



Tech Futures:
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By [Michael Volker](#)

Financing Innovative B.C., Recent Financings, Tech Awards, and Updates

Financing Innovative B.C.

Earlier this month, I attended the **'Six Countries'** conference organized by Industry Canada. This is an international network (in existence since 1975) of experts, policy makers and practitioners who are engaged in research and policy making applied to innovation.

Martha Piper, UBC's President spoke on the B.C. innovation environment. You only need to drive around the UBC campus to experience the building boom that's taking place there. In February's federal budget, an increase of almost \$2 billion was announced for R&D and B.C.'s universities are major beneficiaries of this. For example, \$11 billion has been invested since 1997 and for the first time, indirect research costs are being supported to the tune of \$245 million per year.

Talent has, until recently, been our biggest export but that trend is reversing due in large part to the improvements in the innovation climate, she said.

She noted that many visitors still view Canada as a beautifully endowed country with rich resources and are not aware of its intellectual capacity. Actually, it isn't only visitors that think this way. I recently polled a class of **SFU** engineering students and found that the overwhelming majority of them thought that Canada's major export was lumber!

Many Canadians are trying to change that perception. For example, when people like former news anchor **Pamela Wallin** (Canada's ambassador in New York) speak to American audiences she goes out of her way to point to Canadian technology that's ubiquitous in the U.S. such as **RIM's Blackberry** pager.

An Ottawa journalist recently noted that Americans don't really care that something happens to come from Canada. What they care about is that it's good. If it's the best, then they'll pick buy it and the fact that it's Canadian isn't what makes it sell.

Indeed, in the highly competitive technology sector, it's all about excellence in management and producing leading edge products. And that all begins with research and development and the commercialization thereof.

Now, Finance Minister **John Manley** is actively pushing the Canada as a "Northern Tiger" image. **Wallin** attends events citing statistics that show mining, agriculture, forestry and fishing accounting for only about six per cent of the value of goods and services produced in Canada. Manufacturing, health, financial, real estate, cultural and science and technology account for the bulk of Canada's GDP.

Piper noted that **Vancouver**, as a technology centre, ranks third in Canada and sixteenth in North America. In B.C., the [Premier's Technology Council](#) has stated that by 2006, B.C. should be one of the world's top 10 technology centres!

Great progress has been made in increasing R&D expenditures. In Canada, we've always groaned about our meager **1.5% GERD/GDP** statistic, which is now more like 1.9% (alas! only 1.0% in B.C.) on a national level. I always remember an Ottawa Science Policy leader's frustrating comment, "From 1.5% to 1.5% - my 25 years in Canadian Science Policy" - but that has changed. Total R&D spending in Canada - government and private sector now stands at some \$20 billion, up from \$15 only a few years ago when **Paul Martin**, then **Finance Minister**, stated an objective of tripling to \$45 billion by 2010.

What worries me greatly, though, is that much of the new knowledge that's being created will sit in university labs and offices and never see the light of day. That's because there's a dearth of very early stage funding available to support technology entrepreneurs in the early pre-commercialization stages of an innovation. Actually, "dearth" is an exaggeration. There's virtually none. There's a funding chasm that needs to be crossed. The venture capital industry is growing in B.C. and R&D output is increasing but a bridge needs to be built between them.

Americans incubate technologies a little longer before spinning them out. A recent **AUTM** (Association of University Technology Managers) survey, noted that whereas American universities created 402 spin offs in 2001 at the rate of 1.46 companies per US\$100 million in R&D expenditures, Canadian universities formed 68 such companies at a rate of 3.84 new ventures per US\$100 million. And, B.C., is outperforming other provinces in this regard with **SFU**, **UBC**, and **UVic** routinely churning out new companies.

This makes me wonder what the success rate is of the American spin-off companies versus the Canadian ones. I'll bet that a larger percentage of the Canadian firms flop because they don't have cash to fuel their burn rate and hence they flame out early.

Indeed, I was recently looking at some 50+ B.C. companies that have been incubating over the past decade. Of these, fewer than 20% are still alive today. That may be due to insufficient funding (I'm sure that's what they'll tell you) but it's probably also due to lack of experience and skills (good management won't run out of money!). But, that's good. There are undoubtedly many success stories that we hardly ever hear about (fodder for a future column!). One often-mentioned trait that Americans have over Canadians is that failed projects are OK - nothing to be ashamed about. One report on an American funding program (the **SBIR** - read on) noted that *only 95%* of projects are failing! What a difference in mind-set that is!

It was interesting to listen (at the six countries conference) to **Charles Wessner** of the U.S. **National Academy of Science's National Research Council**. To address the early stage funding gap, he noted that the U.S.'s **SBIR program** (Small Business Innovation Research Program) formed in 1982 provides early stage funding, via ten diverse federal agencies in the \$100K range for Proof-of-Principle support. SBIR is funded at approximately US\$1.3 billion per year. This is a competitive program and applicants compete for support.

Of course, many Canadian attendees thought that this is pretty good. I guess they're too young to remember the **UP Program** - that's the old "unsolicited proposals program" run by our federal government's **Department of Supply and Services**. That strikes me as being very similar to SBIR. Unfortunately, it was abandoned some years ago.

Another program discussed by Wessner was the **Advanced Technology Program (ATP)** which, although politically controversial, was recognized as one of the most effective of the major innovation funding programs in the U.S. today. The mission of this program is to "bridge the gap between the research lab and the marketplace". Over a 10 year period, some 41 competitions resulted in over US\$1.6 billion in support.

Wessner was comparing these types of programs with the tax credit programs such as Canada's **SRED** tax credits for companies performing R&D. He made a good point in noting that the

competitive programs encourage excellence whereas the tax credit programs reward activity without necessarily recognizing results. It's hard to argue with that.

In comparison to the U.S.'s SBIR and ATP, Canada's **SRED** program invests more in R&D on an absolute basis, i.e. in the \$1.5 to \$2 billion per year range, meaning effectively 10 times that of the U.S. on a pro-rata basis. Even so, many tech companies don't understand how this works or, when they do, they choose to ignore it because they find it too complex. They also don't understand that here in B.C., they can get up to 68% of their direct R&D salary costs fully refunded. No kidding! Take a [closer look](#).

So, we've got a great innovation climate here in B.C. - fountains of ideas and I.P. at the universities, not to mention many other research institutions, budding entrepreneurs, angel investors, mentors, and growing pools of venture capital - e.g. the newly formed **Yaletown Ventures Limited Partnership** (\$30million) and the **BC Discovery Fund** (another \$30 million in process) that are ready to fund enterprises when they get to a certain stage. Just this week, Yaletown Ventures celebrated the closing of its financing with dignitaries such as **Premier Campbell** and other politicians in attendance.

Getting companies to the VC-ready stage is a completely different ball game than getting companies launched in the first instance. Although some VCs say that they are early stage or "seed", none actually do this.

Boldly attempting to cross - more like fill - this chasm are two new early-stage funds. These are the **BC Advantage Fund** and **WUTIF** - the **Western Universities Technology Innovation Fund**. Both of these are VCCs (Venture Capital Corps) that offer B.C. investors a 30% refundable tax credit and RRSP eligibility. This is *the way* to get in on the ground floor of the growing B.C. technology sector. I'll be talking more about these in future columns.

Recent Financings

I thought it would be a good idea to mention a little about company financings - in B.C. only - on regular basis to give some encouragement to those who believe that no one is investing these days. It would be useful to highlight those companies, especially startups, that are getting support from angels and government sources. Unfortunately, these are usually not widely disclosed. (Readers are invited to let us know about their deals so that hopefully others will benefit from their experiences.)

Of course, the other reason for mentioning these, especially those that are publicly traded entities, is that for the adventuresome among you, they may be worth looking at for investment purposes. Whenever a company has received financing, one can infer that it holds some promise (at least for some investors) and has a shot at hitting some of its milestones.

CRYSTAL DECISIONS is gearing up to go public in a rare move that is expected to be closely watched by the North American high-tech sector. The IPO market has been virtually dead for the past couple of years. Crystal's Decisions decision to forge ahead and test the water may bode well for other firms waiting in the wings for their debut opportunity.

AXONWAVE SOFTWARE INC., an **SFU** spin-off company, formerly known as **Gavagai Technologies Inc.**, a provider of content intelligence solutions for unstructured information, announced the completion of a US\$2.3 Million second round of financing.

CONTEC INNOVATIONS (TSXV:BUZ) has entered into an agreement with **Pacific International Securities** and **Wolverton Securities** for a private placement offering for gross proceeds of up to \$1.2-million.

IMAGIS TECHNOLOGIES INC. (TSXV:NAB) announced that the company intends to raise

financing of up to \$1.0 million through the issuance of subordinated debentures.

SOFTCARE EC (TSXV:SCE), subject to TSX Venture Exchange acceptance, will complete a non-brokered convertible debenture private placement of \$343,425.

QUESTAIR TECHNOLOGIES announced that it will receive \$720,000 in partnership funding from the Government of Canada and the Government of BC under the **Western Economic Partnership Agreement**.

CONAC SOFTWARE (TSXV:COT) has arranged a private placement of two million units at five cents per unit to raise \$100,000 for operating expenses.

CARDIOCOMM SOLUTIONS INC (TSXC:CCG) has applied for final approval to close its offering of redeemable, convertible promissory notes, with detachable warrants, for an aggregate total amount of US\$250,000.

CARDIOME PHARMA CORP (TSX:COM) has obtained receipts for a final prospectus filed in BC, Ontario and Quebec, in connection with the bought-deal private placement of special warrants of approximately \$8.0-million, which closed on April 10, 2003.

RAYSTAR ENTERPRISES (TSXV:RYA) has closed a non-brokered private placement of 200,000 units at five cents per unit.

WESTPORT INNOVATIONS INC. (TSX:WPT) announced that it has been awarded (euro) 220,000 (C\$350,000) in funding from the German Gas Industry under leadership of **Ruhrgas AG**, Essen, Germany.

RESPONSE BIOMEDICAL CORP (TSXV:RBM) announced that it has closed the non-brokered private placement announced in the amount of \$850,000 on April 9, 2003.

D-WAVE SYSTEMS INC. announced the successful completion of a major financing led by US venture capital firm **Draper Fisher Jurvetson**.

PHOTON CONTROL INC (TSXV:PHO) has completed a first closing of the private placement reported in **Stockwatch** on June 9, 2003. A total of 1,946,976 units were issued at a price of 30 cents per unit for gross proceeds of \$584,092.

STOCKGROUP INFORMATION SYSTEMS (TSXV:SWB) announced that it had issued an aggregate of 2,746,800 Units at \$0.37 per Unit under the terms of a short form offering document of the Company.

NEODYM TECHNOLOGIES INC (TSXV:NEO) has arranged a private placement for gross proceeds of \$81,800 in units of the company at a price of 10 cents per unit.

Technology Industry Awards

Last week, the **BC Technology Industry Association** held its annual awards banquet. This is a convenient way to find out which emerging companies are worth watching (maybe even investing in!). The publicly traded ones are identified by exchange and ticker symbol after the name - just in case you get the urge to make a trade!

The corporate winners are:

Convedia Corp for excellence in product innovation, **Epic Data** (TSX:EKD) for the best application of technology, **D-Wave Systems Inc.** for the most promising pre-commercial

technology, **jaalam Technologies Inc** for the most promising start up, **VSM Medtech Ltd** for emerging company of the year, **Sierra Wireless Inc** (TSX:SW) for leadership in social responsibility and **Creo Inc** (TSX:CRE) for Company of the year.

Creo Inc. is the first high tech company in BC to achieve annual revenue exceeding one billion dollars on its internationally renowned prepress technology for the printing industry. D-Wave Systems Inc. won for its quantum leaps toward commercialization of a revolutionary super conducting quantum computer. This is an interesting one to keep an eye on.

The finalists for these awards included **ActiveState Corp**, **Azure Dynamics Corp** (TSX:AZD), **Carmanah Technologies Inc.** (TSX-V:CMH), **Delta-Q Technologies**, **Heatwave Technologies Inc.**, **Municipal Software Corp**, **Tantalus Systems Corp**, and **Telos Technology Inc.** ("Technology" sure is a popular descriptor, isn't it?)

Other nominees for the awards included **Absolute Software** (TSXV:ABT), **ACD Systems International** (TSX:ASA), **BCNET**, **BSB Utilities**, **Burntsand Inc.** (TSX:BRT), **Bycast**, **Con-Space Communications** (TSXV:CCB), **Covenant Corporation**, **Custom FAQs Solutions**, **Fincentric**, **Greenlight Power Technologies**, **iGEN Knowledge Solutions**, **Incognito Software Inc.**, **Intrinsyc Software** (TSX:ICS), **IP Applications Corp** (TSXV:IAP), **Layer7**, **LogicLynx Technologies Inc.**, **MRX Solutions**, **OMNEX Control Systems Inc.**, **Paradata**, **Protexis Inc.**, **QHR Software Group**, **Qualite-Learning Assurance**, **Radiant Communications**, **Responsetek**, **RewardStream**, **Tap Solutions**, **Tetrad Computer Applications**, **TIR Systems** (TSXV:TIY), **Unity Wireless** (TSXV:UWC), **Vancouver Island Technology Park**, **Vigil Health Management Inc**, **Vortek Industries Ltd**, **Webnames.ca**, and **WebTech Wireless Inc.**

UPDATES

It's that AGM time of year again. Because many companies' fiscal year end is the calendar year, June is the month in which Annual General Meetings are held. You can always tell this when your mailbox starts filling up with the annual reports that public companies are required to distribute. wonder how long this practice will continue especially since all these reports - and more - are readily available on www.sedar.com, for example. Although it's not high tech, I'd encourage readers to take a look at **WestJet's** Annual report. I found mine in the seat pocket in front of me while on a recent flight- which itself is a novel idea. And a very impressive well-presented report as well. Companies like **Air Canada** can take a lesson on marketing and communications from this example.

Capital Pool Corporation (CPC) Update

In this column, I keep track of Capital Pool Corporation ("CPC") companies as defined by the **TSX Venture Exchange** (the former CDNX) because they may provide funding and management to, and in the process acquire, technology companies. They provide companies with an alternative to traditional venture capital financing. It lets the public investor get into the game

Check our [Capital Pool Corporation chart](#) (in .pdf format) for a complete list of the TSX-Venture Exchange's CPC companies, thanks to **David Ing** of **Pacific International Securities**. This list is updated on a regular basis. It is now current to the end of May, 2003.

New additions to the list are: **Dupont Capital Inc.**, **Ramco Inc.**, **Skoobins Resources Inc.**, **Transborder Capital Inc.**, **C88 Capital Corporation**, **Canatech Capital Partners Ltd.**, **Juno Capital Corp.**, **Saintstar Ventures Inc.** and **Stanstead Capital Inc.**

The following companies have come to trade: **ESS Capital Inc.**, **Leonids Investments Inc.**, **Innovotech Inc.**, **Ore-Leave Capital Inc.** and **Vinson Biotech Inc.**

Since the previous update, the following companies have been removed from the list because they have completed their Qualifying Transactions: **Apsley Management Group Inc.**, **Caliente Capital Corp.**, **CastleRock Capital Inc.**, **Dream Wizards Investments Ltd.**, **Ergo Ventures Inc.**, **EVEolution Ventures Inc.**, **Mega Capital Investments Inc.**, **PCG Ventures Inc.**, **Salish Ventures Inc.**, **TheraMed Capital Corp.**, **Vista Investments Inc.**, **WWS Capital Inc.**, **Acacia Capital Corporation**, **Coventry Charter Corporation**, **FirstTrimark Ventures Inc.** and **Tulane Capital Corp.**

An introductory article explaining CPCs may be found at <http://www.bctechnology.com/statics/mvolker-jun0200.html>.

VEF UPDATES

Last month's [Vancouver Enterprise Forum](#) event, held on May 27th, was titled, "Founder/CEO War Stories" featuring **Alexander Fernandes** of **QImaging** and **Steve Munford** of **ActiveState**. Both of these companies were sponsored by local angel investors less than four years ago and both have become successful tech ventures, notably QImaging which was sold not long ago to a US corporation for US\$12 million. The VEF's June 24th celebration dinner at the Law Courts Inn will offer something a little different from the regular format and will be entirely focused on networking with no formal presentations or seating. Featuring live music entertainment, outdoor patios, a great barbecue dinner, a city view and plenty of space to mix, Law Courts Inn will provide a superb relaxed setting for our season-ending event. Join us to make new contacts and catch up with old friends before the VEF breaks for the summer.

A complete calendar of local technology events can be found on [T-Net's Events page](#).

Footnotes

If you're an entrepreneur looking for a place to get your company started; there's some great space available at Harbour Centre downtown. The **New Media Innovation Centre** (NewMIC) and **SFU's TIME Centre** have teamed up to provide not only office space but also access to various resources, e.g. tech advisors, access to capital, mentors, etc. Worried about the high cost of being downtown? Well, not to worry - they'll even reduce the fees and take some payment in the form of equity. Check www.sfu.ca/time for contact info.

A reminder: SFU's TIME Centre is open for business - business folks, that is. TIME is an acronym for **Technology, Innovation, Management, and Entrepreneurship**. TIME supports the growth and development of the tech industry in B.C. TIME features a "BusinessCentre" (looks like an airport business lounge) which is open to technology entrepreneurs and business people to use as a drop-in downtown office facility. Need to plug-in? Make some calls? Do some work? Hold a meeting? There are some great facilities for holding your company's AGM. Why hang out at MacDonald's when you can work productively at the TIME Centre? Drop by and check it out! It is located at SFU's downtown campus at 515 West Hastings St.

Michael Volker, a technology entrepreneur, is Director of the University/Industry [Liaison Office](#) at Simon Fraser University, Chair of the B.C. Advanced Systems Institute, Chair of the [Vancouver Angel Network](#) and past Chair of the [Vancouver Enterprise Forum](#). He owns shares in many of the companies he writes about. Copyright, 2003.

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Tech Futures is a bi-weekly column that focuses attention on new and emerging BC publicly listed technology companies.

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Contact: risktaker@volker.org

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