



albertaenterprise

annual report 2011-2012

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# Alberta Enterprise Corporation History

## Accountability Statement

Alberta Enterprise Corporation was established on December 2008 upon proclamation of the Alberta Enterprise Corporation Act. The Board of the Alberta Enterprise Corporation (“Alberta Enterprise”) is accountable to the Minister of Enterprise & Advanced Education (“EAE”) (formerly Advanced Education & Technology, or “AET”).

## Our Mission

Alberta Enterprise’s mission is to promote the development of a local Venture Capital (VC) industry. We are an important part of the Government of Alberta’s strategic plan to move the Province toward a more diversified and innovation-driven economy.

In compliance with its governing legislation and the agreement with Enterprise & Advanced Education, Alberta Enterprise works to fulfill its mission and mandate through investment as a Limited Partner (LP) in venture capital funds that meet criteria outlined in its investment policy, and through targeted initiatives to support and mature the local VC industry.

## *What makes Alberta Enterprise unique is its investment model.*

What makes Alberta Enterprise unique is its investment model. The capital provided is *invested*, and as such, we expect to return our capital back to the Government of Alberta – in a timeframe consistent with the life of a VC fund. As a result, the Province benefits not only from the potential return on our VC fund investments, but also in the creation of a local VC industry with resident professionals.

The long-term goal is a self-sustaining VC industry, which provides the capital needed to sustain the growth of Alberta’s knowledge-based companies and an innovation-driven economy. The building of a local VC industry will provide substantial benefits to the province in the long-term, but this is a decades-long pursuit. Governments that have committed to VC development strategies – including Silicon Valley, Israel, and other notable examples – have learned to take a multi-decade perspective in both planning and policy.

## Corporate Directory

### Board of Directors

- > **Paul G. Haggis**, Board Chair, former President and CEO of the Ontario Municipal Employees Retirement System (OMERS)
- > **Barry M. Heck\***, Vice Chair and Audit Committee Chair, President and Principal Partner of EL Merchant Capital
- > **R. Geoffrey Browne**, Founder and Managing Partner of MWI & Partners
- > **Vicky Sharpe**, Ph.D, President and CEO of Sustainable Development Technology Canada
- > **Brad Zumwalt**, Founder and Partner of Zinc Ventures

### Management Team

- > **Rod Charko\***, Chief Executive Officer
- > **Kristina Williams**, Director of Investments
- > **Rebecca Giffen**, Director of Investments
- > **Carey Houston**, Director of Industry Development

*\* Subsequent to fiscal year end, Alberta Enterprise's CEO, Rod Charko, passed away. Berry Heck, Alberta Enterprise's Vice Chair, has since been named interim CEO.*

## Management's Responsibility for Reporting

Alberta Enterprise's management is responsible for the preparation, accuracy, objectivity and integrity of the information contained in the annual report, including the financial statements, performance results, and supporting management information. Systems of internal control are designed and maintained to produce reliable information that meets reporting requirements, and to ensure that transactions are properly authorized, reliable financial records are maintained, assets are properly accounted for and safeguarded, and relevant legislation and policies are complied with. Corporate business plans, performance results and the supporting management information are also integral to both financial and performance reporting.

The annual report has been approved by the Board of Directors and is prepared in accordance with ministerial guidelines.

The Auditor General of the Province of Alberta, the corporation's external auditor appointed under the Auditor General Act, performs an annual independent audit of Alberta Enterprise's financial statements in accordance with Canadian public sector accounting standards.

# Message from President + CEO / Board Chair

Alberta Enterprise was successful this fiscal year in executing our strategic plan and putting our capital to work. Following is a summary of our key achievements and initiatives:

## Now Committed to Invest \$54 Million of \$100 Million in Third and Fourth VC Funds

- > We made commitments to invest in our third and fourth VC funds in 2011-2012. With these investments – along with the two commitments announced in May 2011 – *Alberta Enterprise has now committed for investment \$54 million of the \$100 million capital provided by the Province.*
- > In addition to the above, progress was also made in this fiscal year on three additional commitments, expected to close in the first half of fiscal year 2012-2013. These three commitments total \$26 million, and are already

approved by the Board. Two of these three commitments are to Alberta-based funds, which demonstrates significant progress towards our objective of investing in such funds. The third fund will establish a new, full time Alberta presence.

- > Our investments have extended Alberta's VC industry by forging connections to other experts including Limited Partners in the funds, portfolio companies, and other VC firms. Because we require funds in which we invest to have an Alberta office, our investments also result in more "VC feet on the street". This local VC investor community gives Alberta's growing technology companies and entrepreneurs direct access to technology investor financing and extended investor networks.

	Commitments for Investment	Cumulative Total
Closed in Fiscal Year 2010-2011	\$29 M	\$29 M
Closed in Fiscal Year 2011-2012	\$25 M	\$54 M
Approved Investments	\$36 M	\$90 M

### **Invested in ICT, Energy/Clean Tech; and Still Actively Exploring Life Sciences**

- > In fiscal year 2011-2012, our investment activities continued our focus on three core areas: ICT, energy/clean technology, and high-potential sub-sectors within Life Sciences including agriculture, food/nutraceuticals, health, and biotechnology.

### **Laid Groundwork for Launch of the Accelerate Fund in 2012-2013**

- > This fiscal year, we also conducted extensive due diligence and prepared for the launch in fiscal 2012-2013 of a new angel co-investment fund, the Accelerate Fund. (The Board of Alberta Enterprise approved a \$10 million commitment for investment in the Accelerate Fund subsequent to fiscal year-end.) We determined that there was a need to provide additional structure and leverage to angel-backed deals, as well as to assist earlier stage companies and entrepreneurs with finding angel investor capital. In addition to financial capital, this fund will also provided the needed human capital – in the form of hands-on guidance and resources – to provide early-stage companies with a greater chance of success.

- > In 2012-2013, Alberta Enterprise will continue to work with EAE, Alberta Innovates – Technology Futures, and the broader tech and investor community, to ensure that the innovation, commercialization and scientific communities that could benefit from this type of fund are aware of its potential. We will also proactively engage the angel and VC investor communities, so they are aware of the pipeline of viable businesses that this fund will help identify and nurture.

***Alberta Enterprise was  
successful this fiscal year  
in executing our strategic  
plan and putting our  
capital to work.***



### **Sharing Knowledge with the Ministry of Enterprise & Advanced Education and Others**

- > Over the past year, Alberta Enterprise's Board and staff have consulted with EAE, as well as with the innovation, technology, startup and VC communities across Alberta and beyond. We have also consulted with, and briefed, the Ministry of Enterprise & Advanced Education, and the Alberta Innovates corporations, to ensure that they can benefit from our strong relationships with the startup and VC communities. These briefings are a key way we help transfer of our knowledge, and enable key partners to better understand the innovation and startup communities and design policies and programs that enable their success.

### **Growing a Stronger Ecosystem to Support the Technology & VC Communities**

- > Alberta's tech ecosystem has begun to take root and grow. Alberta Enterprise has been instrumental in providing advice, guidance and support to the ecosystem, and our efforts have been seen as critical to the VC industry's success. We have engaged many grassroots

## *Alberta's tech ecosystem has begun to take root and grow*



industry organizations and private sector organizations to support these initiatives, with both resources and in-kind support. Included in the list of supporters are many top-tier law firms, accounting firms, recruiters, mentors, board members and industry experts. Our goal is to solicit private industry support and funding to make these ecosystem initiatives self-sustaining in the long-term.

Alberta Enterprise's Board of Directors and management will continue to work closely with Enterprise & Advanced Education, other Ministries and government agencies, and various VC, industry, and technology entrepreneur stakeholder groups who share our goal of building a thriving VC industry, to support the growth of Alberta's knowledge-based industries.

# Management's Discussion + Analysis

Alberta Enterprise's operations focus on two key areas: investment as a Limited Partner in technology venture capital funds that finance early-stage, knowledge-based companies; and targeted initiatives to develop the venture capital ecosystem and improve the networks connecting entrepreneurs, experienced management and investors.

## Alberta Enterprise's operations focus on two key areas

### 2012-2013 Operational Overview: Investments

Alberta Enterprise was established to build a local venture capital industry, to provide the capital needed to support the growth and success of knowledge-based companies in Alberta. To achieve this, Alberta Enterprise invests as a Limited Partner in technology venture capital funds that have, or will establish, a *full time presence* in the province. We target three types of funds for investment: North American funds currently operating outside Alberta, funds that are local to Alberta, and an early stage Angel Co-investment fund. Following is a summary of our accomplishments this year, with respect to Investment:

Goal	Outcome
Improve pool of venture capital available in Alberta	<ul style="list-style-type: none"> <li>&gt; Committed \$10 million to iNovia Capital's latest fund (iNovia Investment Fund Limited Partnership III), focused on the information and communications technology sectors.</li> <li>&gt; Committed \$15 million to EnerTech Capital's fund (EnerTech IV), investing in energy and clean technology.</li> <li>&gt; Committed investments to date total \$54 million.</li> <li>&gt; By the end of the fiscal year, we had Board approval for three additional commitments, expected to close in the first half of fiscal year 2012-2013. These three commitments total \$26 million, and include two Alberta-based funds.</li> </ul>

Goal	Outcome
<p>Improve pool of venture capital available in Alberta</p>	<ul style="list-style-type: none"> <li>&gt; Leveraged our \$54 million in capital investments:               <ul style="list-style-type: none"> <li>– Into \$404 million, with leverage of more than 7 to 1<sup>1</sup></li> <li>– By forging connections to 99 other Limited Partners, 147 portfolio companies, and 131 VC firms</li> <li>– Into more local “VC feet on the street”, with two of the firms already opening new Alberta offices, and a third firm increasing its presence in Alberta. The fourth fund will open an Alberta office in fiscal year 2012-13.</li> </ul> </li> </ul>
<p>Establish angel co-investment fund</p>	<ul style="list-style-type: none"> <li>&gt; Developed the Accelerate Fund, an angel co-investment fund.</li> <li>&gt; Completed RFP process for Fund Manager. Eleven candidates applied to become the fund manager.</li> <li>&gt; Due to an extensive due diligence process the Accelerate Fund launch has been postponed to fiscal year 2012-13.</li> <li>&gt; Board approval for a \$10 million commitment for investment in the Accelerate Fund occurred after fiscal year-end.</li> </ul>
<p>Make fund investments in key areas with local deal flow: internet &amp; communications technology (ICT), energy/clean tech, agri-tech/health/biotech</p>	<ul style="list-style-type: none"> <li>&gt; ICT: Invested in iNovia III which focuses on ICT</li> <li>&gt; Energy/Clean Tech: Invested in EnerTech IV, which focuses on energy-technology and clean-technology</li> <li>&gt; Ag/Health/BioTech: Continuing to look for Life Sciences funds. Additionally, convened a meeting and continued discussions with key life sciences organizations, executives, and companies to explore ways to enable increased life sciences investment as well as discussing how to ensure that Accelerate Fund can act as a vehicle for angel and early-stage life sciences investments.</li> </ul>
<p>Monitor funds in which Alberta Enterprise previously invested</p>	<ul style="list-style-type: none"> <li>&gt; Alberta Enterprise’s investment team continued to monitor and report on the Corporation’s investments made previously:               <ul style="list-style-type: none"> <li>– \$15 million in the Chrysalix Energy Limited Partnership III (CELP III), a \$145 million fund focused on the clean energy sector.</li> <li>– \$14 million in the Yaletown Ventures II Limited Partnership, a \$120 million fund focused on the information and communications technology and clean technology sectors.</li> </ul> </li> </ul>

<sup>1</sup> Leverage refers to the total capital available in our investee funds made available to Alberta entrepreneurs

## Operational Overview: VC Ecosystem/Industry Development

The Accelerate Fund is scheduled to launch in fiscal year 2012-2013. Meanwhile, Alberta Enterprise's work on the Accelerate Fund over the past year included:

- > Developing operating specifications and budget model
- > Drafting initial management contract
- > Drafting limited partnership agreement
- > Branding, trademarking, and developing a draft website
- > Developing a fund manager request for proposal (RFP) and selection process
- > Short-listing two fund managers with a final selection to come in the first half of fiscal 2012-2013
- > Developing the fund's industry committee, and working with the A100 organization to operationalize this initiative

Cultivating the ecosystem around technology startups, technology investors and related networks is the key to developing a self-sustaining Alberta-based VC industry. This means bringing together and supporting investors, startups and management talent. We have seen revitalization in Alberta's tech ecosystem over the past year, and Alberta Enterprise has been at the forefront of this success.

Alberta Enterprise has been successful in supporting the creation of industry-driven, grassroots organizations that play a meaningful role in the technology and VC ecosystem. These groups connect Alberta entrepreneurs, startups, investors and mentors within Alberta and outside the province. But more work needs to be done. For fiscal year 2012-2013, Alberta Enterprise has mapped out a comprehensive plan to further develop the Alberta ecosystem.

## Goals and Outcomes: Industry Development

Goal	Outcome
Assist VCs with raising their profile, and accessing Alberta deal flow	> Organizing and leading the Venture Capital Association of Alberta (VCAA) as the primary community of venture-stage investors in the province. Alberta Enterprise was instrumental in leading the VCAA, expanding the board of directors, developing an annual plan and budget to ensure future sustainability, and organizing two networking events that brought together VC's from Alberta and across North America, with local Private Equity investors and angels, including those from the energy sector.

## Goals and Outcomes: Industry Development

Goal	Outcome
Assist VCs with raising their profile, and accessing Alberta deal flow	<ul style="list-style-type: none"> <li>&gt; Supported Alberta Enterprise's investee VCs in raising their profile, by recruiting them to present or participate in various industry events.</li> <li>&gt; Raised the profile of the Alberta VC industry by leveraging sponsorships in various industry events.</li> </ul>
Deliver targeted initiatives to bring together angel and VC investors, with entrepreneurs and experienced management talent	<ul style="list-style-type: none"> <li>&gt; Organized AccelerateAB, the first Alberta-wide, cross-sector tech conference driven by Alberta Enterprise (lead sponsor &amp; Conference Chair), A100 and C100, that saw more than 350 attendees in 2011 and is planned for Edmonton in 2012 with even higher attendance.</li> <li>&gt; Supporting the A100 (with seconded resources and sponsorship). The A100 is a peer group to the C100, whose mandate is to nurture Alberta's next generation of tech entrepreneurs. Membership in A100 grew by over 1.5x in 2011.</li> </ul>
Supporting nascent start-up communities	<ul style="list-style-type: none"> <li>&gt; Sponsored events with Startup Edmonton and Startup Calgary, helped ensure VC/investor engagement in various entrepreneurial education and networking events.</li> <li>&gt; Provided guidance on operations, governance and fundraising to Startup Calgary</li> <li>&gt; Chaired the AccelerateAB conference</li> </ul>
Network Alberta community to key hubs outside the province	<ul style="list-style-type: none"> <li>&gt; Engaging the C100 (a non-profit group of Canadians in Silicon Valley), through sponsorship of C100 and C100 Clean Tech, operating the Accelerate AB conference as a joint C100/A100 initiative, and using these initiatives to connect Alberta Entrepreneurs to Silicon Valley expertise.</li> </ul>
Leverage the broader community of advisors and service providers	<ul style="list-style-type: none"> <li>&gt; Engaging with private sector organizations to support the above initiatives, including recruiting as sponsors many leading accounting, consulting and law firms, recruiters and others. This private industry support helps to make our ecosystem sustainable in the long-term.</li> </ul>
Initiated study of Alberta deal flow	<ul style="list-style-type: none"> <li>&gt; In addition to the above, in fiscal year 2011-2012, Alberta Enterprise initiated a comprehensive study of the Alberta deal flow. Results are expected in the Fall of 2012, and will outline numbers, sector breakdowns, and other analyses. EAE will be fully briefed on the results of this study.</li> </ul>

## Operational Overview: Capital Deployment and Operational Budget

### Capital Deployment

In fiscal year 2011-2012, Alberta Enterprise made commitments for investment in new funds from iNovia Capital and EnerTech Capital, committing \$10 million (Cdn) and \$15 million (US) respectively. This brings our total capital committed for investment to \$54 million. In fiscal year 2011-2012, Alberta Enterprise disbursed \$3.448 million, for a total disbursement of \$9.882 million to the limited partnerships in which we've invested, in order to meet their funding requirements for both investments and operational expenses. The balance of committed capital – \$44.091 million – is not reflected in the Corporation's balance sheet; it is drawn down over the life of the funds, as is standard practice in this industry.

Alberta Enterprise's balance sheet includes a \$1.896 million unrealized remeasurement gain on its investments in Limited Partnerships. We record a proportionate share of any increases or decreases in the fair market value of investments made by the funds. Changes in fair market value are not recorded (i.e. realized) in Alberta Enterprise's income statement until the investments are sold by the Limited Partnership.

### Operational Budget

The Statement of Operations shows a budgeted Net Loss of \$1.5 million for fiscal 2011-2012.

The budgeted net loss shown is a result of a different accounting policy used when the Alberta Enterprise budget was finalized. With this change, VC fund management fees paid to the partnerships are capitalized as part of the investment.

The financial statements reflect the original budget approved for Alberta Enterprise. The net loss for fiscal 2011-2012 is due to the following:

- > Net loss from Operations: Approval was granted during the 2011-2012 fiscal year to exceed the original budget by up to \$500,000, for additional operational expenses. Alberta Enterprise's actual operational expenses for the fiscal year were less than this approved budget overage.
- > Net loss from Investments: The net loss from investments of \$1.043 million is a result of net realized losses of the investments in limited partnerships. However, the Corporation concurrently had unrealized remeasurement gains on investment of \$1.896 million. As a result, Net Assets increased for fiscal year ended 2012-12.

The above reflects accounting standards' treatment for Limited Partnerships in both the private equity and venture capital industries.

## Looking Ahead

Although much progress has been made in the last few years, the creation of a thriving venture capital industry in Alberta has just begun. The building of a local VC industry will provide substantial benefits to the province in the long-term, but this is a decade-long pursuit. Governments that have committed to VC strategies – including Silicon Valley, Israel, and other notable examples – have learned to take a multi-decade perspective in both planning and policy.

Our efforts in future will continue to focus on:

1. Getting more VC firms active in the province – investing in, coaching and connecting our entrepreneurs to global advisors, partners and customers;
2. Creating or nurturing a strong VC ecosystem that better connects entrepreneurs, investors and experienced management, and leverages both the private and public sectors;
3. Ensuring more capital is available to Alberta's technology entrepreneurs, that will enable them to grow globally-successful companies;
4. Earning a return on invested capital, for our shareholder.

## Key Risk Factors

Alberta Enterprise faces risks as it works on achieving its goals. With the industry in transition, the Corporation will monitor the trends behind these risks and take steps to mitigate them whenever possible.

**Fundraising Risks:** There is a risk that Alberta Enterprise will identify funds that meet all our investment criteria, successfully pass through due diligence but are unable to reach their targets for fundraising. Due to the economic climate it has been increasingly difficult for funds to raise capital.

**General Partner Consolidation:** As a result of the recent economic upheaval and the historical performance of venture capital in Canada, it is expected that there may be a consolidation of Canadian venture funds and/or general partner teams in Canada.

**Deal Flow:** Alberta's knowledge-based industry sectors are relatively small compared to larger Canadian centres such as Toronto or Vancouver, or to large technology clusters in the United States. There is also a lack of experienced C-level technology management talent in Alberta compared other jurisdictions. Depending on their sector or stage focus, funds interested in working in Alberta may experience challenges in documenting sufficient deal flow to venture funds to justify the location of a partner and an office in Alberta.

**Public Policy / Geography:** Venture capital funds are motivated solely by the prospect of realizing superior returns for their investors. Although Alberta Enterprise will not place a requirement on its investee funds that they invest only in Alberta, we do expect funds to locate a partner and make a meaningful commitment to the province. We may face challenges in finding funds for certain sectors willing to make this commitment while also successfully passing due diligence and demonstrating the ability to close fundraising.

# Corporate Governance Statement

## Management of the Company

The business and affairs of the corporation are managed by or under the direction or supervision of the Board of Directors. The Board exercises all powers of the company not required to be exercised by the shareholders.

## Board of Directors

The Board, which comprises non-executive directors, meets four times per year and as required for strategic planning purposes and to progress specific decisions. The Board is accountable to the shareholding Minister of Enterprise & Advanced Education in the manner set out in the Alberta Enterprise Corporation Act, Alberta Enterprise Corporation Regulation and the Alberta Enterprise Corporation Transfer Agreement.

The Board establishes strategic policy, guides and monitors the business and affairs of the corporation on behalf of the shareholder, and is committed to a high standard of corporate governance. Responsibility for the operation and administration of the company is delegated to the Chief Executive Officer who is accountable

to the Board. In particular, the Board places emphasis on implementation of venture capital best practices, sound administrative systems and procedures, and regulatory compliance.

The directors are appointed by the Lieutenant Governor in Council. A director holds office for a term fixed in the order appointing the director, which term must not exceed three years. Alberta Enterprise's Board of Directors presently includes five external and independent members.

## Governance Review

A governance review is undertaken at least annually, to ensure effectiveness of governance structures.



***The Board places emphasis  
on implementation of venture  
capital best practices***



## Conflict of Interest Policy and Procedures

As outlined in the Alberta Enterprise Code of Conduct and Ethical Standards a “conflict of interest” exists when an individual’s private interests interfere or conflict with or appear to interfere or conflict with the interests of the Corporation. A conflict situation may arise when an employee, officer or director takes actions or has interests that may make it difficult to perform his or her professional obligations objectively and effectively or when he or she otherwise takes action that is inconsistent with the interests of the Corporation for his or her direct or indirect benefit or for the direct or indirect benefit of a third party. A conflict of interest may also arise when an employee, officer or director, or a member of his or her family, receives improper personal benefits as a result of his or her position in the Corporation, whether received from the Corporation or a third party. Loans to or guarantees of obligations of Employees or any of their respective family members are likely to amount to conflicts of interest as are transactions of any kind between the Corporation and any other entity in which an employee, officer or director has a material interest.

Conflicts of interest are prohibited as a matter of corporate policy, except as specifically approved by the Corporation’s board of directors (the “Board”) and except in accordance with applicable laws and regulations. It is not always easy to determine whether a conflict of interest exists, so any potential conflicts of interest must be reported immediately to senior management.

***Conflicts of interest are prohibited as a matter of corporate policy***

**ALBERTA ENTERPRISE CORPORATION**

**FINANCIAL STATEMENTS**

**MARCH 31, 2012**

Independent Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Remeasurement Gains and Losses

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1 – Expenses Directly Incurred Detailed by Object

Schedule 2 – Executive Compensation

Schedule 3 – Related Party Transactions



## Independent Auditor's Report

To the Board of Directors of Alberta Enterprise Corporation

### **Report on the Financial Statements**

I have audited the accompanying financial statements of Alberta Enterprise Corporation, which comprise the statement of financial position as at March 31, 2012, and the statements of operations, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

#### **Auditor's Responsibility**

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Enterprise Corporation as at March 31, 2012, and the results of its operations, remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

May 29, 2012

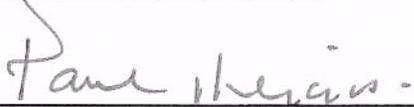
Edmonton, Alberta

**ALBERTA ENTERPRISE CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT MARCH 31, 2012**

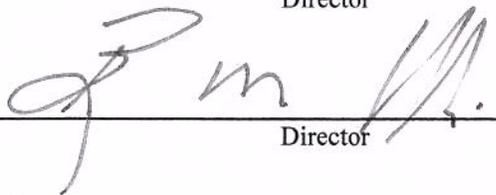
	(in thousands)	
	2012	2011
<b>Assets</b>		
Cash and Cash Equivalents (Note 3)	\$ 90,333	\$ 93,649
Accounts Receivable and Prepaid Expenses	34	21
Investments (Note 4)	9,880	5,579
	\$ 100,247	\$ 99,249
<b>Liabilities</b>		
Accounts Payable and Accrued Liabilities (Note 5)	\$ 364	\$ 28
	364	28
<b>Net Assets</b>		
Net Assets at Beginning of Year	99,221	98,807
Net Loss	(1,234)	(471)
Net Remeasurement Gains for the Year	1,896	885
Net Assets at End of Year	99,883	99,221
	\$ 100,247	\$ 99,249

The accompanying notes and schedules are part of these financial statements.

Approved by the Board of Directors:

  
 \_\_\_\_\_  
 Director

MAY 30, 2012  
 \_\_\_\_\_  
 Date

  
 \_\_\_\_\_  
 Director

MAY 29, 2012  
 \_\_\_\_\_  
 Date

**ALBERTA ENTERPRISE CORPORATION**  
**STATEMENT OF OPERATIONS**  
**FOR YEAR ENDED MARCH 31, 2012**

	(in thousands)		
	2012		2011
	Budget	Actuals	Actuals
<b>Revenues</b>			
Grant from Government of Alberta	\$ 1,750	\$ 1,587	\$ 1,425
Other Revenue	-	-	6
	1,750	1,587	1,431
<b>Expenses - Directly Incurred (Note 2b , Schedule 1)</b>			
Operating Costs	1,750	1,778	1,245
Investment Expenses	1,500	-	-
	3,250	1,778	1,245
<b>Net Operating Results</b>	(1,500)	(191)	186
<b>Loss on Investments (Note 4)</b>	-	(1,043)	(657)
<b>Net Loss</b>	\$ (1,500)	\$ (1,234)	\$ (471)

The accompanying notes and schedules are part of these financial statements.

**ALBERTA ENTERPRISE CORPORATION**  
**STATEMENT OF REMEASUREMENT GAINS AND LOSSES**  
**AS AT MARCH 31, 2012**

	(in thousands)	
	<u>2012</u>	<u>2011</u>
<b>Accumulated Remeasurement Gains (Losses) at Beginning of Year</b>	<b>\$ 770</b>	<b>\$ (115)</b>
<b>Unrealized Gain (Loss) Attributed to:</b>		
Investments	1,794	1,114
Foreign Exchange	102	(229)
<b>Net Remeasurement Gains for the Year</b>	<b><u>1,896</u></b>	<b><u>885</u></b>
<b>Accumulated Remeasurement Gains as at End of Year</b>	<b><u><u>\$ 2,666</u></u></b>	<b><u><u>\$ 770</u></u></b>

**ALBERTA ENTERPRISE CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR YEAR ENDED MARCH 31, 2012**

	(in thousands)	
	2012	2011
<b>Operating Transactions</b>		
Net Operating Results	\$ (191)	\$ 186
Increase in Accounts Receivable	(13)	(14)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	336	(4,941)
Cash Generated from (Applied to) Operating Transactions	132	(4,769)
<b>Investing Transactions</b>		
Purchase of Investments	(3,448)	(2,619)
Cash Applied to Investing Transactions	(3,448)	(2,619)
<b>Decrease in Cash and Cash Equivalents</b>	(3,316)	(7,388)
<b>Cash and Cash Equivalents, Beginning of Year</b>	93,649	101,037
<b>Cash and Cash Equivalents, End of Year</b>	\$ 90,333	\$ 93,649

The accompanying notes and schedules are part of these financial statements.

**ALBERTA ENTERPRISE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

**NOTE 1      AUTHORITY AND PURPOSE**

The Alberta Enterprise Corporation (the Corporation) is a Provincial Corporation that operates under the authority of the *Alberta Enterprise Corporation Act*.

The Alberta Enterprise Corporation was established on December 5, 2008 and is part of a strategy to encourage technology commercialization and promote growth in Alberta's venture capital industry.

The Corporation is exempt from Canadian federal and Alberta provincial income taxes.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES**

These financial statements are prepared in accordance with Canadian public sector accounting standards.

**a)      Reporting Entity**

The reporting entity is the Corporation, which is part of the Ministry of Advanced Education and Technology (subsequent to year end, on May 8, 2012 the Ministry of Advanced Education and Technology was merged with Enterprise and Immigration and renamed the Ministry of Enterprise and Advanced Education) and for which the Minister of Advanced Education and Technology is accountable. Other entities accountable to the Minister are the Department of Advanced Education and Technology, Access to the Future Fund, Alberta Innovates Corporations, and the Public Post-Secondary Institutions. The activities of these organizations are not included in these financial statements.

The Ministry Annual Report provides a more comprehensive accounting of the financial positions and results of the Ministry's operations for which the Minister is accountable.

**b)      Basis of Financial Reporting**

**Revenues**

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue. Grants from the Government of Alberta are recognized as revenue in the year the transfers are authorized.

**Internal Government Transfers**

Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return. Internal government transfers are recognized as revenue when received.

**NOTE 2****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)****Expenses**

Directly incurred expenses are recognized when authorized, eligibility criteria, if any, are met, and a reasonable estimate of the amounts can be made.

**Assets**

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets of the Corporation mainly include cash, cash equivalents and accounts receivable. The Corporation does not take out loans or issue equity.

**INVESTMENTS****Accounting Standard for Investments**

The Corporation has early adopted Public Sector Accounting Board (PSAB) Standard PS 3450 – Financial Instruments and PS 2601 Foreign Currency Translation, recently approved Standards, as the basis for accounting for the Corporation's investments. The Standards apply for fiscal years on or after April 1, 2012; however, early adoption is permitted.

**Fair Value Measurement**

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The Corporation records investments in limited partnerships on a fair value basis. Fair value is determined by the Limited Partnerships based upon valuation techniques considered appropriate by the Corporation and may include techniques such as discounted cash flows, prevailing market values for instruments with similar characteristics and other pricing models as appropriate. The Corporation relies upon the audited financial statements of the limited partnerships when valuing the Corporation's investments.

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1	Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
Level 3	Inputs that are unobservable

**NOTE 2****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)**

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Corporation. The Corporation considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Corporation's perceived risk of that investment.

The fair values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are estimated to approximate their carrying values, because of the short term nature of these instruments.

The Corporation's investments have all been classified within level 3 as they have unobservable inputs and they trade infrequently or not at all. When observable prices are not available for these securities the Limited Partnerships use one or more valuation techniques (e.g. the market approach, the income approach) for which sufficient and reliable data is available. Within level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of the estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

As quoted market prices are not readily available for private investments, estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

The fair values of investments and any other assets and liabilities denominated in foreign currency are translated at the year end exchange rate.

**Liabilities**

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Cont'd)**

**Net Assets**

Net assets represent the difference between the carrying value of assets held by the Corporation and its liabilities.

Canadian public sector accounting standards require a “net debt” presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as “net debt” or “net financial assets” as an indicator of the future revenues required to pay for past transactions and events. The Corporation operates within the government reporting entity, and does not finance any of its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

**Risks**

The Corporation is subject to market risk and foreign currency risk with respect to its investment portfolio. Market risk encompasses the potential for both losses and gains, and includes price risk and currency risk. To manage these risks, the Corporation has established policies around the type of limited partnerships that it invests in. In addition, each limited partnership has established a target mix of investment types designed to achieve the optimal returns within reasonable risk tolerance and in accordance with the Limited Partnership’s investment mandate. The Corporation does not participate in any foreign currency hedging activities. The Corporation is not exposed to significant credit, interest, liquidity or price risk. The Corporation financial assets and liabilities are generally classified and measured as follows:

<b>Financial Statement Component</b>	<b>Measurement</b>
Cash and cash equivalents	Fair Value
Investments	Fair Value
Accounts Receivable	Cost or Amortized Cost
Accounts Payable and Accrued Liabilities	Cost or Amortized Cost

**NOTE 3 CASH AND CASH EQUIVALENTS**  
(in thousands)

Cash and cash equivalents in the amount of \$ 90,333 (2011 - \$93,649) includes deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors’ capital.

The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2012, securities held by the Corporation had a time weighted return of 1.3% per annum (2011: 1.1% per annum). Due to the short term nature of the CCITF investments, the carrying value approximates fair value. Interest earned is returned directly to the General Revenue Fund of the Government of Alberta.

**NOTE 3 CASH AND CASH EQUIVALENTS (Cont'd)**  
(in thousands)

As at March 31, 2012 the Corporation has \$90,333 (2011 - \$93,649) in cash and cash equivalents as follows:

	<u>2012</u>	<u>2011</u>
Cash for approved investments (restricted)	\$ 44,091	\$ 22,143
Cash for Future investments (restricted)	46,027	71,318
Cash for Operating activities (unrestricted)	214	188
<b>Total</b>	<u>\$ 90,333</u>	<u>\$ 93,649</u>

**NOTE 4 INVESTMENTS**  
(in thousands)

The Government of Alberta has allocated \$100,000 to the Corporation for investments in limited partnerships that provide venture capital in knowledge-based industries.

The Corporation is a limited partner in four (2011 - two) limited partnerships and \$ 53,973 (2011 - \$28,577) has been committed to these limited partnerships. Committed funds are paid into the limited partnership in amounts and at times determined by the general partner in order to meet the limited partnership's funding requirements. The Corporation's disbursements to date and commitments are as follows:

	<u>Chrysalix Energy III Fund <sup>(a)</sup></u>	<u>Yaletown Ventures II</u>	<u>iNovia Fund III</u>	<u>Enertech <sup>(a)(b)</sup></u>	<u>2012 Total</u>	<u>2011</u>
Funds disbursed to limited partnership for Investments						
Investments <sup>(c)</sup>	5,732	3,500	650	-	9,882	6,434
Remaining Commitment	9,255	10,500	9,350	14,987	44,091	22,143
Total Funding Committed	<u>\$ 14,987</u>	<u>\$ 14,000</u>	<u>\$ 10,000</u>	<u>\$ 14,987</u>	<u>\$53,973</u>	<u>\$ 28,577</u>

(a) Commitments are payable in US dollars. Amounts above are based upon exchange rate on March 31, 2012.

(b) Subsequent to December 31, 2011. The Corporation committed \$15 million US to the Enertech fund. There were no cash calls as of March 31, 2012.

(c) Investments include management fees which are drawn down from the committed capital. These fees are part of the Corporation's capital investment in the Limited Partnerships.

The Corporation's investments in limited partnerships are recorded on a fair value basis and include unrealized gains or losses, which are reflected in the Statement of Remeasurement Gains and Losses. Equity in each limited partnership includes contributions to the limited partnerships for investments. It also includes a share of the losses of the limited partnership based on the Corporation's funding commitment as set out in the individual limited partnership agreements.

**NOTE 4 INVESTMENTS (Cont'd)**  
(in thousands)

The Corporation's equity in limited partnerships is as follows:

	<b>Chrysalix Energy III Fund</b>	<b>Yaletown Ventures II</b>	<b>iNovia Fund III</b>	<b>2012 Total</b>	<b>2011 Total</b>
Limited Partners' Capital:					
Contributed capital	\$ 47,825	\$ 22,364	\$ 7,080	\$ 77,362	\$ 47,970
Limited Partners' credit	6,016	-	-	6,016	-
Accumulated unrealized gain on investments	-	921	-	921	8,907
Accumulated realized loss on investments	-	(540)	-	(540)	-
Accumulated net gain (loss) from operations	12,449	(7,277)	(203)	4,967	(12,902)
Accumulated unrealized foreign exchange loss on investments	-	(216)	-	(216)	(278)
Accumulated non-cash interest on investments	-	28	-	28	28
	<u>\$ 66,290</u>	<u>\$ 15,280</u>	<u>\$ 6,877</u>	<u>\$ 88,538</u>	<u>\$ 43,725</u>
Equity in USD	66,290				
Exchange Rate	0.9991				
Equity in CAD	66,230	15,280	6,877		
AEC's Percentage Partnership	10.32%	15.65%	9.17%		
AEC's Share of Equity <sup>(a)</sup>	<u>\$ 6,858</u>	<u>\$ 2,391</u>	<u>\$ 631</u>	<u>\$ 9,880</u>	<u>\$ 5,579</u>

(a) Chrysalix calculation increased by \$23 to reflect changes in the Corporation's equity in the Limited Partnership arising from recent dilution within the Limited Partnership due to the addition of new Limited Partners.

The change in equity in limited partnerships since April 1, 2011 is as follows:

	<b>Chrysalix Energy III Fund</b>	<b>Yaletown Ventures II</b>	<b>iNovia Fund III</b>	<b>2012 Total</b>	<b>2011 Total</b>
Equity in Limited Partnership, April 1, 2011	\$ 3,964	\$ 1,615	\$ -	\$ 5,579	\$ 2,732
Funds disbursed to Limited Partnership for investments	1,398	1,400	650	3,448	2,619
Remeasurement Gains (Losses)	1,966	(70)	-	1,896	885
Realized Losses within Limited Partnerships <sup>(a)</sup>	(470)	(554)	(19)	(1,043)	(657)
Equity in Limited Partnership, March 31, 2012	<u>\$ 6,858</u>	<u>\$ 2,391</u>	<u>\$ 631</u>	<u>\$ 9,880</u>	<u>\$ 5,579</u>
				\$	
Cost of Limited Partnership Investment	<u>\$ 5,732</u>	<u>\$ 3,500</u>	<u>\$ 650</u>	<u>9,882</u>	<u>\$ 6,434</u>

(a) Amounts include management fees paid by Limited Partnerships to General Partners.

**NOTE 5      ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**  
(in thousands)

	<u>2012</u>	<u>2011</u>
Accounts Payable	\$        237	\$            2
Accrued Liabilities	<u>          127</u>	<u>          26</u>
	<u>\$        364</u>	<u>\$            28</u>

**NOTE 6      BUDGET**

Investment expenses are part of the Corporation's investment in accordance with the limited partnership agreements. As a result there are no actual investment expenses reflected in the Statement of Operations.

**NOTE 7      COMPARATIVE FIGURES**

Certain 2011 figures have been reclassified to conform to 2012 presentation.

**NOTE 8      APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the Board of Directors.

**ALBERTA ENTERPRISE CORPORATION**  
**SCHEDULES TO THE FINANCIAL STATEMENTS**  
**FOR YEAR ENDED MARCH 31, 2012**

**Schedule 1 - Expenses Directly Incurred Detailed by Object**

	(in thousands)		
	Budget	2012	2011 (Restated)
Grants	\$ 150	\$ 93	\$ 67
Salaries, Wages, Benefits, & Payments to Consultants	944	929	654
Supplies & Services	2,156	756	524
	\$ 3,250	\$ 1,778	\$ 1,245

**Schedule 2 - Board/Executive Compensation**

	2012			2011	
	Compensation (1)	Other Cash Benefits (2)	Other Non- Cash Benefits (3)	Total	(Restated) Total
Chair of the Board	-	46,600	2,235	\$ 48,835	\$ 47,039
Board Members (four)	-	83,600	3,936	87,536	84,200
Executives:					
Chief Executive Officer (4)	220,000	140,000	-	360,000	280,000
Director, Investments (5)	131,875	5,275	-	137,150	61,700
Director, Investments (6)	108,333	5,000	-	113,333	87,267
Director, Industry Development (7)	136,875	5,500	-	142,375	100,750

Prepared in accordance with Treasury Board Directive 12/98 as amended.

- (1) Base compensation is established through contractual agreements.
- (2) Other Cash Benefits for Board members include honoraria payments and per diem allowances. Other cash benefits for Executives include accrued bonuses and incidental expense allowances.
- (3) Other Non-Cash Benefits for Board members includes Canada Pension Plan payments. No non-cash benefits were provided to Executives.
- (4) Other Cash Benefits for the CEO includes an accrued bonus in the amount of \$80,000 (2011 - nil) that has been recognized as an expense of the Corporation in the 2012 fiscal year. Half of this amount (\$40,000) was paid out in April 2012, the remaining balance is a reasonable approximation of the amount yet to be paid in 2012.
- (5) The Director of Investments position was filled on a part-time until September 8, 2011 and then full-time to March 31, 2012.
- (6) The Director of Investments position was filled on a part-time until November 21, 2011 and then full-time to March 31, 2012.
- (7) The Director of Industry Development position was filled on a part-time until November 8, 2011 and then full-time to March 31, 2012.

**Schedule 3 - Related Party Transactions**  
(in thousands)

Related parties are those entities consolidated or accounted for on a modified equity basis in the Province of Alberta's financial statements. Related parties also include management of the Corporation.

Entities in the Ministry refers to entities consolidated in the Ministry of Advanced Education and Technology. Other entities outside of the Ministry relate to the remaining entities consolidated at the Provincial level.

The Corporation had the following transactions with related parties which are recorded in the Statements of Operations and the Statements of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry		Other Entities Outside of the Ministry	
	2012	2011	2012	2011
<b>Revenues</b>				
Grants	\$ 1,587	\$ 1,425	\$ -	\$ -
<b>Expenses – Directly Incurred</b>				
Other Services	\$ 41	\$ 103	\$ 60	\$ 66
<b>Payables to</b>	\$ 160	\$ 21	\$ -	\$ -

The Corporation receives financial services, such as financial reporting and transaction processing, from the Department of Advanced Education and Technology at no charge.

