

Cultivating homegrown innovation

2013 - 2014 Annual Report



albertaenterprise

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Alberta Enterprise Corporation History

Accountability Statement

Alberta Enterprise Corporation was established in 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 Innovation & Advanced Education (“IAE”).

Our Mission

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

In compliance with its governing legislation and agreement with IAE, Alberta Enterprise is working 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, grow and nurture 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.

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 CEO of WinSport (Calgary Olympic Development Association), President and Principal Partner of EL Merchant Capital, Chair of the Alberta Economic Development Authority (AEDA)
- **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

- **Barry M. Heck, Chief Executive Officer** (until July 2013)
- **Kristina Williams, Director of Investments and Interim Managing Director**
- **Paul G. Haggis, Managing Consultant**
- **Rebecca Giffen, Director of Investments**
- **Connie Nye, Operations Manager**

In February 2014, Alberta Enterprise's Interim Managing Director went on maternity leave. The Board appointed Paul G. Haggis, Chair of the Board, to provide consulting services for the period of the Interim Managing Director's maternity leave. Mr. Haggis will continue to serve as Chair of the Board of Directors.

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.

The
best ideas
are grown
at home

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

On behalf of the Government of Alberta, Alberta Enterprise has made investments in Venture Capital (VC) funds which invest in Alberta tech ventures. These investments have yielded new products, high tech jobs and have generated interest in Alberta entrepreneurs by VC funds. The investment value is growing incrementally over time. The Alberta Enterprise Fund is an investment, not an expense.



After its initial setup, Alberta Enterprise made its first investments in early 2010. To date, over \$94 million has been committed for investment to seven VC funds and the Accelerate Fund. The Accelerate Fund was created by Alberta Enterprise specifically as an angel co-investment fund focused on Alberta tech companies.



By investing strategically, Alberta Enterprise has leveraged the \$94 million into more than \$765 million and forged connections with hundreds of other limited partners, portfolio companies and VC firms.



As of March 2014, our VC funds and their syndicate partners have invested over \$170 million in 21 tech ventures in Alberta. The diverse range of forward-looking industries includes clean and energy technologies, information and communications technologies, and agriculture and food. Alberta Enterprise's investments in funds have generated more than three times the capital back into Alberta companies.



AEC's funds have had four profitable exits to date—which is well ahead of expectations for this early in the life of the funds.



As a direct result of Alberta Enterprise investments, there are four new and four expanded VC fund offices in Alberta—greatly increasing the number of VC professionals actively pursuing opportunities in the province.



Through strategic support and innovative private-sector partnerships, Alberta Enterprise is sparking a renaissance in Alberta's tech ecosystem, with strong ties to expats in the Silicon Valley, cross sector tech conferences, the emergence of local tech communities in Edmonton and Calgary, the re-launch of the Venture Capital Association of Alberta and more.



Alberta Enterprise is a highly relevant, effective and efficient agency—as documented in the Results Based Budget review. We're guided by a top-quality professional board and managed by an expert team with experience and credibility in VC and technology entrepreneurship.



In an evolutionary process that requires patience and the long view, Alberta Enterprise has produced strong short-term results that are transforming technology and Venture Capital in Alberta. With an extended mandate, Alberta Enterprise can continue to build upon the success that we've already achieved.



Without leadership from Alberta Enterprise in the VC ecosystem in Alberta, fewer VC funds would invest in the province's promising high-tech companies, and growth would slow.



Management's Discussion and Analysis

Management's Discussion and 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.

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

Investments

Outcomes	Results achieved by Alberta Enterprise to date
<i>Immediate and intermediate outcomes</i>	
1. Improved access to capital for Alberta companies and stimulate investment in knowledge based industries to diversify and broaden Alberta's economic base.	<ul style="list-style-type: none">• Alberta Enterprise has committed for investment \$94M into seven VC funds and the Accelerate Fund, an angel co-investment fund with up to \$10M remaining to be invested.• Through these funds Alberta knowledge-based companies now have access to >\$765M in Venture Capital, successfully leveraging our capital 8:1• There are 4 new and 4 expanded VC offices in the province, giving Alberta entrepreneurs easier access to VC professionals.• Alberta Enterprise's investments in funds have generated more than three times the capital back into Alberta companies. As of March 31, 2014 our VCs and their syndicate partners have already invested over \$170M in 21 Alberta technology companies. This amount is expected to grow significantly over the 10-year life of these funds.• We have deployed capital across all knowledge-based sectors (ICT, energy/clean tech, and Life Sciences)• We have developed a solution to address funding gaps for earlier-stage companies by launching the Accelerate Fund, an angel co-investment fund.
2. Improved profile for Alberta venture capital and private equity sectors internationally, and attract external investment capital.	<ul style="list-style-type: none">• Alberta Enterprise has attracted external VC funds to Alberta. By attracting international VC funds, we bring expertise to the province and also connect Alberta entrepreneurs to international markets and opportunities.• All 7 of our VC funds have international investors, and 5 of the funds have offices outside of Canada. We have co-invested with multi-national companies such as Shell, Total, Fortum and BASF.• We actively engage these co-investors (also called "Limited Partners") to increase awareness of Alberta value added products.• Through Alberta Enterprise's VC funds, Alberta entrepreneurs now have access to more than 300 other international VC funds.• Our VCs and the Accelerate Fund have attracted more than \$100M of investments into Alberta technology companies. This shows that Alberta companies not only have access to the capital of our VC funds, our funds are also helping Alberta companies access a significant amount of outside capital.

Goals and Outcomes

Investments

Ultimate outcomes

- | | |
|---|--|
| 1.
Building a self-sustaining VC industry in Alberta. | <p>Alberta knowledge-based companies need access to venture capital. Venture capital serves as an important source industry for economic development, wealth and job creation, as well as innovation. Alberta wishes to move from a resource-based economy to one augmented by knowledge-based industries. The VC industry is a critical part of the ecosystem that takes research from the laboratory to commercial products. A self-sustaining VC industry will result in a diversified, resilient economy, where Albertans will benefit from quality jobs, a high standard of living and there will be a broad base of economic opportunities available. Additionally, with a sustainable VC industry and available capital for investment, Alberta will be globally recognized as a competitive business choice.</p> <p>Alberta Enterprise has only been investing in VC funds for four years. A typical VC fund has a life of 10 years. It is therefore too early to predict the full impact of Alberta Enterprise's activities, but as detailed above, in only four years we have achieved excellent results. Building a self-sustainable VC industry can however take up to 20 years. To achieve this outcome we need to</p> <ol style="list-style-type: none">1. Attract more VCs to Alberta2. Address the critical gap in early-stage funding3. Assist local Alberta managers4. Support our high performing VC funds with follow-on capital to ensure they maintain a presence in the Province <p>To build a sustainable VC industry in Alberta will require patience and additional investment capital from the Province.</p> |
| 2.
Return to the Province its initial investment capital plus an appropriate rate of return. | <p>The investment capital from the Government of Alberta is a financial investment, not a cost. We expect to return to the Province its initial \$100M investment capital plus an appropriate return on this investment in a timeframe consistent with the life of a VC fund (approximately 10 years).</p> <p>Our funds have already had four profitable exits, which is well ahead of expectations for this early in the life of the funds.</p> <p>The financial return to the Province on our initial investment will however not fully be known for another 7-10 years.</p> |

Goals and Outcomes

Investments

During the year, Alberta Enterprise's investment team continued to monitor and report on the Corporation's investments made previously:

- Accelerate Fund, a \$10 million angel co-investment fund focused on Alberta technology companies.
- Avrio Ventures II, focused on the agriculture and food sectors.
- Azure Capital Partners III, focused on the information technology sector.
- 32 Degrees Diversified Energy Fund II (Services & Technology Co-Invest), focused on energy technology.
- Chrysalix Energy Limited Partnership III, focused on the clean energy sector.
- EnerTech Capital Partners IV Limited Partnership, focused on the energy and clean technology sectors.
- Yaletown Ventures II Limited Partnership, focused on the information and communications technology and clean technology sectors.
- iNovia Investment Fund III Limited Partnership, focused on the information technology sector.

In addition to the above, progress was also made in this fiscal year on the final commitment of \$10 million. A \$10 million investment in a fund was approved by the Board in March 2013. Due to unforeseen circumstances Alberta Enterprise decided not to proceed with this commitment. Alberta Enterprise is conducting further evaluation and analysis of fund options.

Operational Overview

Industry Development

Cultivating the industry ecosystem surrounding 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 technology ecosystem over the past year, and Alberta Enterprise has been at the forefront of this success.

Alberta Enterprise works to fill the gaps in the ecosystem and to create links between existing organizations. 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

Outcomes	Results achieved by Alberta Enterprise to date
<i>Immediate and intermediate outcomes</i>	
1. Stimulated investment in knowledge based industries to diversify and broaden Alberta's economic base.	<p>To stimulate investment we are</p> <ul style="list-style-type: none"> • connecting investors to each other through the re-launch of the Venture Capital Association of Alberta (VCAA), creating the ability for VCs to share best practices and investment opportunities, • connecting entrepreneurs to each other through founding and creating the AccelerateAB conference (with over 500 attendees in 2013) and by supporting existing organizations such as Startup Edmonton and Startup Calgary, • connecting entrepreneurs to experienced management talent through the AccelerateAB conference and by creating the A100, a non-profit, member-driven group of Alberta's top technology executives focused on mentoring and supporting Alberta's next generation of tech entrepreneurs, • connecting VCs to other investors (local and external) by creating events such as the Pre Banff Venture Forum Investor session.
2. Improved profile for Alberta venture capital and private equity sectors internationally, and attract external investment capital.	<ul style="list-style-type: none"> • Through our ecosystem efforts we showcase Alberta investment opportunities to private technology investors across the globe. For example, we sponsor and actively engage with the C100 (a US-based group of successful, expat Canadians who want to help build the next technology success) to help our entrepreneurs get exposure at US-based events such as the CEO Technology Forum and 48 Hours in the Valley. • We sponsor Alberta companies to attend international VC events, • We actively engage the Limited Partners of our VC funds to increase awareness of Alberta value added products, • We leverage our investment capital to engage VC's, strategic investors, and mentors to attend local events.

Industry Development

Ultimate outcomes

1. Building a self-sustaining VC ecosystem in Alberta.	<p>Alberta Enterprise works to fill the gaps in the ecosystem and to create links between existing organizations. We have been successful in supporting the creation of industry-driven, grassroots organizations that play a meaningful role in the innovation investment ecosystem. Much effort has already been expended in this area, and early results are very promising, however, getting these groups and initiatives to long-term sustainability will require more hands-on support and some additional capital.</p>
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With a relatively small amount of capital Alberta Enterprise can effectively and efficiently enhance the Alberta innovation investment ecosystem. Our approach is highly collaborative – rather than building a large team within Alberta Enterprise, we take a partnership approach, working with many public and private organizations to fulfill our mandate. This collaborative approach allows our organization to have a very broad reach, delivering outcomes far beyond the capacity of our small team, all while keeping operating costs very low. The key to our success is the engagement of VC's, strategic investors, entrepreneurs and mentors by leveraging our investment capital.

Operational Budget and Capital Deployment

Operational Budget and Statement of Operations

The Statement of Operations shows an operating cost of \$6 thousand below budget for fiscal 2013-2014. 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 2013-2014 is primarily due to realized losses of \$804 thousand 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. The Corporation concurrently had an unrealized re-measurement gains on investment of \$1.71 million. Similar to realized gains and losses, AEC records a proportionate share of any increases or decreases in the value of investments made by the funds. Changes in value form part of net assets and are not captured as income or losses (i.e. realized) until the investments are sold by the Limited Partnership.

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

Capital Deployment and Investments

To date and in the fiscal year 2013-2014, Alberta Enterprise has total capital committed for investment of \$94 million.

In fiscal year 2013-2014, Alberta Enterprise disbursed \$16.5 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 - \$41.97 million - is held as a cash until such time as is it drawn down upon.

Investments were valued at \$50.77 million for fiscal year ended 2013-14, which includes 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. Building a venture capital industry is a long-term project. It takes many years until tangible effects are realized and for the VC industry to become self-sustainable. To maintain momentum and build on our excellent results to date **will require additional capital**. Once the industry reaches a critical mass, a process which will take years or even decades, the case for public intervention will wane. Alberta Enterprise has approached the government for additional capital to continue our investment activities and expand our industry/ecosystem development initiatives.

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 meets four to eight 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 Innovation & 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 Managing Director 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.

Governance Review

A governance review is undertaken at least annual, to ensure the 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.

Auditor's
Report
and
Financial
Statements

ALBERTA ENTERPRISE CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2014

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 – Salary and Benefits Disclosure

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, 2014, 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, 2014, 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 26, 2014

Edmonton, Alberta

ALBERTA ENTERPRISE CORPORATION
STATEMENT OF FINANCIAL POSITION
As at MARCH 31, 2014

		(in thousands)	
		2014	2013
Assets			
Cash (Note 3)	\$	48,429	\$ 62,926
Accounts Receivable		327	-
Investments (Note 4)		50,772	35,699
	\$	99,528	\$ 98,625
Liabilities			
Accounts Payable and Accrued Liabilities	\$	243	\$ 160
		243	160
Net Assets			
Accumulated Surplus		94,591	95,481
Accumulated Remeasurement Gains		4,694	2,984
		99,285	98,465
	\$	99,528	\$ 98,625

Contractual Obligations (Note 5)

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

Approved by the Board of Directors:



 Director



 Director

May 26, 2014

 Date

May 26, 2014

 Date

ALBERTA ENTERPRISE CORPORATION
STATEMENT OF OPERATIONS
Year ended MARCH 31, 2014

	(in thousands)		
	2014		2013
	Budget	Actuals	Actuals
Revenues			
Government of Alberta Grant	\$ 1,150	\$ 1,050	\$ 2,150
Other Revenue	-	8	27
	1,150	1,058	2,177
 Expenses - Directly Incurred (Note 2b, Schedule 1)			
Operating Costs	1,150	1,144	2,081
	1,150	1,144	2,081
 Annual Operating (Deficit) Surplus	-	(86)	96
Realized Loss on Investments (Note 4)	-	(804)	(1,832)
Net Loss	\$ -	\$ (890)	\$ (1,736)
 Accumulated Surplus, Beginning of year		95,481	97,217
Accumulated Surplus, End year		\$ 94,591	\$ 95,481

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

ALBERTA ENTERPRISE CORPORATION
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
Year ended MARCH 31, 2014

	(in thousands)	
	<u>2014</u>	<u>2013</u>
Unrealized Gains Attributed to:		
Investments	\$ 515	\$ 184
Foreign Exchange	1,195	134
Net Remeasurement Gains for the Year	<u>1,710</u>	<u>318</u>
Accumulated Remeasurement Gains at Beginning of Year	2,984	2,666
Accumulated Remeasurement Gains at End of Year	<u>\$ 4,694</u>	<u>\$ 2,984</u>

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

ALBERTA ENTERPRISE CORPORATION
STATEMENT OF CASH FLOWS
Year ended MARCH 31, 2014

	(in thousands)	
	2014	2013
Operating Transactions		
Annual Operating (Deficit) Surplus	\$ (86)	\$ 96
Decrease (Increase) in Accounts Receivable	(327)	34
Increase (Decrease) in Accounts Payable and Accrued Liabilities	83	(204)
Cash Applied to Operating Transactions	(330)	(74)
Investing Transactions		
Purchase of Investments	(15,005)	(27,333)
Proceeds on Sale of Investments	838	-
Cash Applied to Investing Transactions	(14,167)	(27,333)
Decrease in Cash	(14,497)	(27,407)
Cash, Beginning of Year	62,926	90,333
Cash, End of Year	\$ 48,429	\$ 62,926

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

ALBERTA ENTERPRISE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2014

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 Innovation and Advanced Education and for which the Minister of Innovation and Advanced Education is accountable. Other entities accountable to the Minister are the Department of Innovation and Advanced Education, Access to the Future Fund, Alberta Innovates Corporations, (excluding Alberta Innovates – Health Solutions), 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 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 are recorded on an accrual basis.

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 and Accounts Receivable are the financial assets of the Corporation. The Corporation does not take out loans or issue equity.

c) Financial Instruments**Accounting Standard for Investments**

The Corporation records investments using 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.

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 \$50,772 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.

Valuation of Financial Assets and Liabilities

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

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

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.

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

e) Future Accounting Changes

PS 3260 Liability for Contaminated Sites

In June 2010 the Public Sector Accounting Board issued this accounting standard effective for fiscal years starting on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic, or radioactive material, or live organism that exceeds an environmental standard. The Corporation would recognize a liability related to the remediation of such contaminated sites subject to certain recognition criteria. Management does not expect the implementation of this standard to have a significant impact on the financial statements in the next fiscal period.

f) Budget

A business plan with no budgeted surplus or deficit was approved by the Board on November 14, 2013 and the full financial plan was submitted to the Minister of Innovation and Advanced Education.

NOTE 3 CASH

(in thousands)

Cash in the amount of \$ 48,429 (2013 - \$ 62,926) 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, 2014, securities held by the Corporation had a time weighted return of 1.2 % per annum (2013 - 1.2% 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, 2014 the Corporation has \$48,429 (2013 – \$62,926) in Cash, of which \$41,977 (2013 – \$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 (2013 – eight) Limited Partnerships and \$ 94,220 (2013 - \$ 90,599) 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 (a)	Azure (a)	32 Degrees D.E.Fund II (S&T AIV) LP	Avrio	Accelerate Fund	2014 Total	2013 Total
Funds disbursed to partnership for:										
Investments (b)	\$ 9,133	\$ 9,918	\$ 3,486	\$ 3,580	\$ 5,097	\$ 7,284	\$ 3,745	\$ 10,000	\$ 52,243	\$ 37,215
Remaining Commitment	\$ 7,450	\$ 4,082	\$ 6,514	\$ 13,003	\$ 5,957	\$ 2,716	\$ 2,255	\$ -	\$ 41,977	\$ 53,384
Total Funding Committed	\$ 16,583	\$ 14,000	\$ 10,000	\$ 16,583	\$ 11,054	\$ 10,000	\$ 6,000	\$ 10,000	\$ 94,220	\$ 90,599

- (a) Commitments are payable in US dollars. Amounts above are based upon exchange rate on March 31, 2014.
- (b) Investments include management fees which 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:

	2014		2013	
	Share of Equity	Percentage in Partnership	Share of Equity	Percentage in Partnership
Chrysalix Energy III Fund	\$ 8,635	10.32%	\$ 7,845	10.32%
Yaletown Ventures II	8,625	15.58%	5,716	15.58%
iNovia Fund III	4,014	9.04%	2,247	9.14%
Enertech Capital Partners IV	3,215	12.66%	2,346	28.53%
Azure Capital Partners III	5,264	12.42%	2,403	12.42%
32 Degrees D.E. Fund II (S&T AIV) LP	7,936	99.99%	3,733	99.99%
Avrio Ventures II	3,791	6.56%	1,581	6.56%
Accelerate Fund	9,292	99.99%	9,828	99.99%
Total	\$ 50,772		\$ 35,699	

The change in fair values of the investments in Limited Partnerships since April 1, 2013 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	2014 Total	2013 Total
Investment in Partnership, Beginning of Year	\$ 7,845	\$ 5,716	\$ 2,247	\$ 2,346	\$ 2,403	\$ 3,733	\$ 1,581	\$ 9,828	\$ 35,699	\$ 9,880
Funds disbursed to partnership for investments (a)	1,833	3,710	1,525	1,694	2,413	3,294	2,052	-	16,521	27,333
Proceeds of Investment Gain	-	(648)	(190)	-	-	-	-	-	(838)	-
Return of Capital	-	(372)	(139)	(1,005)	-	-	-	-	(1,516)	-
Remeasurement Gains (Losses)	(527)	(139)	491	293	638	813	141	-	1,710	318
Realized Gains (Losses) on investments	(516)	358	80	(113)	(190)	96	17	(536)	(804)	(1,832)
Investment in Partnership, End of Year	\$ 8,635	\$ 8,625	\$ 4,014	\$ 3,215	\$ 5,264	\$ 7,936	\$ 3,791	\$ 9,292	\$ 50,772	\$ 35,699
Cost of Partnership Investment	\$ 9,133	\$ 9,918	\$ 3,486	\$ 3,580	\$ 5,097	\$ 7,284	\$ 3,745	\$ 10,000	\$ 52,243	\$ 37,215

(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 \$648 realized gains due to sale of investment by Yaletown Ventures II, and \$190 realized gains due to sale of investment by iNovia.

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

Fair Value Hierarchy

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	Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.
Level 2	Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market.
Level 3	Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

Unrealized gains and losses are due to changes in the fair value of investments in the Limited Partnerships and the fluctuation in foreign exchange currency rates are recorded in the 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.

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

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 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.

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 of 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 the 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 3.4% of total investments (2013- 3.5%).

Liquidity Risk

Liquidity risk is the risk that a given investment or asset cannot be traded quickly enough in the market to prevent 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.

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

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

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, and interest risk.

NOTE 5 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.

		<u>2014</u>		<u>2013</u>
Obligations under Operating Leases	\$	181	\$	525
Obligations under Service Contracts		<u>465</u>		<u>1,022</u>
	\$	<u>646</u>	\$	<u>1,547</u>

	<u>Operating Leases</u>	<u>Service Contracts</u>	<u>Total</u>
2014-15	30	465	495
2015-16	32	-	32
2016-17	32	-	32
2017-18	32	-	32
2018-19	32	-	32
Thereafter	<u>23</u>	<u>-</u>	<u>23</u>
	<u>\$ 181</u>	<u>\$ 465</u>	<u>\$ 646</u>

NOTE 6 COMPARATIVE FIGURES

Certain 2013 figures have been reclassified to conform to the 2014 presentation.

NOTE 7 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, 2014

Schedule 1 - Expenses Directly Incurred Detailed by Object

	(in thousands)		
	<u>Budget</u>	<u>2014</u>	<u>2013</u>
Grants and sponsorships	\$ 52	\$ 190	\$ 272
Salaries, Wages, Benefits, & Payments to Consultants	608	496	905
Supplies & Services	490	458	904
	<u>\$ 1,150</u>	<u>\$ 1,144</u>	<u>\$ 2,081</u>

Schedule 2 -Salary and Benefits Disclosure
Year ended March 31, 2014
(in thousands)

	2014			2013	
	Compensation (1)	Other Cash Benefits (2)	Other Non- Cash Benefits (3)	Total	Total
Chair of the Board	-	44	2	\$ 46	\$ 51
Board Members (four)	-	68	3	71	74
Executives:					
Chief Executive Officer (4)	72	-	-	72	225
Interim Managing Director (5)	18	-	-	18	-
Director, Investments	126	-	-	126	155
Director, Investments and Interim Manager (6)	171	15	-	186	187
Director, Industry Development (7)	-	-	-	-	92

(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 on a part time basis until July 2013.

(5) This position became responsible for the interim part-time management of AEC effective February 1, 2014 to September 30, 2014.

(6) This position became responsible for the interim management of AEC effective August 6, 2013.

(7) 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 Innovation 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	
	2014	2013	2014	2013
Revenues				
Grants	\$ 1,050	\$ 2,150	\$ -	\$ -
Expenses – Directly Incurred				
Other Services	\$ 81	\$ 63	\$ 34	\$ 62
Payables to	\$ 36	\$ 3	\$ -	\$ -
Contractual Obligations	\$ 25	\$ 25	\$ 621	\$ 1,522

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

albertaenterprise

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