



albertaenterprise

annual report 2012-2013

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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”).

Our Mission

Alberta Enterprise’s mission is to promote the development of a local Venture Capital (VC) industry. We have been 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 has worked 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. 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.

On April 3, 2013 EAE announced that Alberta Enterprise has fulfilled its mandate, and the Government of Alberta is ready to move on to the next phase of development. As Alberta Enterprise’s three-year term comes to a close, the Government of Alberta is developing options to build on the success of Alberta Enterprise and guide future initiatives and improve access to the venture capital industry. The Government of Alberta announced it will continue to support a strong, local investment market for technology-driven companies as well as continue to connect investors, entrepreneurs and experienced technology professionals. Discussions are currently underway regarding the transition of Alberta Enterprise.

Corporate Directory

Board of Directors

- > **Paul G. Haggis**, Board Chair and Audit Committee Chair, former President and CEO of the Ontario Municipal Employees Retirement System (OMERS)
- > **Barry M. Heck**, Vice 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 Venture

Management Team

- > **Barry M. Heck**, Chief Executive Officer (from June, 2012)¹
- > **Rod Charko**, Chief Executive Officer (until June, 2012)
- > **Kristina Williams**, Director of Investments
- > **Rebecca Giffen**, Director of Investments
- > **Carey Houston**, Vice President of Industry Development²

¹ In June 2012, Alberta Enterprise's previous CEO unexpectedly passed away. The Board appointed Barry Heck, Vice Chair of the Board, as Interim CEO. Mr. Heck continues to serve as CEO of Alberta Enterprise.

² Carey Houston departed Alberta Enterprise November 15, 2012.

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 \$90 Million of \$100 Million in Four Additional Funds

- > We made commitments to invest in three VC funds as well as an angel co-investment fund in 2012-2013. With these investments – along with the four commitments announced previously – Alberta Enterprise has now committed for investment \$90 million of the \$100 million investment capital provided by the Province.
- > In addition to the above, progress was also made in this fiscal year on the final commitment of \$10 million, expected to close in the first half of fiscal year 2013-2014. This commitment

is already approved by the Board. This investment is expected to significantly address the gaps in early stage funding in the area of Life Sciences. The 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
Closed in Fiscal Year 2012-2013	\$36 M	\$90 M
Approved Investments (unaudited)	\$10 M	\$100 M

Invested in ICT, Energy/Clean Tech, Agriculture/Food; and Targeting Life Sciences

- > In fiscal year 2012-2013, 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.

Launched the Accelerate Fund

- > This fiscal year, Alberta Enterprise launched a new angel co-investment fund; the Accelerate Fund. 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 provide the needed human capital – in the form of hands-on guidance and resources by the A100³ – to provide early-stage companies with a greater chance of success. The Accelerate Fund is managed by AVAC Ltd.

Capital at Work in Alberta

- > Alberta Enterprise was successful this fiscal year in executing our strategic plan and putting our capital to work. Through our VC funds, Alberta knowledge-based companies now have access to >\$660M, successfully leveraging our capital 7:1. As of March 31, 2013, Alberta Enterprise's funds and their syndicate partners had already invested approximately \$80 million in Alberta technology companies. This amount is expected to grow significantly over the 10-year life of these funds.

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

- > Over the past year, Alberta Enterprise's Board and staff have consulted 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.

Alberta Enterprise's funds and their syndicate partners have already invested \$80M in Alberta technology companies

³ The A100 is an industry group of experienced entrepreneurs and investors who provide mentorship to technology startups.



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 success of the VC industry in Alberta. We have engaged many grassroots 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.

Results Based Budget Review

- > During 2012-13 Alberta Enterprise participated in the Results Based Budget review. Alberta Enterprise scored as highly relevant, effective and efficient at delivering on the Provincial market access, diversification and value added lines of business.

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



On April 3, 2013 EAE announced that Alberta Enterprise has fulfilled its mandate. The Government of Alberta is developing options to build on the success of Alberta Enterprise and guide future programs and improve access to the venture capital industry. Alberta Enterprise's Board of Directors and management will continue to work closely with Enterprise & Advanced Education, other Ministries and government agencies through this transition.

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 investment and
industry development*

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 presence in the province. We have targeted 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.

Goals and Outcomes: Investment

Goal	Outcome
<p>Improve pool of venture capital available in Alberta</p>	<ul style="list-style-type: none"> > Committed \$10 million to Azure Capital Partners' latest fund (Azure Capital Partners III), focused on the information technology sector. > Committed \$10 million to 32 Degrees Capital's fund (32 Degrees Diversified Energy Fund II (Services & Technology Co-Invest)), investing in energy technology. > Committed \$6 million to Avrio Capital's fund (Avrio Ventures II), focused on the agriculture and food sectors. > Committed investments to date total \$90 million, including the Accelerate Fund. > By the end of the fiscal year, we had Board approval for the final commitment of \$10 million, expected to close in the first half of fiscal year 2013-2014. > Leveraged our \$90 million in capital investments: <ul style="list-style-type: none"> – Into >\$660 million, with leverage of more than 7 to 1⁴ – As a direct result of our investments, we now have 4 new and 4 expanded VC offices in the province, greatly increasing the number of VC professionals and “feet on the street” actively at work in Alberta. – Our VCs and their syndicate partners have already invested \$80 million in Alberta technology companies. This amount is expected to grow significantly over the 10-year life of these funds.

⁴ Leverage refers to the total capital available in our investee funds made available to Alberta entrepreneurs

Goals and Outcomes: Investment

Goal	Outcome
Establish angel co-investment fund	<ul style="list-style-type: none"> > Launched the Accelerate Fund, a \$10M angel co-investment fund. > Managed by AVAC Ltd. An Industry Committee, providing hands-on guidance and resources, is led by the A100. > The Accelerate Fund completed its first investment in April 2013.
Make fund investments in key areas with local deal flow: internet & communications technology (ICT), energy/clean tech, agri-tech/health/biotech.	<ul style="list-style-type: none"> > ICT: Invested in Azure III which focuses on ICT > Energy/Clean Tech: Invested in 32 Degrees which focuses on energy-technology > Life Sciences: invested in Avrio II which focuses on agriculture and food. The Board has approved an investment into an early stage Life Science fund expected to close in the first half of fiscal year 2013-2014. Additionally, the Accelerate Fund can act as a vehicle for angel and early-stage life sciences investments.
Monitor funds in which Alberta Enterprise previously invested	<ul style="list-style-type: none"> > Alberta Enterprise's investment team continued to monitor and report on the Corporation's investments made previously: <ul style="list-style-type: none"> – \$15 million in the Chrysalix Energy Limited Partnership III (CELP III), a \$145 million fund focused on the clean energy sector. – \$14 million in the Yaletown Ventures II Limited Partnership, a \$99 million fund focused on the information and communications technology and clean technology sectors. – \$15 million in the EnerTech Capital Partners IV Limited Partnership, a \$84.3 million fund focused on the energy and clean technology sectors. – \$10 million in the iNovia Investment Fund Limited Partnership III, a \$110 million fund focused on the ICT sectors.

Operational Overview: Industry Development

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 continued 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 ecosystems. These groups connect Alberta entrepreneurs, startups, investors and mentors within Alberta and outside the province.

Goals and Outcomes: Industry Development

Goal	Outcome
Assist VCs with raising their profile, and accessing Alberta deal flow	<ul style="list-style-type: none">> Continued 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. During 2012-2013, VCAA membership grew by 80% from ten to eighteen members.> Supported Alberta Enterprise's investee VCs in raising their profile, by recruiting them to present or participate in various industry events.> Raised the profile of the Alberta VC industry by leveraging sponsorships in various industry events.

Goals and Outcomes: Industry Development

Goal	Outcome
Deliver targeted initiatives to bring together angel and VC investors, with entrepreneurs and experienced management talent	<ul style="list-style-type: none"> > Organized the 2nd annual AccelerateAB, an Alberta-wide, cross-sector tech conference driven by Alberta Enterprise (lead sponsor & Co-Chair), A100 and C100, that saw more than 460 attendees at the 2012 conference held in Edmonton. > 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. Since the fall of 2012 the A100 is operating as an independent organization without the Alberta Enterprise secondment.
Supporting nascent start-up communities	<ul style="list-style-type: none"> > Sponsored events with Startup Edmonton and Startup Calgary, helped ensure VC/investor engagement in various entrepreneurial education and networking events. > Provided guidance on operations, governance and fundraising to Startup Calgary > Co-chaired the AccelerateAB conference
Network Alberta community to key hubs outside the province	<ul style="list-style-type: none"> > 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.
Leverage the broader community of advisors and service providers	<ul style="list-style-type: none"> > 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.
Completed study of Alberta deal flow	<ul style="list-style-type: none"> > In addition to the above, Alberta Enterprise completed a comprehensive study of Alberta deal flow, outlining the number of technology companies in Alberta, sector breakdowns, and other analyses. The study was shared with key industry stakeholders as well as with EAE.

Operational Overview: Operational Budget and Capital Deployment

Operational Budget and Statement of Operations

The Statement of Operations shows an operating cost of \$169 thousand below budget for fiscal 2012-2013. This is mainly a result of reduced consulting costs and prudent cost management. The financial statements reflect the original budget approved for Alberta Enterprise.

The net loss for fiscal 2012-2013 is due to realized losses of \$1.832 million of the Limited Partnerships which Alberta Enterprise is an investor of. Alberta Enterprise records a proportionate share of any realized gains or losses of the Limited Partnerships on our Statement of Operations. The Corporation concurrently had an unrealized remeasurement gain on investment of \$318 thousand. Similar to realized gains and losses, 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 however not recorded (i.e. realized) in Alberta Enterprise's Statement of Operations until the investments are sold by the Limited Partnership. Until such time, any unrealized gains or losses are reflected in our Statement of Financial Position.

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

Capital Deployment and Investments

In fiscal year 2012-2013, Alberta Enterprise made commitments for investment in new funds from Azure Capital, 32 Degrees Capital, Accelerate Fund and Avrio Capital, committing \$10 million (US), \$10 million (Cdn), \$10 million (Cdn) and \$6 million (Cdn) respectively. This brings our total capital committed for investment to \$90 million. In fiscal year 2012-2013, Alberta Enterprise disbursed \$27.333 million, for a total disbursement of \$37.240 million to the limited partnerships in which we have invested, in order to meet their funding requirements for both investments and operational expenses. The balance of committed capital – \$53.384 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.

Investments were valued at \$35.699 million for fiscal year ended 2012-13, which includes realized and unrealized gains and losses of the Limited Partnerships.

Looking Ahead

The success of any growing industry depends on a solid foundation of investment, professional networks and an entrepreneurial spirit. Three years ago, Alberta Enterprise was given a mandate to build the groundwork of the venture capital industry in support of Alberta's technology companies. On April 3, 2013 EAE announced that Alberta Enterprise has fulfilled that mandate, and the Government of Alberta is ready to move on to the next phase of development.

As Alberta Enterprise's three-year term comes to a close, the Government of Alberta is developing options to build on the success of Alberta Enterprise and guide future initiatives and improve access to the venture capital industry. The Government of Alberta announced it will continue to support a strong, local investment market for technology-driven companies as well as continue to connect investors, entrepreneurs and experienced technology professionals.

Key Risk Factors

On April 3, 2013 EAE announced that Alberta Enterprise has fulfilled its mandate, and the Government of Alberta is ready to move on to the next phase of development. As Alberta Enterprise's three-year term comes to a close, the Government of Alberta is developing options to build on the success of Alberta Enterprise and guide future initiatives and improve access to the venture capital industry. A key risk factor going forward is the successful transition of the Alberta Enterprise mandate to another organization.

Alberta Enterprise has fulfilled its mandate, and the Government of Alberta is ready to move on to the next phase of development.

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.

In June 2012, Alberta Enterprise's previous CEO unexpectedly passed away. The Board appointed Barry Heck, Vice Chair of the Board, as Interim CEO. Mr. Heck continues to serve as CEO of Alberta Enterprise.

Board of Directors

The Board meets four times per year and as required for strategic planning purposes and to progress specific decisions. The Board is accountable to the shareholder, the 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 four external and independent members, and one member who was appointed CEO in June 2012 following the death of Alberta Enterprise's previous CEO.



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



Governance Review

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

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, 2013

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 – Board/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, 2013, 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, 2013, and the results of its operations, its 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 23, 2013

Edmonton, Alberta

ALBERTA ENTERPRISE CORPORATION
STATEMENT OF FINANCIAL POSITION
As at March 31, 2013

	2013	2012
	(in thousands)	
Assets		
Cash (Note 3)	\$ 62,926	\$ 90,333
Accounts Receivable	-	34
Investments (Note 4)	35,699	9,880
	\$ 98,625	\$ 100,247
Liabilities		
Accounts Payable and Accrued Liabilities	\$ 160	\$ 364
	160	364
Net Assets		
Accumulated Surplus	95,481	97,217
Accumulated Remeasurement Gains	2,984	2,666
	98,465	99,883
	\$ 98,625	\$ 100,247

Contractual Obligations (Note 6)

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

Approved by the Board of Directors:



 Director



 Director



 Date



 Date

ALBERTA ENTERPRISE CORPORATION
STATEMENT OF OPERATIONS
Year ended March 31, 2013

	2013		2012
	Budget	Actuals	Actuals
	(in thousands)		
Revenues			
Grant from Government of Alberta	\$ 2,250	\$ 2,150	\$ 1,587
Other Revenue	-	27	-
	2,250	2,177	1,587
Expenses - Directly Incurred (Schedule 1)			
Operating Costs	2,250	2,081	1,778
	2,250	2,081	1,778
Net Operating Results	-	96	(191)
Realized Loss on Investments (Note 4)	-	(1,832)	(1,043)
Net Loss	\$ -	\$ (1,736)	\$ (1,234)
Accumulated Surplus, Beginning of year		97,217	98,451
Accumulated Surplus, End of year		\$ 95,481	\$ 97,217

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

ALBERTA ENTERPRISE CORPORATION
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
Year ended March 31, 2013

	(in thousands)	
	<u>2013</u>	<u>2012</u>
Accumulated Remeasurement Gains at Beginning of Year	<u>\$ 2,666</u>	<u>\$ 770</u>
Unrealized Gain Attributed to:		
Investments	184	1,794
Foreign Exchange	134	102
Net Remeasurement Gains for the Year	<u>\$ 318</u>	<u>\$ 1,896</u>
Accumulated Remeasurement Gains as at End of Year	<u><u>\$ 2,984</u></u>	<u><u>\$ 2,666</u></u>

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

ALBERTA ENTERPRISE CORPORATION
STATEMENT OF CASH FLOWS
Year ended March 31, 2013

	<u>2013</u>	<u>2012</u>
	(in thousands)	
Operating Transactions		
Net Operating Results	\$ 96	\$ (191)
Decrease (Increase) in Accounts Receivable	34	(13)
(Decrease) Increase in Accounts Payable and Accrued Liabilities	<u>(204)</u>	<u>336</u>
Cash (Applied to) Provided by Operating Transactions	<u>(74)</u>	<u>132</u>
Investing Transactions		
Purchase of Investments	<u>(27,333)</u>	<u>(3,448)</u>
Cash Applied to Investing Transactions	<u>(27,333)</u>	<u>(3,448)</u>
Decrease in Cash	(27,407)	(3,316)
Cash, Beginning of Year	<u>90,333</u>	<u>93,649</u>
Cash, End of Year	<u>\$ 62,926</u>	<u>\$ 90,333</u>

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

ALBERTA ENTERPRISE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2013

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 (in thousands)

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 Enterprise and Advanced Education and for which the Minister of Enterprise and Advanced Education is accountable. Other entities accountable to the Minister are the Department of Enterprise and Advanced Education, 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

Revenue accounting policy

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 deferred revenue.

Government transfers

Transfers from the Government of Alberta, federal and other governments are referred to as government transfers.

Government transfers and the associated externally restricted investment income are recorded as deferred revenue if the terms for use of the transfer, or the terms along with the Corporation's actions and communications as to the use of the transfer, create a liability. These transfers are recognized as revenue as the terms are met and, when applicable, the Corporation complies with its communicated use of the transfer.

All other government transfers, without terms for the use of the transfer, are recorded as revenue when the Corporation is eligible to receive the funds.

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

Expenses

Directly Incurred

Directly incurred expenses are those costs the Corporation has primary responsibility and accountability for, as reflected in the government's budget documents. Expenses primarily include supplies and services and payments to consultants.

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.

Cash is the financial asset of the Corporation. The Corporation does not take out loans or issue equity.

c) Financial Instruments

Accounting Standard for Investments

The Corporation records investments in accordance with Public Sector Accounting Board (PSAB) Standard PS 3450 – Financial Instruments and PS 2601- Foreign Currency Translation.

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) (in thousands)**

Unrealized gains and losses due to changes in the fair value of investments in Limited Partnerships, and the fluctuations in foreign currency rates are recorded in Statement of Remeasurement Gains and Losses.

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 Corporation's investments have all been classified within level 3 as the fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. 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.

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.

Net Assets

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

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

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.

Measurement Uncertainty

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount. Investments recorded at \$35,699 in the financial statements are subject to measurement uncertainty.

Measurement uncertainty exists with the determination of the fair value of the investments. The fair value of the investments are estimated by the General Partner of each fund. The process of valuing investments for which no published market exists is inevitably based on inherent uncertainties and the resulting values may differ from value that would have been used had a ready market existed for the investments.

Risks

The Corporation is subject to market and liquidity risk with respect to its investment portfolio.

Market Risk

Market risk encompasses the potential for both losses and gains, and includes price risk and foreign currency risk. Price risk is the risk of a potential decline in the price of an investment or an asset. Foreign currency risk is the risk that the value of an investment is affected by changes in exchange rates.

The Corporation’s price risk is driven primarily by volatility in its venture capital investments. The Corporation generally invests in Limited Partnerships in the initial stages of development. Because of the inherent uncertainty of valuations, estimated fair values may differ significantly from the values that would have been used had a ready market for the securities existed, and the difference could be material.

The value of the Corporation’s investments in Limited Partnerships denominated in foreign currencies may change due to changes in exchange rates.

If the value of the Canadian dollar increased by 10% against the U.S. Dollar, and all other variables are held constant, the potential loss in fair value to the Corporation would be approximately 3.5% of total investments (2012: 6.9%).

Liquidity Risk

Liquidity risk is the risk that a given investment or asset cannot be traded quickly enough in the market without incurring a loss.

The Corporation’s investments are long term and highly illiquid. There is no assurance that the Corporation will ultimately realize the carrying value of the investments.

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

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 or interest risk. The Corporation financial assets and liabilities are generally classified and measured as follows:

Financial Statement Component	Measurement
Cash	Fair Value
Investments	Fair Value
Accounts Payable and Accrued Liabilities	Cost or Amortized Cost

d) Foreign Currency Translation

Financial assets and liabilities recorded in foreign currencies are translated to Canadian dollars at the year-end exchange rate.

Revenues and expenses are translated at the average exchange rate for the year. Unrealized gains and losses due to foreign currency fluctuations are recorded in the Statement of Remeasurement Gains and Losses.

e) Change in Accounting Policy

Effective April 1, 2012, the Corporation adopted PS 3410 Government Transfers. This section deals with how to account for and report government transfers. There was no impact on the Corporation as a result of the adoption of this section.

NOTE 3 CASH (in thousands)

Cash in the amount of \$ 62,926 (2012 - \$ 90,333) 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, 2013, securities held by the Corporation had a time weighted return of 1.2 % per annum (2012 - 1.3% 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.

As at March 31, 2013 the Corporation has \$62,926 (2012 - \$90,333) in Cash, of which \$53,384 has been committed for partnership capital contributions.

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 eight (2012 – four) Limited Partnerships and \$ 90,624 (2012 - \$ 53,973) 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:

	Chrysalix Energy III Fund (a)	Yaletown Ventures II	iNovia Fund III	Enertech Capital Partners IV (a)	Azure Capital Partners III (a)	32 Degrees D.E.Fund II (S&T AIV) LP	Avrio Ventures II	Accelerate Fund	2013 Total	2012 Total
Funds disbursed to partnership for:										
Investments (b)	\$7,300	\$6,580	\$2,100	\$2,892	\$2,684	\$3,990	\$1,694	\$10,000	\$37,240	\$9,882
Remaining Commitment	7,934	7,420	7,900	12,342	7,472	6,010	4,306	-	53,384	44,091
Total Funding Committed	\$15,234	\$14,000	\$10,000	\$15,234	\$10,156	\$10,000	\$6,000	\$10,000	\$90,624	\$53,973

(a) Commitments are payable in US dollars. Amounts above are based upon exchange rate on March 31, 2013.

(b) 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. The Corporation’s share in each Limited Partnership includes contributions to the Limited Partnerships for investments. It also includes a share of gains or losses of the Limited Partnerships based as set out in the individual Limited Partnership agreements.

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

The Corporation's investment in Limited Partnerships is as follows:

	2013		2012	
	Investments at fair value	Percentage Investment in Partnership	Investments at fair value	Percentage Investment in Partnership
Chrysalix Energy III Fund	\$ 7,845	10.32%	\$ 6,858	10.32%
Yaletown Ventures II	5,715	15.58%	2,391	15.65%
iNovia Fund III	2,247	9.04%	631	9.17%
Enertech Capital Partners IV	2,346	28.53%	-	-
Azure Capital Partners III	2,403	12.42%	-	-
32 Degrees D.E. Fund II (S&T AIV) LP	3,733	99.99%	-	-
Avrio Ventures II	1,582	6.56%	-	-
Accelerate Fund	9,828	99.99%	-	-
Total	\$ 35,699		\$ 9,880	

The change in fair values of the investments in Limited Partnerships since April 1, 2012 are as follows:

	Chrysalix Energy III Fund	Yaletown Ventures II (b)	iNovia Fund III	Enertech Capital Partners IV	Azure Capital Partners III	32 Degrees D.E. Fund II (S&T AIV) LP	Avrio Ventures II	Accelerate Fund	2013 Total	2012 Total
Investment in Partnership, Beginning of Year	\$ 6,858	\$ 2,391	\$ 631	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,880	\$ 5,579
Funds disbursed to partnership for investments (a)	1,568	3,080	1,425	2,892	2,684	3,990	1,694	10,000	27,333	3,448
Remeasurement Gains (Losses)	(439)	168	251	(5)	271	-	72	-	318	1,896
Realized Gains (Losses) on investments	(142)	76	(60)	(541)	(552)	(257)	(184)	(172)	(1,832)	(1,043)
Investment in Partnership, End of Year	\$ 7,845	\$ 5,715	\$ 2,247	\$ 2,346	\$ 2,403	\$ 3,733	\$ 1,582	\$ 9,828	\$ 35,699	\$ 9,880
Cost of Partnership Investment	\$ 7,300	\$ 6,580	\$ 2,075	\$ 2,892	\$ 2,684	\$ 3,990	\$ 1,694	\$ 10,000	\$ 37,215	\$ 9,882

(a) Amounts include management fees paid by Limited Partnerships to General Partners. Management fees are recovered from the Corporation as part of capital in accordance with the Limited Partnership agreements.

(b) Realized Gains (losses) on investments includes \$355 realized gains due to allocation of contributed surplus from a partner that defaulted on cash calls during the year.

NOTE 5 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

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 fair values of Cash, and Accounts Payable and Accrued Liabilities are estimated to approximate their carrying values, because of the short term nature of these instruments.

**NOTE 6 CONTRACTUAL OBLIGATIONS
(in thousands)**

Contractual obligations are obligations of the Corporation to others that will become liabilities in the future when the terms of those contracts are met. The Corporation has committed funds to be paid into limited partnerships. The details of the commitments are listed in Note 4.

	2013	2012
Obligations under Operating Leases	\$ 525	\$ 599
Obligations under Service Contracts	1,022	3,244
	<u>\$ 1,547</u>	<u>\$ 3,843</u>

	Operating Leases	Service Contracts	Total
2013-14	\$ 76	\$ 521	\$ 597
2014-15	78	501	579
2015-16	78	-	78
2016-17	78	-	78
2017-18	78	-	78
Thereafter	137	-	137
	<u>\$ 525</u>	<u>\$ 1,022</u>	<u>\$ 1,547</u>

NOTE 7 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors.

ALBERTA ENTERPRISE CORPORATION
SCHEDULES TO THE FINANCIAL STATEMENTS
Year ended March 31, 2013

Schedule 1 - Expenses Directly Incurred Detailed by Object

	2013		2012
	Budget	Actual	Actual
	(in thousands)		
Grants and Sponsorships	\$ 257	\$ 272	\$ 93
Payments to Consultants and Benefits	1,206	905	929
Supplies and Services	787	904	756
	<u>\$ 2,250</u>	<u>\$ 2,081</u>	<u>\$ 1,778</u>

Schedule 2 - Board/Executive Compensation

	2013			2012	
	Compensation (1)	Other Cash Benefits (2)	Other Non- Cash Benefits (3)	Total	Total
Chair of the Board	-	48,400	2,233	\$ 50,633	\$ 48,835
Board Members (four)	-	70,217	3,288	73,505	87,536
Executives:					
Chief Executive Officer (4)	225,172	-	-	225,172	360,000
Director, Investments	140,416	15,000	-	155,416	137,150
Director, Investments	171,500	15,000	-	186,500	113,333
Director, Industry Development (5)	92,109	-	-	92,109	142,375

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 are discretionary amounts to be paid on achieving certain milestones, requiring CEO approval.
- 3) Other Non-Cash Benefits for Board members includes Canada Pension Plan payments. No non-cash benefits were provided to Executives.
- 4) This position was occupied by two individuals at different times during the year.
- 5) This position was occupied until November 2012.

Schedule 3 - Related Party Transactions

(in thousands)

Related parties are those entities consolidated or accounted for on a modified equity basis in the Government 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 Enterprise and Advanced Education. 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 Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry		Other Entities Outside of the Ministry	
	2013	2012	2013	2012
Revenues				
Grants	\$ 2,150	\$ 1,587	\$ -	\$ -
Expenses – Directly Incurred				
Other Services	\$ 42	\$ 41	\$ 62	\$ 60
Payables to	\$ 3	\$ 160	\$ -	\$ -

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

