture capital as an asset class.

During this fiscal year, OVCF made conditional commitments totalling $60 million to three Ontario-based venture capital funds. In addition, OVCF also made two direct co-investments, totalling $4.5 million. In February 2010, OVCF closed on its $20 million contractual commitment to XPV Water Fund, which raised $67 million in its initial close.

From an organizational perspective, this past year has been an important one for OCGC as we successfully implemented our new OETF mandate and continue to implement and strengthen corporate governance, policies, and procedures to ensure OCGC reflects leading agency practices.

Looking ahead, given continued uncertainty in the market of the availability of investment capital, we anticipate that fiscal 2010-11 will be a year that reinforces the fact that OETF and OVCF are important sources of capital for innovative companies in Ontario.

We would like to take this opportunity to thank the OCGC staff for their dedication and hard work, and all members of the Board of Directors for their advice and oversight this past fiscal year. We look forward to working with both staff and the Board in the year ahead.

**George Ross**
Chair

**John Marshall**
President and Chief Executive Officer

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This section details Management's discussion and analysis of OCGC's results in 2009–10 and its objectives for 2010–11, beginning with a review of the venture capital industry.

### The Venture Capital Industry[1]

Venture capital (also referred to as risk capital) is a form of capital provided by private or public investors to firms at the seed, early/start-up or expansion stage (pre-IPO stage). Key sources of venture capital (VC) include private and publicly sponsored pools of capital that usually take an equity stake in an investee firm.

Innovative firms need capital and entrepreneurial expertise from investors who are prepared to make higher risk investments in pursuit of superior long-term returns.

Companies are most in need of venture capital to survive and prosper during the start-up and growth phase of a company's development. The average survival rate for start-up companies is relatively low, typically because they do not have the requisite experience and skills needed to attract long-term investors and meet company growth milestones.

### Venture Capital Market Conditions

2009 was a tumultuous year with a set of unprecedented and unpredictable financial and economic conditions. As market turbulence persisted, capital from banks and other financial institutions continued to be scarce as illustrated in Figure 1.

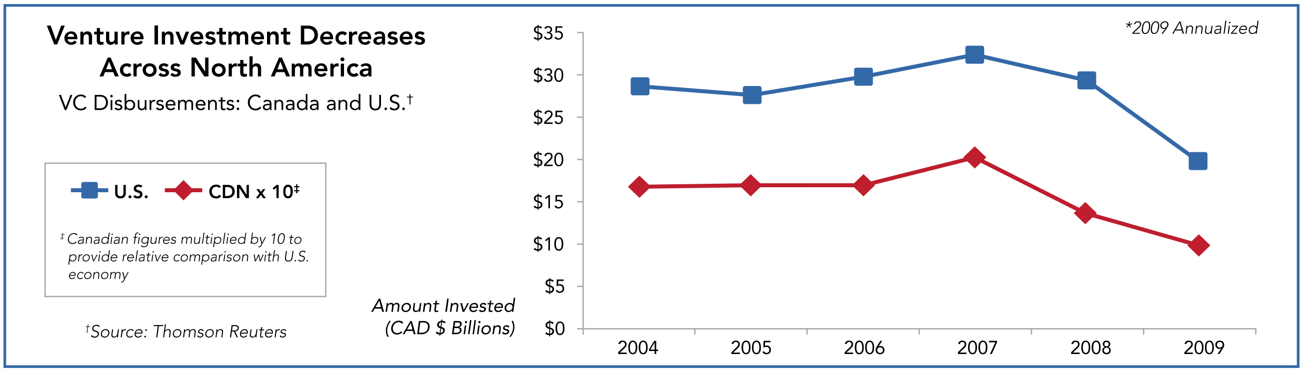
This past year marked the second consecutive year of a slowdown in the venture capital market in Canada, as transaction activity fell to its lowest level since the mid-1990s. A total of $1.0 billion was invested across the country, a 27% decrease from the $1.4 billion invested in 2008. Disbursement levels in 2009 more closely approximated levels last seen in 1996.

In Ontario, deal activity fell in both absolute and relative terms, with $288 million invested in 2009, or 50% below the $575 million of one year ago. As a result, Ontario accounted for only 28% of all capital disbursements nationwide, which is its lowest market share since the early 1990s. Average deal size has also dropped, from $4.5 million to $1.0 million.

Investment from foreign sources has declined as well. Over the last two years, U.S. venture capital in Canadian companies dropped 42%, to $254.1 million in 2009, from $440.9 million in 2007.

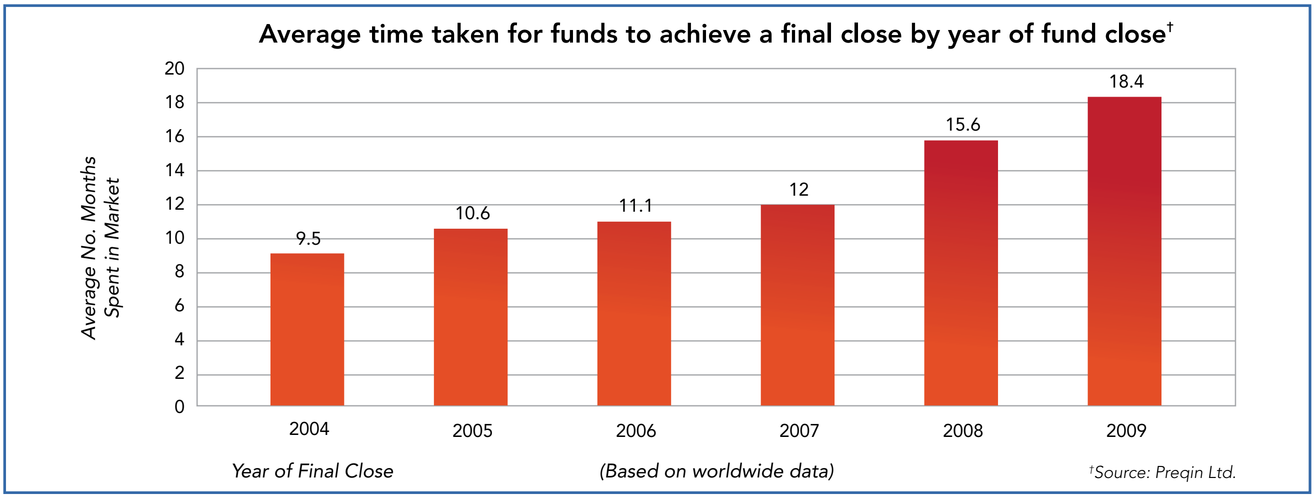
As a result of these economic conditions, venture capital funds are, for the most part, unable to exit from their current investments. As such, these venture capital funds will now have to commit additional time and unplanned follow-on rounds of financing to existing portfolio companies, which will channel resources away from potential new deals.

***FIGURE 1***




[1] Sources: Thomson Reuters, Preqin Ltd., MarketWatch.

*FIGURE 2*




Angel investors have not been left unaffected by these economic conditions, as they have seen their net worth impacted. As well, the decline in overall capital may have caused a decline in the number of new angel investors willing to enter high risk investments. Like the VCs, they are experiencing an inability to exit existing company investments, which restricts their ability to make new and follow-on investments. In turn, the reduction in financing levels has an impact on the ability of companies to position themselves to attract later stage (e.g. venture) financing. This in turn has impacted the angel investors' ability to exit existing investments to redeploy capital into new deals.

## Fundraising Landscape

The launch of the Ontario Venture Capital Fund also occurred during a challenging period in our capital markets.

Venture capital funds that OCGC may give conditional commitments to have been challenged in that banks and other institutional investors which they generally rely on for fundraising have been negatively impacted by the financial crisis and as a consequence, are less willing to support venture capital as an asset class.

The venture capital fundraising environment in Canada remained lukewarm in 2009, with a total of $995 million in new commitments to fund managers; just short of the $1.0 billion committed in the prior year. As a result, fundraising levels continued to approximate levels recorded in the mid-1990s.

Private funds accounted for 53% of new supply last year, or $527 million, though this was 27% below the $719 million they raised in 2008. In Ontario, institutional investment in 2008 was 1% and in 2009 fell to nil. New capital commitments in Ontario were $322 million in 2009, compared to $351 million the previous year.

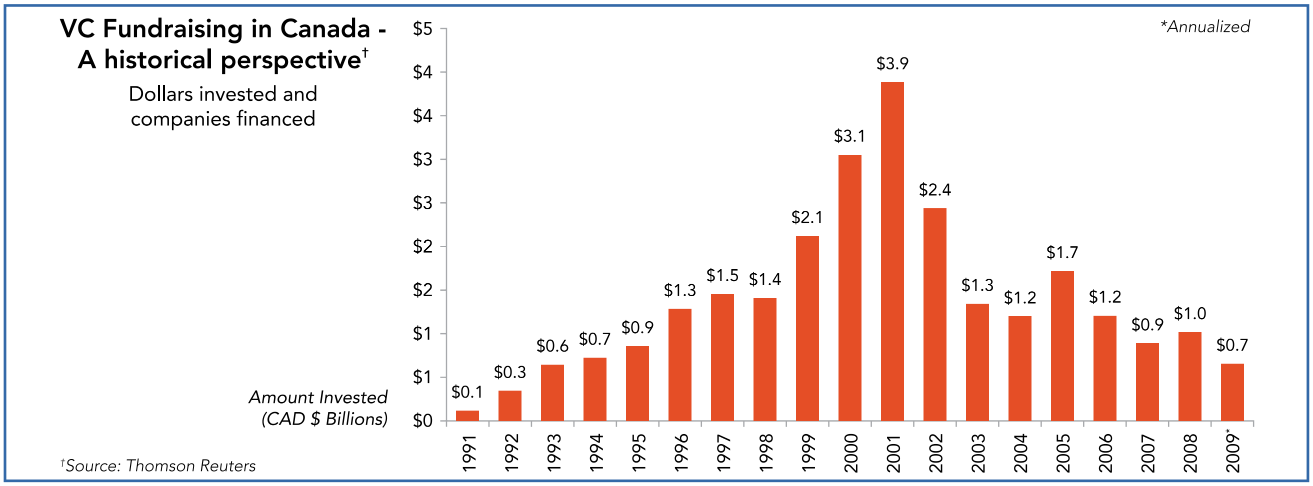
Over the last two years, alternative asset allocations have declined and the exit market has suffered, putting venture firms in the challenging position of articulating their value in an arduous environment. Many firms have been waiting until the exit market improves before commencing their fundraising efforts. This wait has been appreciably longer than many of them predicted. Those firms that are successfully raising money at this time need both a track record and a vision for the future. Consequently, it is expected that the next few years will see the industry consolidate, with the strongest firms surviving.

The number of sources of institutional capital, primarily pension funds, investing in the venture asset class in Ontario specifically, and Canada in general, has dropped dramatically during the past five years (as seen in Figure 3). 30% of North American investors who have traditionally participated in the private equity asset class report that they are unsure they will be making, or will be capable of making, new investments in 2010.

Raising a new fund takes a great deal of time and work. The average time taken to raise a fund in 2009 rose to 18.4 months (as shown in Figure 2) and this does not reflect the significant amount of soft fundraising time that typically precedes this.

Globally, private equity fundraising in 2009 was at its lowest level since 2004 (as shown in Figure 4), indicating that the challenges are not unique to Ontario.

*FIGURE 3*




## Federal Legislative Change – Section 116

Following many years of effort by provincial governments, investors and other stakeholders, the Canadian Federal Government Budget 2010 proposed legislation to narrow the definition of taxable Canadian property, which if passed, would eliminate the need for tax reporting under section 116 of the Income Tax Act for many investments.

The proposed legislation is expected to remove administrative and economic hurdles that have hampered the flow of U.S. and other foreign capital into Canadian technology companies.

Consequently, passage of this legislation is expected to encourage foreign investment in Canadian technology companies.

## Impact on Companies

The prolonged economic downturn has affected the availability of capital needed by Ontario's emerging knowledge-based companies to grow and prosper in global markets. Venture capital, angel and institutional investors are managing their existing portfolios of investment and are cautious about making new investments into early stage companies.

The exit strategy for these early stage companies has traditionally been the public markets via an initial public offering (IPO). As stock markets and the economy rebound, the IPO market should improve. However, for the foreseeable future, it is likely that the exit strategy for early-stage companies will be more weighted to mergers and acquisitions as a means of monetizing equity.

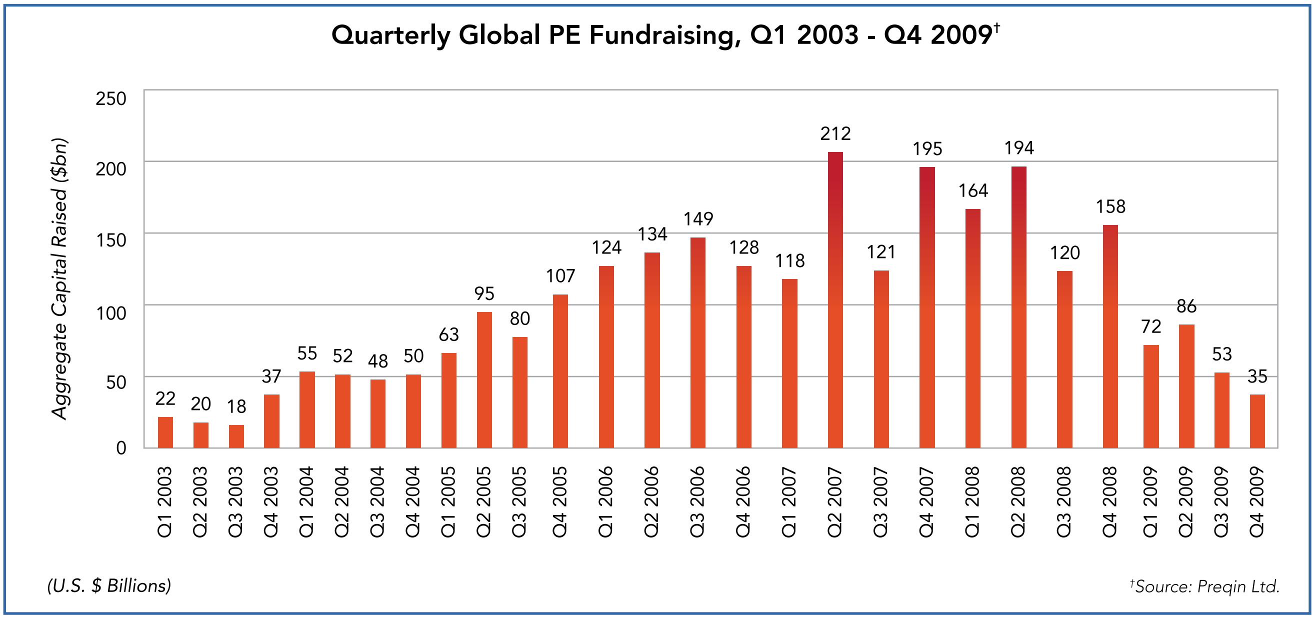
## Risk Capital Initiatives Across Canada

Since the launch of the Ontario Venture Capital Fund as a market-based, returns-driven fund, other jurisdictions in Canada, including Quebec and Alberta, have followed OVCF's lead by creating market-based funds of funds investing locally, across Canada and North America.

These new risk capital initiatives are expected to offer significant sources of capital for early and growth stage companies, as well as venture capital funds seeking investors to commit capital in closing their funds.

The OVCF as a market-based approach has served as a leader and is recognized for having formed unique partnerships where government, leading banks and financial institution investors work together to create a resilient, long-term venture capital industry.

*FIGURE 4*




## The Ontario Venture Capital Fund (OVCF)

The OVCF, launched in June 2008, is a limited partnership between the Ontario government and leading institutional investors to invest primarily in Ontario-focused venture capital and growth funds that support innovative, high-growth companies.

In addition to the Government of Ontario, the participating institutional investors are: TD Bank, OMERS Capital Partners, RBC Capital Partners, Business Development Corporation and Manulife Financial[2]. All investment decisions are made by the General Partner, Northleaf Capital Partners Ltd.[3], a firm collectively retained by the Government of Ontario and the aforementioned institutional investors.

The OVCF is structured as a fund-of-funds that makes investments primarily in qualified underlying venture capital and growth equity funds. These underlying funds subsequently make investments into high-potential companies. The OVCF was designed to foster innovation and investment in Ontario by enhancing long-term investment returns and contributing to the creation of a globally competitive and self-sustaining venture capital industry.

Investment decisions are market-based and returns-focused, with the aim of generating attractive investment returns, and significantly, the long-term prospects for venture capital investors in Ontario, while being based on private sector investment principles in order to be credible to the investment community.

The Fund is focused on building a portfolio of funds comprised principally of Ontario-based and Ontario-focused venture capital and growth-oriented fund investments and direct co-investments.

Through its disciplined focus on generating top-tier returns and fostering the development of best-in-class fund managers, the OVCF serves as an important catalyst in ongoing efforts to create a profitable, globally competitive and self-sustaining venture capital industry in Ontario.

While the Fund is intended to produce attractive returns, it is expected to have considerable impact in creating a continuous cycle that will drive long-term, global investment in world-class Ontario-based funds and technology companies over the long term.

The decline in the overall venture capital and private equity markets continues to highlight the importance

[2] Collectively known as the limited partners. [3] Retained by the Government of Ontario and subsequently transferred to OCGC via Bill 114.

of the OVCF as a key source of risk capital available to Ontario venture capital funds (as noted in Figures 2, 3 and 4).

Together, the limited partners of the OVCF are working to raise new sources of venture capital to grow the next generation of innovative, high-potential companies.

The OVCF, launched in June 2008, at the start of the financial crisis, was to have a second close. However, ongoing market turbulence affected OVCF's ability to raise additional capital in order to create a larger pool of OVCF capital.

Due to market conditions, the time required to close a fund has expanded and this delay has impacted OVCF's ability to flow capital to underlying funds.

## OVCF Initiatives

One of the strategic elements of the Ontario Venture Capital Fund mandate (implemented by Northleaf Capital Partners) was to both provide a new source of capital for venture capital funds, but also to address other "ecosystem" issues in the Ontario market.  The goal of these ecosystem initiatives was to help ensure that Ontario funds apply leading market practices.

An active Ontario/Canadian venture capital industry is a critical driver of the OVCF's financial returns, as it provides the long-term ability to draw additional capital into the market, thus benefiting innovative, high-potential companies.

Consequently, Northleaf Capital Partners Ltd. (formerly known as TD Capital Private Equity Investors[4]), the General Partner of the OVCF, leverages the Fund's scale and strategy to implement an integrated set of industry development initiatives intended to accelerate overall industry evolution and promote the development of an innovation culture in Ontario.

During the past fiscal year, the following venture capital initiatives were implemented:

**OVCF Website:** The "Fund Finder" tool on the OVCF website was launched in September 2009. The "Fund Finder" tool is intended to provide interested entrepreneurs with information on participating venture capital managers and to allow them to direct deal flow to the managers best suited to evaluate each opportunity. Visitors to the OVCF website are able to identify venture capital managers with active funds listed in the "Fund Finder" database through a sector-specific search feature.

**OVCF "Lunch and Learn" Sessions:** The "Lunch and Learn" sessions are designed to address issues that are relevant to venture capital fund managers and provide an opportunity for informal networking and community building. The following sessions were held in 2009:

*How Government Programs can Stretch Your VC Investment*

A panel comprised of representatives from various government programs provided insights into the workings of their respective programs and tactical advice on how venture capitalists can leverage the funding and resources available through these programs to directly benefit their portfolio companies.

*Limited Partners' Perspectives from Across the Country*

OVCF partnered with parties including Canada's Venture Capital and Private Equity Association (CVCA) to host approximately 100 venture capital fund managers across Canada in-person and via video-conference, from Ottawa, Montreal, Calgary and Vancouver. The panel, comprised of representatives from leading venture capital funds, provided details on the

[4] Effective as of November 2009, OVCF is managed by Northleaf Capital Partners Ltd. acting as the General Partner. Toronto Dominion Bank exited its private equity and venture capital businesses by spinning off TD Capital Private Equity Investors to its principal employees, who in turn have established Northleaf Capital Partners Ltd. The limited partners agreed to amend the OVCF partnership to retain Northleaf Capital Partners Ltd. as the replacement General Partner.

workings of each respective venture capital program and insights into the future of venture capital in Canada.

E-Venture Newsletter: The OVCF E-Venture Newsletter was launched in July 2009. This semi-annual publication is designed to include a review of recent developments with portfolio investments and portfolio companies, fund manager profiles, success stories, industry news, best practices and relevant data. Volume 2 was distributed in February 2010.

Conferences and Industry Events: OVCF has participated as a sponsor and/or speaker at numerous industry events and initiatives over the past year. This participation is intended to further strengthen and support the venture capital ecosytem.

## 2009-10 Results - OVCF

During OCGC's 2009-10 fiscal year, OVCF continued its investment strategy and made conditional commitments totaling $60 million to three Ontario-based venture capital funds: EdgeStone Capital Venture Fund III (EdgeStone), a venture capital fund focused primarily on early and growth stage Canadian information technology companies; XPV Water Fund (XPV), a venture and growth equity fund that focuses exclusively on investments in the water technology sector; and Lumira Capital II (Lumira), a venture capital fund focused on later-stage investments in health and life science companies in North America.

In addition, OVCF also made two direct co-investments totaling $4.5 million (excluding reserves for follow-on investments) in Ontario-based companies alongside approved venture capital funds: I Love Rewards, an Ontario-based provider of Internet-enabled employee rewards and recognition, sales incentive and service award programs; and BlueCat Networks Inc., an Ontario-based provider of IP Address Management ("IPAM") appliances and software.

In September 2009, the Business Development Bank of Canada (BDC) issued a news release stating that FedDev Ontario would provide BDC with $15 million to invest in Ontario-based venture capital funds focused on Ontario opportunities. The release noted that as part of its decision-making process BDC will collaborate with the OVCF.

In February 2010, OVCF closed on its $20 million contractual commitment to XPV Water Fund. XPV is continuing to work towards a final close of approximately U.S. $100-$150 million targeted for June 2010.

In summary, as at March 31, 2010, OVCF has made a total of six fund commitments of $83.5 million to Qualified Venture Capital Funds (including four commitments totalling $80.0 million to Ontario-based Funds and $3.5 million to two Other Funds in accordance with OVCF's portfolio guidelines) and $4.5 million to two Direct Co-Investments.

## The Ontario Emerging Technologies Fund (OETF)

In its March 2009 budget, the Government of Ontario announced it would introduce a new fund to grow the next generation of innovative, high-potential, Ontario-based companies. The fund was a response to the challenges emerging technology companies are experiencing in raising capital due to tightening credit markets, particularly at the early stage. Following consultation with the venture capital industry, other private equity entities and an examination of global leading practices, the Ontario Emerging Technologies Fund (OETF), was successfully launched in July 2009.

The OETF, a direct investment fund, is a $250 million fund that co-invests alongside qualified investors into innovative, high-potential, private Ontario companies. The fund is targeted at the following sectors:

- clean technologies;
- life sciences and advanced health technologies; and
- digital media; and information and communications technology.

The challenges faced by companies in these sectors attempting to close financing rounds underscores the important role of OETF in supporting the closing of these rounds of investment capital in Ontario companies.

OETF will only make investments into innovative, high-potential companies alongside qualified investors with a proven track record. After an initial investment into a company, OETF may continue to make further investments, alongside a qualified investor, in a given company until the exit of the investment. Once an investment is exited, returns on investments may be returned to OCGC so it can re-invest capital into new initial investments and further follow-on financings to portfolio companies. OETF will seek to be become a self-sustaining "evergreen fund".

The Agency will review and assess investment opportunities brought to it, and will utilize the services of experts in evaluating venture capital and private equity investors and investments.

OETF is a co-investment fund, one where OCGC is following the market-based investment decisions of private sector investors which identify potential investee companies for OCGC to evaluate and potentially co-invest in. OCGC is investing on the same market terms as its co-investors.

Through a competitive procurement process, Northwater Capital Management Inc. was retained to review and assesses proposals to become a qualified investor. Via the same procurement process, Covington Capital Corporation was retained to evaluate investment opportunities from qualified co-investors and to provide ongoing administration and monitoring of co-investments. All OETF-related decisions are made by OCGC.

### 2009-10 Results - OETF

#### Portfolio Companies

As of fiscal year end 2010, OCGC, via the OETF, had made investments in four companies, equating to a total commitment of $8.98 million. OETF has emerged as an important source of capital for high-potential, innovative companies in Ontario. Based on data from Thomson Reuters, OETF is a leading Ontario-based fund in terms of deal activity.

AVVASI

Based in Waterloo, Ontario, Avvasi is an early stage venture-backed company developing solutions that enable mobile network providers to measure, improve and monetize mobile video. The Avvasi team is comprised of experts and pioneers in video products and technologies with extensive wireless carrier experience.

*www.avvasi.com*

beringmedia

Bering Media is a location-based advertising company focused on bringing hyper local targeting to any website. Through a unique privacy architecture, Bering Media's technology allows media companies and advertising agencies to accurately reach the most relevant and responsive demographics online.

*www.beringmedia.com*

ecobee

Founded in 2007, ecobee delivers intelligent conservation solutions for the North American HVAC and utility markets. Based in Toronto, the company is building its product platform around the Leadership in Energy and Environmental Design (LEED) Green Building Rating System™. ecobee helps its customers conserve energy, save money and reduce their environmental impact.

*www.ecobee.com*

EnviroTower

EnviroTower provides a water management solution for increasing energy and water efficiencies while reducing environmental impact. The company, which operates across North America, enables commercial, institutional and industrial customers to decrease energy and water costs through a clean, comprehensive water treatment system.

*www.envirotower.com*

## Qualified Investors

As of fiscal year end 2010, OCGC had approved ten Qualified Investors for purposes of the Ontario Emerging Technologies Fund (OETF)[5].

With offices in Toronto and Montreal, Brightspark Ventures works closely with entrepreneurs to develop and build software and Internet companies. Their investment approach capitalizes on many years of entrepreneurial, investment and operational experience, in order to actively help early-stage companies through their development and growth phase. Brightspark's investments in startups range from the "product concept" stage to working with experienced entrepreneurs looking to scale their existing business.

*www.brightspark.com*

Business Development Bank of Canada (BDC) has been a major venture capital investor in Canada since 1975. With five offices across Canada, including two located in Ontario (Toronto and Ottawa), BDC is active at every stage of a company's development cycle, from seed through expansion. BDC Venture Capital focuses on financing technology-based businesses and funds that it believes have high growth potential and are positioned to become dominant players in their markets.

*www.bdc.ca*

For more than 15 years, Celtic House Venture Partners has been one of Canada's most active investors in private information and communications technologies (ICT) companies. Celtic House has collaborated with start-up teams and repeat entrepreneurs to develop platform technology companies from the inception phase through to exit.

*www.celtic-house.com*

Cycle Capital Management is a Canadian venture capital fund focused on the cleantech sector. The fund invests in companies developing and commercializing clean technologies and projects in renewable energy generation that are focused on reducing greenhouse gas emissions, optimizing resources use and decreasing impacts over their life cycle.

*www.cyclecapital.com*

[5] Qualified Investors are those parties with whom OCGC may invest in connection with the OETF.

EdgeStone Capital Partners provide capital to early-stage and mid-stage Canadian technology companies that sell solutions to business users. They invest in: entrepreneurs seeking capital to accelerate their company's go-to-market activities; companies that have achieved some level of customer adoption; and, companies with the capacity to build large, global businesses.

*www.edgestone.com*

Based in Waterloo, Ontario, Tech Capital Partners provides financing, hands-on leadership, market strategy and operational guidance to early-stage companies in the information and communication technology sector. Since its inception in 2001, the firm has invested in some of Canada's most innovative high-tech companies. An active advocate of innovation and entrepreneurialism, Tech Capital maintains a strong presence in the technology business community.

*www.techcapital.com*

Ventures West is an established Canadian venture capital firm recognized as a market leader in innovative early-stage technology investing. Since its formation in 1973, Ventures West has managed eight venture capital funds and has invested in more than 160 companies. With 100+ years of combined technology venture investing and hands-on operating experience, the Ventures West team has a unique set of capabilities and a track record in venture capital investing and extensive contacts in the North American technology, financial, and venture capital markets.

*www.ventureswest.com*

Founded in 1996 and located in Toronto, Ontario, JLA Ventures is made up of committed entrepreneurs working hard to transform brilliant ideas into successful, technology-based businesses. Their areas of focus include Software-as-a-Service (SaaS), digital media and mobile applications and services. They partner with highly motivated and talented people to bring world-class, innovative products to rapidly growing markets.

*www.jlaventures.com*

The VentureLink Group of Funds is a family of four retail venture capital funds. The VentureLink Brighter Future Fund focuses on equity investments in Ontario-based companies that develop technologies in the cleantech and information technology sectors. Of interest are industries such as energy and energy replacements, including solar, biodiesel, water and waste management. Also of interest are companies engaged in enterprise software, digital technologies, telecommunications and wireless industries.

*www.venturelinkfunds.com*

XPV Capital Corporation is a Toronto-based investment firm that has been focused on making a difference in water since 2005. By combining water entrepreneurs with investment professionals, XPV considers itself a value-added financial partner for both investors and companies aiming to capitalize on the sweeping transformation taking place in the global water industry. XPV uses its industry insight and focused approach to invest in rapidly growing water enterprises. XPV invests at all stages of a company's growth cycle and seeks potential investments throughout the global water community.

*www.xpvcapital.com*

## 2010–11 OCGC Outlook

The Ontario Capital Growth Corporation plans to focus on the following:

- fulfilling its requirements in managing the Government of Ontario's limited partnership interest in the OVCF;
- fulfilling its mandate with respect to the ongoing management and operation of the OETF;
- continuing to focus on enhancing internal controls, including organizational and procedural controls, to reflect leading practices;
- continuing to strengthen OCGC's corporate governance practices; and
- building on the existing performance measurement framework to reflect the newly-launched OETF.

OETF is growing in significance in the capital market as an important source of early stage investment to finance innovative, high-potential companies. Having OETF as a co-investor is being seen by the market as a form of capital that can help finance the growth of innovative, high-potential companies.

OCGC, having qualified ten investors and closed four deals, is demonstrating the market's confidence in the model. OCGC should see continued progress in the number of investments and investors in the coming year as it looks to increase the range of investment partners.

Going forward, should there be continued fund consolidation in the venture capital marketplace, the ability of OETF to deliver on its mandate could be materially impacted. Since the OETF model is predicated on co-investing only alongside private sectors investors such as venture capital funds, angels, institutions and corporate investors, fewer such investors making early-stage investments in companies, would mean that OETF will need to remain open to a wide range of capital sources and marketing the OETF will continue to be important in the coming year. As the OETF portfolio grows, due consideration will be given to sector, stage, and size of investment in an effort achieve a balanced portfolio.

OCGC will continue to work with OVCF partners to help improve the venture capital ecosystem, however, the market decline has continued to impact the ability of Canadian venture funds to close at their target fundraising levels. These conditions have impacted OVCF's conditional commitments to its underlying portfolio funds; thereby delaying indirect financings to high-growth, innovative companies. Therefore, Northleaf Capital Partners Ltd. will have an important role to play in terms of acting as the lead order, assisting funds with fundraising and helping them to close.

OCGC intends to monitor these market conditions closely and to work with the Province of Ontario to support the risk capital industry, and in turn, innovative Ontario companies. If and when required by the Province of Ontario, OCGC will advise on venture capital issues and initiatives as applicable.

OCGC will continue to manage and operate the Corporation in a prudent, cost-effective manner so that it can maximize the capital committed by the government to the benefit of Ontario companies.

# FINANCIAL STATEMENTS

## Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Capital Growth Corporation have been prepared in accordance with Canadian generally accepted accounting principles of the Canadian Institute of Chartered Accountants 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 May 18, 2010.

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 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 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 a third-party auditor, Gordon Hardcastle, Chartered Accountant. 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 generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and his opinion.

On behalf of Management:

**John Marshall**
President and Chief Executive Officer

Gordon Hardcastle
CHARTERED ACCOUNTANT

P.O. Box 176 • 4174 Catherine Street
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## AUDITOR'S REPORT

To the Directors of the Ontario Capital Growth Corporation

I have audited the statement of financial position of Ontario Capital Growth Corporation as at March 31, 2010 and the statements of revenues and expenditures, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gordon Hardcastle

Dorchester, Canada
May 18, 2010

Chartered Accountant
Licensed Public Accountant

# Ontario Capital Growth Corporation
# Statement of Financial Position

March 31, 2010

| | 2010 | 2009 |
|---|---|---|
| ***ASSETS*** | | |
| *Cash* | *$ 806,735* | *$ 12,105* |
| *Marketable securities (Note 4)* | *84,989,303* | *90,550,243* |
| *Accounts receivable (Note 3)* | *2,580,000* | *182,738* |
| *Investment in Ontario Venture Capital Fund LP (Note 5)* | *7,936,728* | *1,757,551* |
| *Investment in Ontario Emerging Technologies Fund (Note 6)* | *5,980,000* | *—* |
| | *$ 102,292,766* | *$ 92,502,637* |
| ***LIABILITIES*** | | |
| *Accounts payable (Note 3)* | *$ 1,158,096* | *$ 8,928* |
| ***NET ASSETS*** | | |
| *General fund* | *101,134,670* | *92,493,709* |
| ***LIABILITIES AND NET ASSETS*** | *$ 102,292,766* | *$ 92,502,637* |

**ON BEHALF OF THE BOARD**

Director

Director

*See notes to financial statements, pg. 19.*

# Ontario Capital Growth Corporation
# Statement of Change in Net Assets

Year Ended March 31, 2010

| | 2010 | 2009 |
|---|---|---|
| NET ASSETS - BEGINNING OF YEAR | $ 92,493,709 | $ — |
| Net income for the year | 8,640,961 | 92,493,709 |
| NET ASSETS - END OF YEAR | $101,134,670 | $ 92,493,709 |

*See notes to financial statements, pg. 19.*

# Ontario Capital Growth Corporation
# Statement of Revenues and Expenditures

Year Ended March 31, 2010

| | 2010 | 2009 |
|---|---|---|
| **REVENUE** | | |
| *Province of Ontario - OVCF (Note 8)* | $ — | $ 92,249,261 |
| *Province of Ontario OETF (Note 9)* | 9,560,000 | — |
| *Organizational revenue* | — | 182,738 |
| *Interest income* | 479,379 | 70,806 |
| | 10,039,379 | 92,502,805 |
| **EXPENSES** | | |
| *Reimbursement to the Ministry of Research and Innovation (Note 3)* | $ 1,135,500 | $ — |
| *Cash management fees* | 46,551 | 3,942 |
| *Professional fees* | 216,367 | 5,154 |
| | 1,398,418 | 9,096 |
| **NET INCOME FOR THE YEAR** | $ 8,640,961 | $ 92,493,709 |

*See notes to financial statements, pg. 19.*

# Ontario Capital Growth Corporation
# Statement of Cash Flows

Year Ended March 31, 2010

| | 2010 | 2009 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income for the year | $ 8,640,961 | $ 92,493,709 |
| **Changes in non cash working capital:** | | |
| Accounts receivable | (2,397,262) | (182,738) |
| Accounts payable | 1,149,168 | 8,928 |
| | (1,248,094) | (173,810) |
| Cash flow from operating activities | 7,392,867 | 92,319,899 |
| **INVESTING ACTIVITIES** | | |
| Marketable securities | 5,560,940 | (90,550,243) |
| Investment in Ontario Venture Capital Fund LP | (6,179,177) | (1,757,551) |
| Investments in Ontario Emerging Technologies Fund | (5,980,000) | — |
| Cash flow used by investing activities | (6,598,237) | (92,307,794) |
| **INCREASE IN CASH FLOW** | 794,630 | 12,105 |
| Cash - Beginning of year | 12,105 | — |
| **CASH - END OF YEAR** | $ 806,735 | $ 12,105 |

See notes to financial statements, pg. 19.

# NOTES TO FINANCIAL STATEMENTS

## 1. Description of Business

The Ontario Capital Growth Corporation ("OCGC") is a corporation without share capital, established under the *Ontario Capital Growth Corporation Act, 2008* which was proclaimed in force as of February 1st, 2009 as an agency of the Ministry of Research and Innovation ("MRI").

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 clause (a); and

(c) to carry out the other objects that are prescribed by the regulations.

Under Section 1 of Ontario Regulation 278/09 (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, OCGC and the MRI have entered into a Memorandum of Understanding which outlines the operational, administrative, financial and other relationships that exist between the OCGC and the MRI.

The OVCF is a joint initiative between 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 in Ontario capable of generating superior returns by investing in enterprises with a view to creating large globally competitive companies.

The OETF is structured as a direct co-investment fund that will only make investments into innovative, high-potential companies alongside other qualified investor(s) with a proven track record of success. OETF is an initiative of the Government on Ontario to invest in: (1) clean technology; (2) life sciences; and (3) digital media and information and communication technologies.

The OCGC claims exemption from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act (Canada).

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

## 2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, the more significant of which are summarized below.

### Revenue recognition

- OVCF funding received represents the monies transferred from the Ontario Financing Authority ("OFA") as described in Note 8.
- Interest revenue is recognized as it is earned.
- Organizational revenue represents a reimbursement of out of pocket expenses (including legal and other capital raising expenses) incurred in connection with the organization of the OVCF.
- OETF funding received represents monies transferred from the MRI to OCGC. The revenue is recognized at the time a capital call is provided to MRI and all contractual requirements under the transfer agreement between MRI and OCGC have been met.

### Expense categories

- Cash management fees represent fees paid to the OFA for cash management and related services.
- Professional fees relate to fees paid to third party service providers.
- Reimbursement to Province of Ontario is for charges from the MRI as explained in Note 3.

### Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

### Financial instruments

- Effective February 1, 2009, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under sections 1530–Comprehensive income, 3250–Equity, 3855–Financial instruments – measurement and disclosure, 3861–Financial instruments – presentation and disclosure and 3865–Hedges. These new Handbook sections, which apply to years beginning on or after October 1, 2007 provide requirements for the recognition, measurement, presentation and disclosure of financial instruments. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.
- Under section 3855, all financial instruments are classified into one of five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the opening balance sheet of the year of adoption at fair value.
- The following is a summary of the accounting model the Corporation has elected to apply to each of its significant categories of financial instruments:

| *Financial instrument* | *Classification* |
|---|---|
| Cash | Held for trading |
| Marketable securities | Available-for-sale |
| Accounts receivable | Loans |
| Investment in Ontario Venture Capital Fund LP | Available-for-sale |
| Investments in Ontario Emerging Technologies Fund | Available-for-sale |
| Accounts payable | Other financial liabilities |

- Subsequent measurement and treatment of any gain or loss on the financial instruments is recorded as follows:

(a) Held for trading financial assets are measured at fair value at the balance sheet date with any gain or loss recognized immediately in net income. Interest and dividends earned from held for trading assets are also included in income for the period.

(b) Loans and receivables are measured at amortized cost using the effective interest method. Any gain or loss is recognized in net income.

(c) Available-for-sale financial assets that have quoted market prices in an active market are carried at fair value. Unrealized gains and losses are included in the statement of changes in net assets until realized through disposition or impairment.

Available-for-sale financial assets that do not have quoted market prices in an active market are carried at cost. Gains and losses are included in the statement of income when realized through disposition or impairment.

(d) Other financial liabilities are measured at amortized cost using the effective interest method. Any gain or loss is recognized in net income.

### Investments - OETF

Investments made under the OETF will initially be recorded at cost. As part of the reporting process to the Province of Ontario, OCGC will be required to carry out periodic valuations of the individual investments to determine fair value. Fair value will be determined using procedures consistent with international private equity and venture capital valuation practices.

OCGC does not accrue interest income on venture debt unless the investee company is paying the stated interest on a regular basis.

## 3. Related Party Transactions

The company uses the services of the MRI to carry out certain of its operational services on a cost recovery basis. These expenses include but are not limited to staff salary and benefits, information technology assistance, rent, external legal services, website development including french language translation and accounting services.

Recognition and measurement of cost recoveries is subject to annual negotiations between OCGC and MRI which include the extent and scope of services to be approved for reimbursement. For each fiscal year, OCGC obtains confirmation from MRI prior to to the release of the audited financial statements of the total expenses to be recovered.

| | *2010* | *2009* |
|---|---|---|
| *Salaries and benefits* | *$ 728,669* | *$ —* |
| *Office rental* | *44,800* | *—* |
| *Information and technology* | *25,200* | *—* |
| *External legal services* | *168,837* | *—* |
| *Other* | *167,994* | *—* |
| | *$ 1,135,500* | *$ —* |

As at March 31, 2010, accounts receivable included $2,580,000 (2009 – $Nil) due from MRI.

As at March 31, 2010, accounts payable included $1,111,643 (2009 – $Nil) due to MRI.

## 4. Marketable Securities

| | 2010 | 2009 |
|---|---|---|
| *Province of Ontario, Treasury Bills, $85,237,000, due dates ranging from April 7, 2010 to March 8, 2011, average yield of 0.5% per annum* | *$ 84,989,303* | *$ 90,550,243* |

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

(a) debt obligations are 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.

## 5. Investment In Ontario Venture Capital Fund LP

The investment in the OVCF is carried at cost based on the capital calls made by the LP. As the LP is not trading in the open market, the market value of the investment is not readily determinable.

## 6. Investments In Ontario Emerging Technologies Fund

Investments in OETF can take the form of shares or convertible debt. All investments made have been made in accordance with the OETF guidelines.

| | 2010 | 2009 |
|---|---|---|
| *Investments in Ontario Emerging Technologies Fund* | *$ 5,980,000* | *$ —* |

## 7. OETF Commitments

| | 2010 | 2009 |
|---|---|---|
| *Investments approved at March 31, 2010 to be made subsequent to March 31, 2010 based on completion of closing documents or meeting certain pre-determined milestones.* | *$ 5,200,000* | *$ —* |
| *Subsequent to March 31, 2010, investments in three companies were approved; successful completion of closing documents is pending. Some of the approved investments are denominated in $US.* | *$ 5,590,000* | *$ —* |
| | *$ 10,790,000* | *$ —* |

## 8. Province of Ontario - OVCF

In 2006, the Government of Ontario, as an initiative of MRI announced its intention to participate in a venture capital initiative with other institutions, such initiative involving the creation of the OVCF, an Ontario limited partnership.

As part of the implementation of the initiative and in order to ensure that it was carried out on a timely basis, at the direction of the Minister of Finance the provincial commitment of $90 million for the OVCF was invested by the OFA, in its own right and not as agent for MRI, as a limited partner in the Fund (Ontario's LP Interest), on an interim basis pending the establishment by MRI of the OCGC, to receive and hold the investment in substitution for the OFA and until such time as the interest in the Fund was assigned to the Corporation.

Further to the initiative, the OFA and MRI entered into a memorandum of understanding, dated as of June 4, 2008 in respect of the financial operation and administration of Ontario's LP Investment for the period that the OFA was the holder thereof and prior to the Assignment.

Pursuant to the Assignment Documents, Ontario's LP interest was assigned by the OFA to the OCGC on February 27, 2009. A summary of revenue and expenses incurred prior to the assignment is provided below.

| | 2010 | 2009 |
|---|---|---|
| *Funding provided by Province of Ontario* | $ — | $ 90,000,000 |
| *Interest earned to February 27, 2009* | — | 2,148,641 |
| *Unrealized gain on Ontario Treasury Bills at February 27, 2009* | — | 145,855 |
| *Management and other fees incurred to February 27, 2009* | — | (45,235) |
| | $ — | $ 92,249,261 |

During the year, new information became available that $145,855 of the interest reported in the 2009 financial statements was actually unrealized gains on the Ontario Treasury Bills at February 27, 2009 and as such should have been included in revenue from the Province of Ontario. The comparative financial statements have been reclassified to increase Province of Ontario revenue by $145,855 and decrease interest income by $145,855. The reclassification results in no change to the net income reported in 2009.

## 9. Province of Ontario - OETF

On March 18, 2009, the Government of Ontario, as an initiative of MRI announced its intention to create a new venture capital fund to increase investment in green technology and other high-tech companies with a significant corporate footprint in Ontario. The creation of the OETF is in response to the challenges being experienced by companies in technology industries to raise the necessary capital to grow and compete internationally.

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: (1) clean technology; (2) digital media and information & communication technologies; and (3) life sciences.

Operating expenses for the year funded by OETF transfer payments are within the allocated amount. During the year, OCGC requests for OETF transfer payments were $9,560,000 (2009 – $Nil)

## 10. Financial Instruments

### Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Corporation's only accounts receivable is from the MRI and was collected in full subsequent to March 31, 2010. The Corporation is currently not exposed to any other credit risks.

### Fair value

The Corporation's carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates its fair value due to the immediate or short term maturity of these instruments.

The fair value of investments under the OETF have been recorded at cost in the current year as the OCGC is not aware of events between the initial investment date and March 31, 2010 that would have a material effect on the value of the investments. This practice applies to new investments under the OETF during the initial holding period of approximately twelve months. Subsequent to the initial holding period, investments under the OETF will be recorded at fair value as described in the summary of significant accounting policies.

### Currency risk

Currency risk is the risk to the Corporation's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Corporation is not currently exposed to foreign currency exchange risk.

### Interest rate

Interest rate risk is the risk that 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 investments. Risks from interest rate fluctuations are minimized due to the investments being for a weighted average duration of one year or less.

## 11. Contractual Commitments

The OCGC has the following contractual commitments:

(a) In accordance with a Financial Service Agreement between the Ontario Financing Authority ("OFA") and the OCGC, the OFA conducts investment and cash management services and activities for the OCGC. The OFA is the agency of the Province of Ontario responsible for providing financial and centralized cash management services for the government. The OCGC pays the OFA a fee for these services based on assets under management and reimburses for other related activities on a cost recovery basis; and,

(b) Pursuant to the OVCF Limited Partnership Agreement, the OCGC is committed to making capital contributions upon notice of capital calls.

(c) In accordance with the contract between Northwater Capital Management Inc. ("Northwater") and OCGC, Northwater conducts due diligence services and activities to assess potential OETF co-investors.

(d) In accordance with the contract between Covington Capital Inc. ("Covington") and OCGC, Covington conducts due diligence services and activities to assess, monitor and exit OETF investments.

## 12. Future Accounting Change

The Corporation will be required to adopt the International Financial Reporting Standards ("IFRS") beginning in fiscal 2012. In preparation to meet the requirements, it will be taking the following steps to manage the transition to IFRS:

(a) Develop an implementation of transition plan;

(b) Commence activities to identify key issues and the likely impacts resulting from the adoption of IFRS; and,

(c) Initiate analysis to reconfigure its accounting systems.

The Corporation is still in the early stages of these activities. Key elements include disclosure of the qualitative impact in the 2010 annual financial statements, the disclosures of the quantitative impact, if any, in the 2011 financial statements and the preparation of the 2012 financial statements in accordance with IFRS.

# CORPORATE GOVERNANCE

## Overview

OCGC is an agent of the Crown and is classified as an operational enterprise agency.

Corporate governance at OCGC involves processes that permit the effective supervision and management of activities by senior management, its Audit Committee, the Board of Directors and the Minister of Research and Innovation. It includes identifying individuals and groups responsible for the Corporation's activities and specifying their roles. OCGC's governance framework is based on Treasury Board/Management Board of Cabinet's (TB/MBC) Agency Establishment and Accountability Directive[6], and is described in its corporate governance policy.

## Accountability

The Corporation's accountability structure flows from its governing statute, the *Ontario Capital Growth Corporation Act, 2008* and from a Memorandum of Understanding between the Corporation and the Minister of Research and Innovation, as well as directives issued by Treasury Board/Management Board of Cabinet (TB/MBC) relating to Crown agencies. Together, these provide that the Minister of Research 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 Research and Innovation and is accountable to the Minister, through the Chair, for supervising the management of the Corporation's business.

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

[6] As may be amended from time to time.

## Roles and Responsibilities

The Minister of Research and Innovation maintains communications with the Corporation through the Chair regarding government policies, expectations and new directions relevant to OCGC. The Minister is responsible for reviewing and approving the annual business plan and recommending the plan for approval to MBC every three years or as otherwise required by government directives.

The Chair provides leadership and direction to the President/CEO and the Board and ensures the Corporation complies with government policies and directives. The President/CEO 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 primarily of public servants. The Board meets at least quarterly and receives regular reports from the President/CEO concerning the Corporation's operations and its compliance with applicable laws and policies.

The Audit Committee of the Board meets at least quarterly. It approves the annual audit plan 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 annual financial statements in accordance with Canadian generally accepted accounting principles (GAAP). They are reviewed and recommended by the Audit Committee and approved by the Board of Directors. Unaudited financial statements are prepared and presented to the Audit Committee and the Board on a quarterly basis. The annual financial statements are audited by a third-party auditor (selected through a competitive process), who expresses an opinion on whether they present the financial results fairly and in accordance with Canadian GAAP. The findings are reviewed by the Audit Committee and the Board of Directors. These audited financial statements are to be tabled in the Ontario Legislature as part of OCGC's Annual Report and included as a schedule in the Public Accounts of the Province.

## 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. The system of controls:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions;
- provide reasonable assurance that transactions are executed in accordance with authorizations; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized transactions that could have a material effect on the financial statements.

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. The complete system for internal controls encompasses:

- written communication of policies and procedures governing corporate conduct and risk management;
- comprehensive business planning;
- segregation of duties;
- responsible delegation of authority and personal accountability;
- careful selection and training of personnel;
- maintenance and retention of records; and
- regularly updated accounting policies.

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

The Ontario Internal Audit Division of the Ministry of Finance develops an annual internal audit plan based on its risk assessment and input from OCGC Audit Committee and OCGC management. The internal audit plan is presented for review and approval by the OCGC Audit Committee. The Internal Audit Division reports to the OCGC Audit Committee, as applicable, on the results of their audit work in OCGC.

## Board of Directors

The following individuals were members of the Board of Directors for the fiscal year 2009-2010:

**George Ross***, Chair, was appointed February 2009. Current term to February 2012.

George Ross was appointed Deputy Minister of Research and Innovation in January 2008 and Deputy Minister of Consumer Services in February 2010.

Previously, he held the dual position of Assistant Deputy Minister and Chief Operating Officer of MRI.

* Member, Audit Committee. Given the number of board members, the directors all sit as members of the Audit Committee; this approach will be evaluated once additional board members have been appointed.

Before joining MRI, Mr. Ross was the Assistant Deputy Minister of Field Services at the Ministry of Natural Resources (MNR).

He holds a Bachelor of Environmental Studies from the University of Waterloo and certificates in Business Administration and Human Resources Management from Ryerson and Queen's University. He is also a graduate of the advanced program in Human Resources Management at the Rotman School of Business at the University of Toronto.

**Tony Rockingham***, Vice-Chair, was appointed February 2009. Current term to February 2012.

Mr. Rockingham is the Assistant Deputy Minister, Innovation and Commercialization Division, Ministry of Research and Innovation.

Prior to his current position he was the Assistant Deputy Minister in charge of conservation and strategic policy at the Ministry of Energy.

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

**Gadi Mayman***, appointed February 2009. Current term to February 2012.

Mr. Mayman is the Chief Executive Officer of the Ontario Financing Authority.

Mr. Mayman is responsible for the Province of Ontario's medium- and long-term borrowing strategy, banking relationships and policies related to debt management. He advises the Province on the use of Provincial credit and relations with capital markets and investors. He is also Chief Executive Officer of the Ontario Electricity Financing Corporation (OEFC), responsible for its day-to-day operations.

Mr. Mayman is a director on the board of Ontario Infrastructure Projects Corporation (OIPC). He is also Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and Ontario Power Generation Inc. (OPG) Committee.

Prior to joining the Ontario Ministry of Finance in 1991, he worked as a treasury officer at the Export Development Corporation (EDC) in Ottawa for three years and in the International Division of the Toronto Dominion Bank for five years.

Mr. Mayman received a BSc in Industrial Engineering from the University of Toronto in 1981, and an MBA from the University of Western Ontario in 1988.

**Tony Vander Voet***, appointed February 2009. Current term to February 2012.

Mr. Vander Voet recently retired as the Acting Assistant Deputy Minister, Science and Research Division, Ministry of Research and Innovation.

Since 1980, he 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 Corrections, and the Ministry of Economic Development and Trade.

He received his BSc and MSc in Chemistry from the University of Alberta. He holds a PhD in Chemistry from the University of Toronto.

## Risk Management Policies and Procedures

OCGC risk management policies and procedures provide for the management of internal and external risk exposures. Current policies and procedures address market and operational risk exposures. The policies were developed in line with Government of Ontario guidelines and directives.

* Member, Audit Committee. Given the number of board members, the directors all sit as members of the Audit Committee; this approach will be evaluated once additional board members have been appointed.

Once additional board members have been appointed, the Board intends to establish management committees, which will review existing policies and procedures, and bring forward enhancements as applicable.

## Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or external events. OCGC manages operational risk through applicable reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans, and staff training.

OCGC is finalizing a business continuity plan (which covers the Corporation's operations), which will be updated as necessary to facilitate the continuation of essential operational functions with a minimum of disruption in the event of an emergency.

## Policy on Risk Management Reporting

The Board holds regular quarterly meetings at which the Directors are kept informed of the Corporation's activities:

- The President/CEO of OCGC provides the Corporation's Board with a progress report on the three-year plan, staffing and other administrative and operational matters. The President/CEO also reports on compliance with applicable government directives as appropriate.
- The President/CEO reports on program exposures and performance as well as any exceptions to policies.

# ADDITIONAL SOURCES OF INFORMATION

**Websites**

Ontario Capital Growth Corporation
www.ontario.ca/ocgc

Ministry of Research and Innovation
www.ontario.ca/innovation

Ontario Venture Capital Fund
www.ovcf.com

# CONTACT INFORMATION

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Ontario

Ontario Capital Growth Corporation

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Printed in Ontario, Canada on recycled paper.

ISSN: 1920-3438
1923-5208 (Online)