SUMMARY TRANSCRIPT

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MS. LEONG: Good morning. Welcome to Capital Ideas 2010. It's really terrific to see such a great turnout this morning on a rainy Vancouver day.

As many of you know, and many of you will hear, small and medium-size businesses are the lifeblood of the Canadian economy and therefore we all have an interest in understanding the issues and the challenges facing these companies, and doing our part, whether it's regulatory, financial or from a policy perspective, to support and foster the growth of this very important sector of our marketplace.

We're very fortunate and I'm delighted to be able to introduce the Honourable Minister Colin Hansen, Minister of Finance and Small Business, as of yesterday, for British Columbia. So it's very fitting that Minister Hansen is here to open our conference this morning and to highlight some of government's initiatives that have created an environment that has helped small business to grow. So please welcome Minister Hansen.

MINISTER HANSEN: Thank you very much, Brenda, and it's a pleasure to be here again to open this conference, as I had the opportunity to do in past years.

And yesterday, Pat Bowles was a bit anxious when she heard the news yesterday, late morning, that there'd been a cabinet shuffle and she was quickly trying to find out whether I was still going to show up. Actually half of my colleagues managed to take on some new responsibilities. I don't know what I did wrong, but I'm stuck in finance still, so it's obviously a challenge and I appreciate some of the new challenges that I've taken on as a result of the changes yesterday, which I'll talk about in just a minute.

But first of all, just to extend a very warm welcome to all of you, to Capital Ideas 2010, and especially our neighbours and friends from Alberta. I know there's several here today who have come from Alberta, because B.C. and Alberta have a very strong working relationship over the last number of years.

In fact, going back to 2001, when we first formed government, we were

working very closely with the Alberta Government. We've had annual joint cabinet meetings. It was actually out of one of those very first cabinet meetings that we developed the initiative that led to TILMA, the Trade Investment Labour Mobility Agreement with Alberta, which has been now extended to include Saskatchewan, under what we now refer to as the Western Economic Partnership. And the New West Partnership has led to joint trade missions to Asia. In fact, the Ministers of Agriculture from the three western provinces just got back. The Ministers of Tourism from the three provinces were part of a joint initiative and that's something that we will continue and try to grow on.

The B.C. and Alberta Securities Commissions play a lead role in inspiring investor confidence and supporting fair, efficient and innovative Canadian capital markets.

Capital Ideas 2010 brings together business leaders, security industry professionals, investors, industry associations and even a politician or two. And, as I mentioned as of yesterday, I took on some new responsibilities and that is the responsibilities for small business. And also there is a new cabinet committee that has been established which is called the Cabinet Committee on the Economy and I will be chairing that, in addition to chairing Treasury Board, as I have done up to now.

And this conference will, in fact, explore the vital role of small and medium-size enterprises in our economy and the importance of a dynamic venture capital market to support these businesses.

This is particularly appropriate since October is Small Business Month in British Columbia. Small business employs about 98% of all the businesses in the province. It makes up 98% of all of the businesses and employs 57% of all private sector jobs, and that's actually the highest of any province in Canada in

terms of the predominance of small enterprises.

And over the last ten years, this is a government that has created an economic environment where business can thrive, especially small businesses. As government, we have accelerated tax cuts to small business -- the small business corporate tax rate has come down by 44%, for savings of about $200 million a year for small enterprises. And we plan to actually drive that small business tax rate to zero in April 1st of 2012, just 17 months from now. And we've also, in January 1st of this year, increased the small business tax threshold up to $500,000 a year and that's more than double what it was 10 years ago.

So generally, since 2001, B.C. has eliminated the general Corporate Capital Tax and reduced the general corporate tax rate by more than a third, to give British Columbia one of the most competitive tax regimes in the country. And in fact, with the next reduction of the corporate tax rate from 10.5% down to 10% on January 1st of 2011, coming up soon, we will, in fact, have the lowest corporate tax rate in just about any jurisdiction in the G-7. In fact, I would say any jurisdiction in the G-7, but somebody will always find one obscure jurisdiction somewhere. But we think we've probably got the lowest corporate tax rate of anywhere in the G-7, with the tax changes coming in on January 1st.

And so British Columbia is one of the most attractive places in the world for international business. We are very well-positioned right here in Vancouver, as a global centre for international commerce through the International Business Activity Program. And we've expanded the program to include incentives for attracting investment in clean technology, the green economy, digital media distribution, all high-value industries that allow B.C. to prosper in the global economy.

And of course, I would be remiss if I didn't mention my very favourite

subject, the Harmonized Sales Tax. And the reason it is so vitally important to us, as a province, and to our economy, is that it actually will reduce the marginal effect of tax rate on capital for all industrial sectors and for all businesses, and for businesses of all sizes, whether they're big or small. And what is key, is that it reduces the tax burden on new business investment, making B.C. one of the most competitive jurisdictions for new investment. The sales tax harmonization alone is expected to generate more than $11.5 billion in new investment over the coming decade and an increase of 113,000 net new jobs.

So the sales tax harmonization and the corporate tax cuts have reduced the effective rate on capital for small businesses by 60% and on large and medium-size businesses by more than 40%.

So you know, we get it that, as a government, we have not done a good job in rolling out the harmonized sales tax. You know in hindsight, there is an awful lot more that we could have and should have done, when it comes to explaining why this tax change is important and how it works. And with the referendum coming up next September 24th, we will have that opportunity. And quite frankly, the private sector will have the opportunity to explain to British Columbians why it's important for their job security and for the growth of our economy in the future.

So what are B.C.'s strengths? And in fact, there are many. You know, B.C. is known as the start-up capital of Canada with more venture companies than anywhere else in Canada. Vancouver is home to more than 1,000 companies listed on Canada's stock exchanges and we need to continue to promote public confidence and maintain a strong international reputation for Canada's exchanges as the premier place to raise money for small capital companies.

And it's important that regulators strike the balance between the business

of raising capital in the public and private markets, while protecting investors in what can sometimes be a risky marketplace.

B.C. and Alberta have been consulting with industry to improve regulations and to try to keep the cost of raising capital reasonable for smaller enterprises. And this year's Capital Ideas Conference is unique because the B.C. Securities Commission has partnered with the Alberta Securities Commission to host the event and publicly discuss these issues. So both our provinces realize it's in our best interest to make vibrant markets for small and medium-size businesses.

So just before I conclude, I want to address one other area that I know is particularly important to everybody in this room, and that's the subject of a national securities regulator, which has been a topic of conversation for some time now. You know, I think we have to recognize that Canada is a small economy. We're a big country; we're a vast country but with a population of 34 million people and the economy the size of Canada's and the breadth of its economy from sea to sea, we can't really afford to have it balkanized. We need to find ways that we can work cohesively as a country.

You know provinces, I think historically, have made it a practice of fighting for their interests as a province, as a separate entity, as distinct from their neighbours. But today, we are living in a globalized world. We are living in a digital world where information travels fast, where I think that we have to recognize that Canada has a very legitimate place, an important place, in the world economy. But we can't do that effectively if we balkanize our internal economy.

So over the last 10 years that you look at the track record of our government, under the leadership of Gordon Campbell, it has been one to try to

truly be a nation builder and how do we actually break down some of that balkanization. So if you look at things like the TILMA Agreement that we put in place, the New West Partnership that now includes Saskatchewan, but it goes beyond that. It's actually been pushing for common regulations across Canada, common legislation in a variety of areas, not just securities regulation, but really across government. Things like labour mobility where British Columbia was the leader in pushing for the National Labour Mobility Agreement that is now in place, and breaking down those barriers for inter-provincial movement of professionals who have professional [designations].

So in terms of security regulations, I think British Columbia has been truly a leader over this past number of years, with the development of the passport system. And I'm pleased to see that Doug Hyndman is here, because Doug really is recognized nationally as the leader of taking securities regulation in Canada from the 20th century into the 21st century, which I think is what the passport system has accomplished over that period of time. And it is a huge improvement from what was in place before, in terms of breaking down some of those inter-provincial balkanizations that were there. The only province that didn't sign on to that modernization was Ontario. Every other province and every other territory had become part of that.

In our view, as a government, the next step is to actually now, push that one step farther into a truly national securities system for Canada, but not one that actually goes back to what we had before and makes it national. What we need is actually a system that takes the innovations of the passport system, the modernizations of the passport system and morphs that into what could be a truly national program.

So we have been, as a government, wholeheartedly in support of the

concept of a national securities regulator for some years now. But we have actually, from the outset, made it very clear, that it had to meet British Columbia's interests, as we go forward.

So you know, just to give you an example of some of the discussions going on today, there was a report that came out from Ontario that if there's going to be a national securities regulator, the head office had to be in Toronto. And I had a reporter who put a microphone in front of my face and asked me what I thought of that idea, if it had to be in Ontario. And my response was, "Does it really matter?" You know, "Is it about the geography?" And my comment was that, anybody who thinks that in the 21st century, any kind of a corporate entity can only be successful if all of the head office functions are under one roof, anybody who thinks that, isn't living in the 21st century. You know we've seen the success of many major corporations in North America, that really have head office and executive functions that are spread out across the continent, in a way that is still truly effective in a modern age of communications.

So a national regulator is the right idea? Absolutely. And is B.C. absolutely guaranteed to be signing on to that? Well, I expect so. But I think there's still a lot of work to do. And we still have to make sure that what evolves out of this, truly meets the test of British Columbia's interests. And we're working very hard and I'm very pleased with the progress that Doug has made now, as chair of that national transition committee in achieving the objectives that we believe will work for British Columbia in the end.

So you know, in my view, there is still a lot of security functions in Canada that are living in the past century. If this new model is to work, it has to be truly national. It has to work in the interest of all provinces, in fact, not just those who are at the table today but all provinces in the future. It has to be

decentralized and it has to protect the interests of investors in a digital 21st-century world.

So British Columbia's goal is to move securities regulation forward from one that is balkanized, to one that is truly national; from one that is 20th century, to one that is 21st century. And to move away from a centralized model, to one that meets the needs of all the regions of Canada. And if we succeed, it is not just B.C. that will be stronger, but in fact, I believe, that Canada as a whole will be stronger.

Thank you very much.

MS. LEONG: Thank you, Minister, for your very thoughtful and insightful comments. It's clear your government has recognized the importance of innovation and providing the right incentives to allow small businesses to grow and prosper.

I also want to thank the Chair of the Alberta Securities Commission, Mr. Bill Rice, and his staff, for helping us to prepare for the conference today. As you heard Minister Hansen say, we have a long history with Alberta and with the Alberta Securities Commission, and so we thought it was particularly fitting, that given our common interests in fostering vibrant venture capital markets, that we co-host the conference this year.

There have been many regulatory innovations that have emerged from both Alberta and B.C. For those of you who have been in the business a while, you recall that it was Alberta and British Columbia that worked together initially to develop the capital-raising rules that eventually became national rules for financing across the country. And for those of you who have been here a really long time and in the business a really long time, you'll remember that the predecessor rule to the very successful Capital Pool Program operated by the TMX Group now, had its initial roots in Alberta.

The CPC Program, Capital Pool Program, is another example of western innovation and it has been a tremendous success. It provides an alternative for public financing for venture capital companies. Since its inception, over 2,000 CPC companies have been created, with 80% of those companies having completed their qualifying transactions, and many of those companies have graduated from the junior board up to the senior board. So clearly, another success story.

Through the exchange's evolution over the past decade, the ASC and the BCSC have shared respective responsibilities for oversight, to ensure the markets operate with integrity and in the public interest. Together, B.C. and Alberta are home to thousands of companies listed on Canada's exchanges, leading the way in mining, resources, oil and gas, and as you heard the Minister say, now emerging clean technology companies.

Our next guest this morning is Mr. Jock Finlayson, Executive Vice President of the British Columbia Business Council. Jock will kick-start our conference this morning by giving us an overview of some of the characteristics and the economic importance of these growth companies, better known as the small and medium-size enterprise market, to both Alberta and B.C.'s economy.

Following Jock, Ms. Cristie Ford, Associate Professor at UBC Law School, will moderate our first panel discussion.

I want to welcome Cristie's students to Capital Ideas. I hear you're actually skipping out from school to come to the class today with Cristie's permission.

Cristie will lead our panellists through a discussion about the nature and the scope of private capital markets in British Columbia and Alberta and you will hear from our panellists about the challenges in raising money in the exempt or private market.

After a short break, I'm delighted to have John McCoach, President and CEO of the TSX Venture, who will set the stage for the second panel. This panel will talk about why the public venture markets are recognized globally as first-in-class. You will hear about them, about the cost of capital for smaller companies and they'll share ideas about opportunities to reduce those costs. The panel will also talk about the initiative to implement proportionate regulations and share some of the feed-back that they've received, to date, from industry. And finally, the panel will look at what kind of information is important to investors in order for them to make sound investment decisions.

By the end of this morning's session, I hope we will have highlighted for you the importance of our private and public markets and highlighted some of the issues and challenges that need to be addressed to continue to keep these markets vibrant.

And so with that, I leave you with those thoughts and I invite Mr. Jock Finlayson to set the stage.

MR. FINLAYSON: Thank you very much, Brenda.

I am going to talk about the industrial structure in B.C. and Alberta, but I'm first going to give you a bit of an update on the overall economic situations.

Since I am an economist, I've been obsessed by the financial crisis that continues to linger with us. And I was saying to my wife the other day, I've been doing a lot of public speaking on the economy and I thought that perhaps that was because I had some wisdom to impart. She said, "No. No, you're misunderstanding the situation. You're like an undertaker after a plague. There's a very high demand for your service; there's not enough undertakers around. So don't let it go to your head." So I'm going to take her advice.

I'm going to talk for a few minutes about the current economic

environment and what we can look forward to and then I'll drill down a bit into some of the key characteristics of the business marketplace in B.C. and Alberta.

And in doing that, I'm going to not so much talk about just small business generically, but rather about the critical importance of nurturing the growth of innovative companies. They really are the companies that grow and that drive much of the wealth-creation and job-creation in our market economy. And there are challenges around the right public policy structure and the right securities market regulation to put in place to nurture those innovative companies, which some scholars in the US call the "gazelles". There aren't very many of them but they are disproportionately critical in driving economic success.

Just to say a couple of things about the bigger picture that we're all quite preoccupied with, at least the people I hang around with are, these days. What we've been going through in the last two, two-and-a-half years, has been a truly extraordinary time in global economic history. We've seen, first of all shown here *[see slide #2]*, the first decline in world trade since the 1930s. 2009-world trade actually fell 12%. It fell more sharply in the advanced countries than the emerging countries.

The good news is that decline is over. So although there's a lot of debate about, where's the U.S. economy going? Is there a double-dip recession scenario in front of us? The trade statistics that we see internationally do point to a fairly healthy rebound, after a brutal period in the latter half of 2008 and through most of 2009.

We are however, in a two-speed global economy and a two-speed global rebound. And the distinction between the emerging markets and the advanced economies is stark in today's environment. This chart *[see slide #3]* just shows what's happening to private consumption in the advanced and emerging

economies. The two points here is most of the emerging markets never went into recession, even though the world economy fell into recession in 2008 and '09. And the second point is the rebound out of the recession has been dramatically more impressive in the emerging markets than in the mature industrial countries.

And the lesson there is that we are, I think, witnessing a historic handoff of global economic leadership from the old to the new; from the OECD to the emerging economies; from the traditional industrial economies to the new thriving economies around the periphery of the world, not just in Asia, but in Latin America and a few even in Africa.

Probably the most painful legacy of the 2008/09 recession has been the severe hit that public finances have taken. And we're very fortunate here in British Columbia to have a government that, I think, has stick-handled very, very effectively, our province through this challenging time, without allowing budget deficits to explode. Yes, they've increased but we're in excellent shape, compared to most other jurisdictions around the world.

And Canada's in pretty good shape, as shown here *[see slide #4]*. This chart comes from PIMCO, the world's largest bond fund manager, Bill Gross, often seen on CNN and other networks and blogs, chattering about the economy. But they prepared this chart to show the relationship between public debt as a share of GDP on the "x" axis, and the current year budget deficits of all levels of government as a share of GDP on the vertical axis. And you can see that there's quite a wide dispersion across the countries shown. Canada is kind of in the middle here, but a lot of the mature industrial countries have seen a huge run up in their government debt burdens and have been incurring large deficits. It's not just Greece and Ireland and Spain. It's a whole host of countries in this position.

And indeed, it's worth noting that Ireland, which is currently teetering on

the edge of a potential sovereign default, from what I can read, actually has a lower debt / GDP ratio than the United States. But they've run into problems financing it because of the speed with which their economy tanked and the enormous cost of bailing out their banking system.

So this is something we'll be living with for a long time to come. And in Canada, although we're in relatively good shape, we shouldn't get, I think, overly self-congratulatory.

The Bank of Canada came out with its latest forecast for our country and for the global economy just a week ago, and I've summarized the main highlights of it for you here *[see slide #5]*. The good news is that the world did recover in 2010. We're not quite through the year yet, but we've got most of the data in, and they see the global economy expanding by slightly less than 5% on an annual average basis in 2010. And last year, it actually contracted by 1% for the first time since the 1930s. So that's a big rebound. The bad news is the momentum is flagging and there's a deceleration of economic growth, rather than acceleration occurring in Canada, the United States and indeed globally. So they have the world economy slipping back to a still positive, but somewhat more muted, 3.5% expansion in 2011. And that is due to the loss of momentum in the US, the severe problems in the EU and the fact that Japan continues to be on the cusp of inflation. So that is really dragging down the global economy.

The emerging markets, in contrast, unlike the advanced economies, will be posting fairly solid growth.

So in this world, PIMCO, Bill Gross, has coined this term, the "new normal" to describe what he says, and I think he's right, are going to be the defining characteristics of the macro-economic environment for the next three to four years.

First is this ongoing deleveraging process. Households now are at the centre of it but governments will have to join the party fairly soon. And that process of balance sheet repair is going to constrain growth in aggregate demand, overall economic expansion. It doesn't mean a recession; it just means a period of subdued growth for the advanced economies.

That, in turn, implies that the momentum, as I already mentioned, in the world economy, will shift over to the emerging economies and they are making enormous gains at the expense of the OECD counties, as we speak.

Another characteristic of this "new normal" is growing concern over sovereign default. You know, 12 months ago, people were not talking about the "pig" countries as potential sovereign default threats. And indeed, those governments were able to sell their bonds into the capital markets at only relatively small premiums over German government bonds. And then suddenly everything went south in the spring of this year and you've got acute concerns about debt restructurings and potentially sovereign defaults in a number of the peripheral countries in Europe. And one wonders how long it will be before a country like Spain potentially gets in the gun sights of the bond markets, in that regard. And that will be a day to stay glued to your trading screens, I can assure you.

Sluggish increases in economic activity and in incomes imply relatively subdued returns in equity markets. It doesn't mean negative returns, but relatively subdued returns, at least in the advanced countries.

And then of course, there is clearly a risk in this very unsettled economic environment of currency wars, rise of protectionism and international economic tension spilling over and shocking, if you will, the global economy. And that, I think, does remain a very severe threat to going forward.

Although the western economies, particularly the US and the EU, are really struggling, the picture is quite different in the emerging markets, not just China but also India, Brazil, Indonesia. There's a whole host of them.

It's hard to overstate, in my opinion, the strategic importance of the rise of China in the global economy. It is really having an enormous impact across capital markets, product markets, and indeed in the citadels of political power internationally. China is now the biggest export nation, having overtaken Germany. This year, it surpassed Japan as the second largest national economy. It's got something like $2.5 trillion of accumulated foreign exchange reserves. In most years it vies with the US to be the leading destination for inbound foreign direct investment.

As we in Canada know, to our benefit, China is also the biggest global consumer of a lot of industrial raw materials that we happen to produce in abundance here in western Canada. And last year, it actually beat out the US as the world's largest market for new vehicles. And these are not one-time blips. This is a shift, whereby China is really coming to the fore.

And indeed, the McKinsey Global Institute just this week published a report that predicted China will be larger than the US economy, in terms of total GDP, sometime between six to 16 years from now. So there's three or four different scenarios they sketch out.

So clearly an enormous shift in the global distribution of economic influence and indeed, underscoring the need for Canada and for B.C. to continue with the Asia Pacific Gateway strategy that our government has championed. Asia's share of global economic activity will rise from about 35% today, to 45% in just 10 years time. And all of, that's not Japan. That's all the non-developed economies of Asia, primarily China, but the others as well. So a very significant

shift in global economic dynamism from the old markets to the new.

I don't like to kick a man when he's down but let me talk a bit about the US housing market. The US housing market, as we know to our pain here in British Columbia, is going through the worst period in modern times, I guess. Certainly since any data that I have seen. US housing prices in urban markets are down about 30% from peaking in the fourth quarter in 2006 and although they appear to have stabilized, there remains some risk of a further downward leg, as we go through the rest of this year and into 2011.

Perhaps more concerning than that, is what's happened to the much-vaunted American job machine. Throughout most of my career, economists have looked at the US as an economy that reallocates resources quickly and ruthlessly; where new industries rise; old ones decline and where job creation remains a signature sort of defining characteristic of the US economy. That model, at least temporarily, has broken down and the US economy is not creating jobs at anywhere near the pace it needs to absorb the unemployed, let alone absorb the new-comers who are entering the workforce every year.

The absolute level of employment in the United States today is back down to where it was in 2000. So the number of Americans with jobs is the same today as it was in 2000, as the population has increased by 35 million. That gives you some indication of the angst that Americans feel and we see that manifested on their TV talk shows and I think in their politics.

And obviously, from a Canadian point of view, we are worried because this is our largest market, but there's a very significant danger, I think, of protectionist spill-over hits to our country, as the Americans grapple with an unprecedented stress in their labour market really, in peace time.

And indeed, [in] the US today, half of the unemployed workers in that

country have been out of work for six months or more. That has never happened in modern times before. Typically the US re-employment rate of people who lose jobs is very quick. That has broken down in this particular cycle.

Households have taken an enormous hit to their net worth, which has not happened in Canada, down by $12 million since peaking in 2007. That's got all kinds of implications for the future trajectory of consumer spending, for the retirement income system and a variety of other important economic variables.

A quarter of Americans who do have mortgages are under water and that again is something that is, I think, holding back recovery and impeding confidence.

The business sector, on the other hand, in the United States, unlike the consumer sector, is in pretty good shape, outside of finances. American companies are sitting on $2 trillion of cash. They are not deploying that cash to invest; they don't have the confidence. But at some point, that may turn and we can see quite a rebound in US business investment.

In terms of the securities markets, the equity markets, I would just point out something. In chatting with colleagues over breakfast, was that the last decade was a brutal one for equity investors and there's a phenomenon underway of retail investors shunning equities. We're seeing it manifested in a number of different ways. And it's not terribly surprising when you consider that in the US, the average return, including dividends, from 2000 to 2009, was minus 1.6%, on the S&P 500. So if you were fully invested over that decade, you came out at the end of that decade under water by several percentage points and that's before adjusting for inflation. So you would have been better off to have had your money in your mattress or have it spirited away in a safety deposit box, than to have invested it in a broad equity market.

Canada did a little better because we had a smaller technology collapse in 2000/2001. And of course, we have an economy and a capital market weighted more towards resource industries, which has held up much better during this period. So equity investors certainly had a shock over the past decade and it will be interesting to see what happens in the decade ahead.

Canadian economy, and this matches our forecast for Canada and for British Columbia as well, came out of the gate quite strongly after the recession in the latter part of '09, the early months of 2010, but the economy has slowed and the Bank of Canada has just downgraded its outlook for growth in the Canadian economy, essentially from about 3% plus down to about 2%. We think that is roughly where the numbers will be over the next four to five quarters.

Western Canada will probably do a little bit better. We see British Columbia and Alberta achieving growth of somewhere a little closer to 2.5%. So it's not a double dip. It is a recovery, but it's a very muted kind of economic recovery after a pretty tough recession in 2009.

Canada did hold up well compared to our friends in the US for two main reasons. One is that we didn't have a housing collapse, so household net worth didn't drop. It did dip a little bit, down about 6% in Canada from the peak, but in the US there's been more like a 20% drop in household net worth. That is going to weigh on the US economy for really as far the eye can see, because it's going to take many, many years for households to rebuild their net worth that has been hammered so brutally by the last 24 to 36 months.

And then secondly, our public finances are in much, much better shape, whether you're looking at the size of deficits or more importantly the accumulation of government debt.

These charts *[see slide #15]* come from the International Monetary Fund's

latest October 2010 outlook. And you can see Canada in the red was running surpluses. And this is consolidated public sector, before the recession started. Yes, governments went into deficit, but to the tune of 4 to 5% of GDP, as opposed to 10, 11 and 12% of GDP, as we've seen in the United States, the UK and some other countries.

And on the right, the International Monetary Fund predicts that government debt in Canada will actually begin to edge down as a share of GDP, by 2011. It did bump up during the recession, but far less steeply than in the US. And unfortunately, the trajectory for the United States points to continued erosion in the health of their public finances.

So healthier household balance sheets and significantly healthier public sector balance sheets are the two defining characteristics that I think have separated Canada from the United States and allowed us to navigate our way relatively successfully through this very turbulent economic period.

Interest rates are low. This *[see slide #16]* is the average effective borrowing rate for businesses in red and households in blue. You can see in Canada it came down quite sharply after the crisis hit in 2008. It will creep up, but not by very much.

Canadians have taken advantage of low borrowing costs and perhaps a higher level of confidence and have been borrowing at record levels. And indeed, we've now reached the point where household debt in Canada, as a share of personal disposable income, equals that in the United States. And that's quite alarming, when you state it that way, because American debt, household debt is a real problem in their economy. But again, the balance-sheet side of the Canadian household sector, much healthier, because we haven't had the drop in net worth. So debt has gone up but we haven't had the decline in asset values, so the

fundamental health of Canadian households remains greater than those in the United States, although there is some vulnerability there because of the amount of debt that Canadian households have been taking on.

Interest rates will edge higher in Canada. We've been going through what the Governor of the Bank of Canada, Mark Carney, calls a period of "emergency" interest rates. Rates lower than anyone thought they would ever be.

The Bank of England's policy rate is the lowest it's been in 300 years, just to signify how unusual this period has been, and we've seen a similar phenomenon in Canada.

So rates are starting to edge up but they will go up gradually, rather than quickly, given the subdued economic expansion that we're expecting.

Here *[see slide #18]* we've just showed the inflation rate. So short-term rates, interest rates, real rates, are negative at the moment, based on a forecast of inflation. Longer rates are still positive but both have room to move up and will move up, I think, in the next 18 to 24 months.

The currency, big variable for Canada, affecting all of our industries that are integrated into North American business markets. I've been surprised how well Canadian companies held up in the face of a currency that's gone from $0.80 US to basically parity within the past year or so. I hope the dollar doesn't overshoot. There are some who believe the Canadian dollar could push up to 1.10, 1.15 US, as the Americans aggressively seek to devalue their own currency to stimulate their economy. I hope that doesn't happen but it certainly has had an impact.

And one of the consequences of the stronger dollar, is we are losing market share in the United States. This chart *[see slide #20]* shows the share of American imports coming from Canada, China and Mexico over the 1990 to 2010

period. And you can see the Canadian portion of the US import market has declined from about 20% down to about 15%. China and Mexico and other emerging markets I haven't shown here, have picked up share. This isn't primarily a currency story, but the very strong Canadian dollar is obviously making it tougher for many Canadian industries to compete in that still-vital American marketplace.

Okay. Let's shift gears and talk a bit about the small and medium-size enterprise sector and why it is so important in our part of the country in particular.

I guess I would just make the point, as somebody who lived and worked in Ontario, that the western Canadian economy, and certainly B.C. and Alberta, is not the same as Ontario. We have a different industrial structure; we have different trading patterns, and the average size of a firm is smaller here than it is in Central Canada. We need to keep that in mind as we look at the role of public policy in encouraging business growth.

This chart *[see slide #21]* just shows the small business contribution to output and you can see that B.C. and [Saskatchewan] are comfortably above the national average. Alberta is a little bit different because the energy industry is populated by a fair number of very large companies that are disproportionate contributors to GDP. And so the small enterprise sector in Alberta, when you include energy in the denominator, doesn't have quite the kick that it does in British Columbia. If you take energy out of the denominator, then Alberta looks much more like British Columbia and Saskatchewan.

And it's a similar picture on the employment side *[see slide #22]*. The small business employment share in Western Canada is above Ontario, above the national average, and B.C. and Saskatchewan are actually one and two in the country in the relative importance of smaller companies as generators of jobs.

I'm really struck, looking at the B.C. economy, which I spend most of my time studying, how few large firms we have in B.C. And as somebody who is working for an industry association made up of large firms, it's something I do pay attention to from time to time.

Of the 168,000 companies that have employees in British Columbia, there's another couple of hundred thousand that don't have any employees, and so they're not particularly a large force in the provincial economy. But the 168,000 that do have employees, only 7,000 of those enterprises have 50 employees or more.

Minister Hansen is now in charge of the small business file. He'll know from the report that the government publishes every year, that 50 employees is the benchmark we use in British Columbia for defining the small business. So 50 and below is small. The Americans use 500 as their definition of small so it gives you a sense of proportion. So 100 employees in the private sector in B.C. actually makes you a pretty big company.

We recruited a firm the other day to join my association, [a] private sector business [that] has 1500 employees and I was informing the CEO, he's actually got one of the biggest companies in British Columbia, that he's running, in terms of private sector employment, when you ignore the fast-food industry. They tend to drive the numbers up. But if you actually look at resources, manufacturing, high tech, everything but fast-food, 1500 employees is a big, big company in the context of British Columbia, which is another way of saying, this is a small business-dominated economy.

What I think economists are particularly interested in, is not so much lauding the contributions of small business generically, although if I was running for office, I would do that every day, but rather saying, "How do we create an

environment where some of these small companies will grow to become big ones?" That's actually where you get the bang for the buck, in terms of a dynamic capitalist economy.

Most businesses don't grow. The vast majority of small, medium-size companies stay roughly at the employment levels that they're at, at a particular point in time, for five, 10, or 15 years. Some of them actually go out of business, but the ones that stay in business, the vast majority do not grow. They don't grow any faster than inflation.

Some, however, are superstars. They grow dramatically. They engage in this sort of Schumpeterian-process of creative destruction where they're creating new wealth, they're taking market share from other firms, they're restructuring industries. And those are the firms that actually drive a lot of economic progress in a market economy.

And the innovative SMEs, typically, have business strategies that are explicitly geared to growth. So right there, they differ from most other businesses. They have a much higher likelihood of undertaking R&D, and of being focused on export markets. They tend to be relatively young and they are more dependent on external financing to fuel their growth. So they can't grow solely on the basis of owner's equity, angel funding and bank loans. They need other kinds of sources of equity in order to be able to grow.

And in the Canadian context, an Industry Canada study a few years ago looked at the financing characteristics of innovative businesses compared to non-innovative. And here non-innovative is not an insult. It's just a description of certain characteristics of the business. And the innovative firms were significantly more likely to be seeking external finance in order to deliver on their business strategies, and particularly to pursue the growth strategies that they have

adopted. These growth companies are absolutely critical to the success of the market economy.

And for those of you interested in this, I would encourage you to get on the website of the Kauffman Foundation in the US, which is a fantastic organization that studies the role of entrepreneurship in the American economy. And they just did a study that I'm going to summarize here, of the economic contributions of what they called the "gazelles", the fastest growing segment of the US firms. Basically, these are the top 1% of US companies, in terms of rates in employment growth. So they isolated those firms from the universe of the rest of American businesses and asked, "How do these firms behave and what economic contributions do they make?"

These gazelle companies tend to be fairly young. They're not all in high technology. I think a lot of us have a vision of innovative companies as being exclusively in the technology space. That is wrong. Innovative companies are found across the whole industrial spectrum, from resources through to services businesses, including high tech as well, retailers even.

Kauffman's report identified these so called super-high-growth companies as scale firms for the next generation of iconic American companies. The top 1% of American companies, defined by rates of employment growth, themselves generate 40% of all net new jobs in the US economy. And the top 5%, the fastest growing 5% of American enterprises, based on payroll numbers, are responsible for two-thirds of the US job creation.

So you sort of step back and think what the implications of that are. They tell us that a relative handful of enterprises in a capitalist economy are the ones that are actually generating progress. They are the ones that are fuelling growth in wealth, in employment and new product development. The vast majority of

other businesses do make a contribution, but they're not the ones driving this dynamic process in a market economy.

So it seems to me, that one wants to pay attention to those firms in the Canadian and Western Canadian context as well. We don't have any comparable data or studies that would match the work done by the Kauffman Foundation, unfortunately, but we do have some work that's been done by Industry Canada and by academics in recent years, that has tried to isolate the contributions of the fastest growing Canadian companies. And the one I'm showing you here *[see slide #28]* comes from an Industry Canada study that categorized enterprises as "strong growth", "hyper growth", "average growth", or "no growth", or decline. Now, what it showed is that in Western Canada, and B.C. in particular, strong and hyper-growth firms are about 18% of all enterprises with paid employees in B.C. But those companies accounted actually for more than 100% of the net job creation, which means the rest of the business sector actually shed jobs during that period. And that was a dramatically higher percentage than in Canada or in Ontario, and the prairies were more akin to the Canadian average. So B.C. is a bit of a hotbed for these kinds of rapidly growing, innovative emerging firms to come on the scene, grow quickly and actually make a disproportionate contribution to economic activity.

So to conclude, I would say that a fundamental challenge for Canadian public policy, not just in the securities market context, but tax policy, industrial policy, right across the board, is to ask the question, not what is good for small business generally, because again, most small businesses don't grow, but rather, What are the conditions we need to establish? What is the infrastructure we need to create, in terms of capital markets, taxation, clusters that will increase the odds that these innovative SMEs will take root in our part of the country and in Canada

as a whole, grow and make the kind of huge contribution that we know that they can make to our economic progress?

Thank you very much.

DR. FORD: Thank you very much, Jock, for a very thought-provoking and informative talk and ultimately, I think quite an exciting one.

My name is Cristie Ford. I'm your moderator for the panel portion of today's event and my first order of business is to call up our panellists in alphabetical order.

They are Martin Eady, who is the Director of Corporate Finance here at the B.C. Securities Commission; Darrin Hopkins, Vice President of the Public Venture Capital Division of Macquarie Private Wealth, out of Calgary; Hans Knapp, Partner and General counsel at Yaletown Venture Partners; Andrew Rae, President, CEO and Director of iCo Therapeutics; Bill Rice, Chair and CEO of the Alberta Securities Commission; and finally John Wright, President and CEO of Petrobank Energy and Resources, out of Calgary.

All right. So let's just get started. There are longer bios of all the presenters in your brochure, but I think we're just going to charge right into it.

So Martin, as we've heard from Jock about the importance of the SME market here in B.C. Now, as head of the Corporate Finance Division at the B.C. Securities Commission, what do you know about the nature and scope of B.C.'s private capital market?

MR. EADY: To set the stage for what we're going to be talking about, staff of the corporate finance group at the Commission, have looked at some of the trends, recent trends in financings in this area and to arrive at some of the numbers you're going to see. When people sell shares in the private market, in most cases, they have to make filings with the B.C. Securities Commission. So we prepared a

number of charts that summarize those filings, summarize just what people are doing in that area.

And we've come up with and found a number of very interesting trends. And we were able also to get some of the comparable information from staff of the Alberta Commission also, so we can see how B.C. and Alberta contrast and compare.

So the first chart that you see *[see slide #1]* is one that represents B.C. And not surprisingly, the B.C. mining industry is dominant in this area. About half of all private financing is raised by the mining industry in B.C., followed by the investment and finance area. The investment and finance area are mainly mortgage investment corporations that raise money in that particular space. And we do have an oil and gas industry also that raises some.

Now, to know just what kind of dollars we're talking about here, the mining industry is over $3 billion that we're looking at here and the investment and finance is over a billion. So in terms of private financings, we're talking about $3 billion of economic activity generated just by the mining industry alone. But as you can see there, there's still lots of room for the other industries in Canada.

Another interesting thing is that B.C. is a net importer of private capital. We've got basically three bar charts there *[see slide #2]*. And you can see, the very top bar chart, are residents of other places, outside British Columbia, investing in BC-based businesses.

And that second chart on the screen there, are B.C. residents investing elsewhere. So the difference between that very top bar and the second bar there is the net importing of capital, of private capital, into British Columbia. And that's in fact over $2 billion worth, again of economic activity investment generated

here.

And the third bar at the bottom are British Columbians investing in British Columbia companies, again, private capital, and that's over a billion dollars.

MR. RICE: We've been endeavouring over the last couple of years to obtain a lot more information about the exempt market in Alberta. Exempt obviously has meant that these organizations, fund-raising activities, have been outside of our normal disclosure jurisdiction and requirements. But it's been obvious, that the territory is significant in the province. They're a great many investors involved; they're a great many companies involved but we haven't known an awful lot about them or about their activities and about the impact that those activities have had in the capital markets. So we've gathered a great deal of information and as Martin has pointed out, these are some of the highlights.

So when you look at funds raised by industry in Alberta *[see slide #3]*, it doesn't look a lot different from the spreads that you see in B.C., except that you replace mining with oil and gas. And obviously the oil and gas segment overwhelms the exempt market in Alberta. The mining segment is quite small and is smaller compared to the oil and gas segment in B.C. The other significant player in Alberta, as shown by our statistics, is the real estate area, which has taken a fair amount of our attention as regulators. The mining segment, as you see, is really very small in Alberta.

And then, going to the same comparison on, who is investing the money? *[see slide #4]* Where is it coming from? To what extent are Alberta companies engaged? We're concerned about two aspects of the statistics. One, the degree to which Alberta investors are involved in the exempt market and therefore need our attention and then the extent to which Alberta companies are involved in the market and therefore are entities we need to be concerned about when we're

imposing regulation or investor-protection policies.

So Alberta investors over the most recent nine months, have invested approximately $3 billion in both Alberta-based and non-Alberta-based companies. And Alberta-based companies over that same period have raised approximately $5.7 billion, $1.7 billion from Alberta investors and approximately $4 billion from outside of Alberta.

So again in comparing the two markets, they're quite similar, and again Alberta companies, small companies, those engaged in the exempt market, are relying, to a very significant degree, on investors outside of the province.

DR. FORD: Which was another question that I'm hoping you can both speak to, which was whether you have any insight into the sorts of people that are buying securities in the private market?

MR. EADY: Okay. Well, as a matter of fact, we do. This is the exemptions used in British Columbia *[see slide #8]*. And as you can see, it's sort of somewhat like a Pac Man chart. About three-quarters of the purchasers of private securities are called accredited investors. I'll get to that definition in a minute. And it really overshadows many of the other kinds of exemptions. Most people in this room, I'm sure, know what exemptions are from prospectus requirements. But essentially, when you need to purchase a security without a prospectus, you need to find a category of exemption to fit into. And in three-quarters of the cases, those are accredited investors.

Permit me to give you a quick description of what an accredited investor is *[see slide #9]*. This is not an exhaustive list but I think these are the main things. In terms of institutions, we're talking about large entities, such as banks, investment dealers, governments and crowns and that sort of thing, pension funds. But in terms of where the sales, particularly in B.C. and Alberta are, they are to

individuals. And so people who are accredited, are people who are presently or formerly registered under the *Securities Act*s of the jurisdictions. So for example, if you're a former stock broker, you will always be accredited. The idea is, I presume, that you take that knowledge with you, even if you leave the industry. And also we have a number of tests which are essentially proxies for assuming that you have a degree of sophistication, of knowledge. They are wealth and income-based tests and as we've all heard about the wealthy dentist who perhaps knows nothing about investment. So it's always been a challenge as securities regulators to come up with these proxies. And in that, you have to have net financial assets of greater than $1 million and that you can combine that with your spouse, net total assets of more than $5 million or annual net income of over $200,000 for two years or $300,000 with your spouse. And these are thresholds that we, as securities regulators, have to look at from time to time.

MR. RICE: I wish I was as confident maybe as Martin, in saying that we understand who these investors are.

I think most of the information we have is anecdotal or gathered from other experiences. I think I might have learned more about investors in the exempt market in my practice as a lawyer than I have as a regulator.

Generally, we get to identify investors after something has gone south and we have a great many of those investors knocking at our door, wondering how it is we are going to get their money back, and under those circumstances, learn a little more about the mix.

I'd make some general comments. I think that the investors in our province compare very, very closely with what you see on the slide there *[see slide #10]*, or you saw previously, respective of B.C., but the accredited investor category is obviously dominant, as it was in B.C. Family, friends and associates,

that exemption is used a little more in Alberta than it is in B.C., as is the offering memorandum. And I think that relates, to some degree, to the real estate offerings that we see in the exempt market in Alberta.

As for the individuals, they are, in many instances, young people, who are making perhaps their first investment and they're not going to get into the grind that their parents and relatives have of making minus 1.2% over a decade. And they're going to do something smarter and get something that's going to get them a quicker return. So they're looking for a little bigger return, a little bigger bang for their buck and they're prepared to take some risk.

At the other end, you see some more elderly people who maybe feel that they haven't done as well as they would have liked. They've seen their neighbour buying the new car every year and have heard the stories about their grand investments and now they have an opportunity to do something similar. To a very significant degree, they're relying on trust, their trust in people who have referred investments to them; trust in the principals of these organizations; trust in their relatives, perhaps, who they have seen either working in a growth business or who have just started something that they are very enthusiastic about in a entrepreneurial way. But the significant factor is risk. Presumably they're prepared to take it. They're looking for a much bigger return.

And the challenge for us, is to continue to remind them that this is a risky area and one in which they're going to have to, in a significant degree, rely on their own resources.

DR. FORD: All right. Well, let's move on. And one of the topics that's related to this, of course, and to the volume of small companies in both Alberta and B.C., is about the current supply of private capital. So let's move over to Andrew. As someone who has started and led three biotech companies in the last several years,

what is the supply of capital like, for companies like yours, to raise money in the private market in Vancouver?

MR. RAE: Well, we like to call the biotech sector "the great unwashed sector". Currently, we have to compete against mining companies and that's a huge challenge.

But what we've seen is a significant decline, in terms of venture capital in this sector. I think in terms of the Canadian context, we probably haven't seen a new fund formed since 2007. So that's a huge issue for companies like myself, in terms of traditional venture capital.

So I'm looking at these stats and I'm saying, "You know what? This rings true to me." So three start-up companies; two were venture-sponsored. The current company has relied on those individuals with those exemptions that you talk about, very heavily: people offshore; people from different jurisdictions outside of British Columbia, but also people in British Columbia and Alberta. So that's been very important for companies like ours in this current context.

DR. FORD: Well, let's move over to Hans then. Maybe you can tell us then, from your perspective as a venture capitalist, how easy is it for venture capitalists or entrepreneurs to raise capital and how does that compare to the situation maybe five or 10 years ago?

MR. KNAPP: I'll address the question in two parts. I'll deal first with the venture capital fund-raising and then with what it is we're seeing in the entrepreneurial environment.

So we're carefully managing our second fund which was raised approximately two years ago. Our first fund was raised during the 2001/2003 period so we have the inauspicious title of being able to raise funds right when the economy is going into recession - not once, but twice. So my comments come

from, the direct experience of having raised funds during two periods of time when it was exceptionally hard to do so.

Venture capital right now in Canada, in particular in the western part of the country, has been hard to come by for people who are trying to raise and pull together new venture funds. And it's at least as difficult, if not more difficult, than it was a decade ago. The reason is, you have the departure, in the last two to three years, of many of the large institutional investors who have traditionally backed venture capital as an asset class. Who have, with the decline of the stock market values over the last couple of years, undergone a rebalancing of their portfolios and consequently have reduced the overall exposure to generally private equity, including also venture capital as a subset of that asset class. So they've essentially said, "Look, we've kind of done enough buying of this asset class. We're not going to be making further large commitments." In many cases, they're actually reducing the number of managers with whom they have relationships. So that compares back to 2001/2002 where you still had many of those large pension funds still active.

What this has resulted in, in Western Canada -- it's endemic country-wide, but it's quite acute here on the west coast - - is a noticeable reduction in the number of funds that have fresh capital under management.

So you can go onto people's websites and say, "Oh, yeah, we manage 300, 400, 600 million," whatever the number is. But in many cases, that money is already deployed in companies. And once it is then taken out of those companies, once they exit, the money generally goes back to the investors. It's not available for new investment today.

So the big change that we have seen is that the net amount of fresh capital under management that is able to be deployed, is, by our estimation in the venture

space, maybe a quarter of what it was.

So , it's against that kind of a backdrop that venture capitalists are then going out and trying to say, "Well, we'd like to raise a new fund," because of course, there's a supply of capital, that's short.

And many of the large cheque writers in the past, the pension funds, aren't there. So this has resulted in kind of a double-barrelled problem for the entrepreneurs, who then go to raise money for their new enterprises, their companies. And they're finding that, not only are many of their high-net-worth individual investors having a more difficult time writing cheques, because obviously their personal financial circumstances have been impacted by the things that Jock and other presenters have spoken about, but the larger pools of capital, private investors such as venture groups, have also been curtailed substantially. Because as I said, the fresh capital available for new investment is down substantially.

So what this means, is for venture capitalists, it takes them a lot longer to raise their funds, if they're successful at all.

I say with a bit of a side note, there are a few programs that have been assisting that. I know the B.C. Government -- and no Colin didn't slip me $20 before the show to talk about this -- the B.C. Renaissance Capital Fund did play a pivotal role in attracting some new capital to the province. But this is a component that's ameliorating what is really a much larger problem.

For entrepreneurs, they're having to rely I think quite resourcefully on growing their companies using sometimes customer funding, advanced payments from customers, deferring large capital expenditures until they actually have the cash flow to support them. So generally, it's an environment that, when you combine the relatively poor public markets right now, in our view, it's harder for

entrepreneurs to raise money than it was a decade ago, unequivocally. It's also one that is less hospitable to raising new venture capital funds in this environment. So they're challenging times, to be sure.

DR. FORD: So Darrin, as an underwriter in Calgary, are you seeing the same kinds of problems with supply of capital there for the oil and gas industry? Just before you answer it, maybe we can even broaden the lens a little bit and ask whether or not there are significant differences between Canada and the United States, for example, or between the western Canadian provinces of B.C. and Alberta and say Ontario, Quebec.

MR. HOPKINS: There are a couple of questions in there so I'll try to go through each one of them, and there might be a common theme to some of my answers as we progress through the morning here.

In the [US], there's a much larger divide between private companies and junior public companies. And what happens in Canada, is that because there is a lack of private capital in Canada, a lot of these junior companies get pushed into going public earlier than what they would in other jurisdictions like the United States. And the reason for that is just the supply of private capital.

Now, when you look at some statistics and one I've just peeled off here, is that the wealth owned by the top 10% of the people in the United States is 70% of the wealth in the United States, whereas in Canada, it's 50%. So what you have in Canada is much more dispersion of the wealth, versus the United States, where they have much larger pockets.

And when you look at that, the average CEO salary in the United States is 400 times what a factory worker's pay is. So you can see how the concentration of wealth lends itself to more angel investing, private venture investing.

And in Canada, as the earlier slides showed that the preponderance of

these investments are these accredited investors, $150,000 investment or the income qualifications you have to have. But I would suggest that the lion's share of the investments are probably in that 25 to $200,000 range. Whereas in the United States, venture capitalists, angel investors likely one million plus.

And anecdotally, I was with the stock exchange in Los Angeles last year at the Los Angeles Venture Association, which is a venture capital association in LA, and they had a forum with 20 venture capitalists, as well as about 100 companies looking for funding. And the smallest fund had $60 million and the largest one had $325 million. So I sat there in this airplane hangar in Los Angeles, thinking, "There's probably a San Diego; there's probably a San Francisco; there's probably an Orange County." All throughout California, these little clubs of venture capitalists, and they all have $2 billion amongst them. And then when you come to Canada, is there even a $2 billion pocket, let alone 50 of them in one state in the United States.

So what happens is that it's definitely a problem for venture capital in Canada.

In Calgary and Vancouver I'd say there's a bit of an anomaly in that in Calgary, you have a very vibrant oil and gas community that has its booms and busts, but what happens, is you have a community that has become used to, over the last 50 or 100 years, of making money in this industry. So they're always prepared to put money back into that industry, continually cycle the capital through.

In Canada, in the case of industrials, technology, bio tech, et cetera, when you don't have that cycle continually going for a lot years, it's hard to start that cycle, because there isn't capital to start the cycle.

And I believe people usually invest with their earned capital, as opposed

to their earned income, because they're more willing to take the risk with the earned capital. So in Calgary, for certain and in Vancouver for certain, the mining sector, you have communities that have done well, that will re-invest, so there is much more of a vibrant private and junior public market for investing the capital.

B.C. and Alberta, I think are very similar. I think Quebec is somewhat similar to B.C. and Alberta, in that there is a very entrepreneurial environment. They were built on mining, resources, so there is an appetite in Quebec. Ontario I think is kind of the odd duck out in this, in that the environment, the community is very different there. You may have the Frank Stronach's and their Research in Motions of the world, but that's very narrow, very focused and is not widespread. So I think there is a great similarity between Alberta and B.C. and even Quebec, in terms of getting capital.

But when you see something like the -- or the elimination of Income Trust, you instantly saw, in Calgary, the capital evaporate for junior resource. It just disappeared. And the same thing happened when they brought in the royalty changes. So that capital will flee to where it can earn a better return in a situation like that.

DR. FORD: I'll ask Hans to talk about the possibility that the biotech companies are the "great unwashed", as Andrew suggested. Would you say there's a difference between ease of financing by segment, so thinking about oil and gas or mining or technology?

MR. KNAPP: We had this discussion over breakfast this morning and I think the simplest answer lies in taking a look at what's going on with the indexes for, let's say, the technology index of the S&P, the NASDAQ index versus what's going on with commodity prices. That will pretty much tell you. One is flat or going

down; the other is trending upward.

So generally, I think here, certainly in Western Canada, we're seeing companies that are in the resource sectors, whether it's oil and gas, traditional mining and so forth, or sectors that are related and serve those, generally are having an easier time accessing capital. Certainly in our view on the private market side, we're seeing that.

Just anecdotally, the fact is for companies that are in the information technology, clean tech, call them traditional technology sectors -- I won't speak about biotech -- but it's harder. It's both the capital supply issue, which I've previously mentioned, but also really an idea that -- if you look at the valuation multiples being paid for these companies, the rates of growth they're seeing. And it's hard for a lot of companies to differentiate themselves and say, "Look. We're going to show you this disproportionate 15 to 30% annual growth," and usually that involves some sort of a story about accessing jurisdictions that have such high growth. Right now, the major players doing that quite well are the resource players, given all the ability to get their products into Asia and other high-growth regions.

So unequivocally, our view is that the resource-based companies are having an easier time right now. It's a pendulum. It shifts one way and then the other, but right now, that's kind of the end of the continuum where we're at right now.

DR. FORD: And so Darrin, what about stage of fund-raising? At what stage does your company invest in or contribute capital to the private market and why do you do it at that stage?

MR. HOPKINS: I should just differentiate. There are basically three different Macquarie's in Canada. One being private wealth; one being capital advisors and

then one being Macquarie, where they invest for their own account. So where I work is at Macquarie Private Wealth. So we're more in the taking companies public.

Most of the funding that we will do for companies is right at the stage where they're about to go public or just pre-public. So we're quasi-mezzanine but usually it's leveraged into the company going public very soon after we put our money in or our clients' money in.

And the reason for that is that the private market in Canada is largely illiquid. And when you invest in a private company, the expectation could be five years with little to no liquidity. So there isn't the ability to turn over the capital. So most of our clients that we represent and work with, they want a much shorter window, in terms of liquidity, than five years. So we're focused on just before the company goes public.

DR. FORD: Well, if you only invest at the sort of quasi-mezzanine stage, then what do junior companies do to acquire capital earlier in their development?

MR. HOPKINS: Well that's a struggle in Canada because there isn't a vibrant venture capital angel market.

And there have been attempts in the past. I think the Alberta Government is trying something right now with a quasi-technology type or government-sponsored incubator fund. But what I think needs to happen more so, is that the cycle of capital needs to be created or kick started and the easiest way to do that is to treat capital gains differently than income and perhaps lower the tax on capital gains to get people more interested in putting capital at risk in some of these junior companies. So that if there is a reward, then it's not taxed significantly. So that there's more of a reward to invest in these junior companies and take the risk.

And what happens is there's that waterfall effect. When people make

money in junior companies and they have a profit, they will more likely put that money back into another junior company and cycle it all over again.

And the best example of that, and John might agree with me, is that the junior oil and gas companies in Alberta, over the last 20 years, it's been a continual progression of companies, start out, drill, get to a critical level, sell the company, take the money from the principals and all the investors, and go do it all over again. And that's continually cycled over and over and over. And that's what has created the robust market for the junior resource issuers, private and public.

So how do they get access? Where do they get access? Well, I think there needs to have to be a policy change, in terms of how capital gains are treated in Canada, to encourage the average investor to put money at risk in some of the more junior capital markets.

DR. FORD: Well, maybe we should bring Andrew back in as someone who has been through this. What can you tell us about any responses you may have to Hans and Darrin and also how fundraising changes as the company moves through these changes?

MR. RAE: Just getting back to some of these comments, the States has sort of the structural element in terms of biotech, people who have that technical expertise. And , you can go into one office in New York and have $6 billion under management for healthcare firms, so you can actually develop that expertise and understand what that entrepreneur is talking about. That certainly is an issue in terms of this country.

In terms of raising in Canada, they're certainly some issues that we encounter, but some positives as well. And certainly the capital pool types of markets have been incredibly important for biotech companies. Also, individual

investors becoming involved with venture capital-like corporations have allowed them to sort of take advantage of some tax benefits. So that's been very important.

And what we've seen in fact has been a migration from LSIFs [Labour Sponsored Investment Funds] and VCCs [Venture Capital Corporations], to individuals saying, "Okay. I know this individual. I'm going to invest because I know that person. I can take advantage in terms of the tax incentives." And that's been very important in terms of our company, at least at the early stage.

Moving from that point in time, the Capital Pool Companies, doing reverse mergers, et cetera, have been very important to companies like our self, in terms of getting public. There effectively, in terms of biotech, hasn't been a capital market for true IPOs since 2007. So I think that's important to understand for us specifically.

So again, the CPC, the Capital Pool, has been very important in respect to actually making that migration to the next step.

DR. FORD: So it's time to bring you in, John. As someone whose public companies have undergone a lot of growth and increasing value in the recent past, do you get asked by other companies to inject funds into them? Do you provide funding for start-ups? So how does that process work that both Darrin and Andrew alluded to?

MR. WRIGHT: Just to build on what Darrin said, particularly the oil and gas industry in Calgary is a very vibrant re-inventing sector and there's a continual turnover of properties and concepts and management teams and a recycling of capital that goes on.

And , as an example, a piece of land in Alberta might have been owned by 10 different owners over the last 70 years and drilled five to 10 times for different

horizons and different products, using different technologies. And someone comes along with a new idea and says, "You know, I want to go drill there, right next to this oil well," and sure enough, it's a good idea and the cycle starts again.

And what's typically happening in our business and before they get to Macquarie Private Wealth, they do go through the process of raising money privately, friends and family, through offering memorandums, qualified investors and getting a foothold or a toehold in their opportunity, getting enough money together to drill a well and proving some viability there.

And typically, what you're dealing with here are veteran management teams, people who have been through the cycle many times. They understand the oil and gas business intimately. Almost all of them have public-company exposure and experience. So they're very, very comfortable with disclosure. They're very, very comfortable at a private-company level, providing public-company level disclosure on financials. They have a lot of their own money invested in the game there. They have a lot personal wealth at risk, right alongside the other investors. And as the cycle moves forward, they can move to an IPO status, become a full public entity, ultimately raise significant capital for future growth. Or more typically -- and I think Darrin would agree -- they reach a critical mass point where the next obvious step is for a larger company to come in, acquire those assets, reward the management team for what they've accomplished so far and then take those assets to the next stage, typically requiring a fairly massive capital injection.

And just anecdotally, one of the companies we have, Petrobakken, this year has done three corporate acquisitions. One of them was a public company that really was just a recapitalization, that had been in business for less than six months. But the other two were still private corporations that we had recognized

the asset value and what they'd developed. We took them out early, rewarded their shareholders and those guys walked down the street and probably knocked on Darrin's door and said, "Give me somewhere to reinvest this profit I just made, because I want to get back into the game." And that's the nature of the oil and gas business, specifically in Western Canada, anyway.

DR. FORD: And then additionally, we have the role of the venture capitalists, so back to Hans and maybe you can tell us about the role and purpose of venture capitalists generally and whether or not you've seen a change in the venture capital environment in the last few years?

MR. KNAPP: Well, first, just a bit background about venture capital, where most of it comes from, because this impacts what we go out and do, and also my comments on the environment.

So as I mentioned in earlier comments, most of the major funders for venture capital funds are, in many cases, institutional investors, Canadian pension funds, in some cases high-net-worth families, family trusts, endowments and so forth. Most of those groups are seeking, through their investment in venture capital funds, returns over about a 10-year cycle, where they deploy the capital, the capital goes to work and then it goes back to them. So what they're looking for is the ability to place money with a manager who has a particular methodology that they are going to be using, in order to generate some level of return that is above the benchmark that they are targeting for that particular asset class.

From our perspective, when we enter companies and look to invest in them, some of the advantages that conceivably the companies are looking for, when they're engaging with us and the things we try to help them with, obviously the supply of the capital. Typically, when venture funds invest in the first round, they're doing so with the view that it's going to take at least another two,

sometimes three, levels of subsequent funding to finally get the company to a stage where there's going to be a liquidity event. So it's the ability to have -- although it's not a guarantee -- that predictability of having an investor on board, who has the capability, the financial resources to write subsequent follow-on cheques.

Related to that is the concept of the investor, if they aren't the only one who can write the cheques, they have a network of other groups that are similarly situated that can then be brought to the table in subsequent financing rounds to help and fill out the size of the financing that's necessary.

So often a company will go and look to do say 3 to $5 million of initial fundraising and then two, two-and-a-half years later, they may go out and raise 10 to 15. Well, you need some new investors for that, who have the ability to participate at such a level. Venture funds typically have a network of other similar players they can bring to the table there.

Because we're fiduciaries of other people's money, we tend to have a relatively rigorous investment process that involves both due diligence on the front end, but also then monitoring of the company's operations, once we're investors. This includes board meetings, structured financial reporting, governance and so forth. And it's not always something that most small high-growth companies take to happily. Obviously, they're just interested in continue to grow their business and don't want to be troubled with things like good governance. But most of them do realize that at some stage, if they're going to ultimately, as some of the other panellists have mentioned, access the public markets, they do need to have those capabilities well-developed and to show a track record. And ultimately, they're looking to build their boards of directors and attract individuals, usually from industry, to those capacities. And that's hard to

do if you're still running it like a really small kind of closed, closely held kind of mom-and-pop type of company.

So when groups are looking to access venture capital, those are some of the things that we hope to, and try to bring to the table, based in part of where we are in the whole capital supply chain.

The change in the venture capital environment over the last few years, I'm not going to repeat my earlier comments about the fact there's just a materially lower capital supply out there. What I will comment on, is that those few funds that are active, are tending to look later in the continuum of company stage development. So funds that were, typically three, four, five years ago, looking to invest in deals that were still in the product R&D mode and hadn't yet necessarily engaged with customers or were generating material revenues, were ones that they would have been investing in, with the view that over the next couple of years they would eventually get commercial and then start growing.

Now, because of the reduction in private company, early-stage valuations, many venture funds are looking at deals that are relatively later. So these aren't companies that are yet profitable, but they are ones that are generating two, three, four, in some cases, five or six million of sales with customers. So they're out of the R&D phase. A lot of the technical risk has been eliminated or can certainly be managed and you're more into the growth and execution side of the ledger.

What this means is that you have a larger gap that's opened up at what I'll call the earlier sort of R&D phase for these companies, where they're looking to go and raise money and now often have to turn increasingly to syndicated groups of angel investors.

It's something we've seen quite prominently over the last two years or so, where using programs such as the VCC, the Venture Capital Corporation program

here in British Columbia, high-net-worth individuals and other groups of investors are banding together. Not always as organized groups, but certainly in financing rounds, that in some cases stretch up to two, three, four, even some cases five million dollars of individual's money, in companies that are still pre-commercial revenue. So they're not shipping product to customers yet.

And that's something where there was a higher presence of structured venture capital, probably three, four, five years ago. And just given the evaporation of a lot of that, it's had to be made up by individuals who are doing the old-friends-and-family-invest-early type of routine. So that's our perspective on how that's changed.

DR. FORD: So Andrew, talk to us about angel financing.

MR. RAE: Oh, absolutely. Hans here, you're hitting the nail on the head, in terms of that type of investment. Because what's happened in the Canadian context, is basically with the absence of that venture market for new issues, as opposed to follow-on financing, that creates a huge issue for people like myself, which is, "Where do I get that capital?"

And certainly the angels have bridged us, interestingly enough, into the United States. So what you have is repeated angel rounds, which are quite sizeable, actually. And I think, again Hans referred to that, substantial in nature, allow you to *de facto,* sort of bridge over what has traditionally been a B.C. kind of a financing. And interestingly enough, who's sort of coming into the fray post-fact, we now have institutional investors from the States, from Connecticut, from New York City.

And also just speaking to the structural differences between the States and Canada, a lot of venture capital money from the States is actually looking at public companies to deploy capital because the valuations are so reasonable.

But in those early sort of points in time, I can't tell you how important the angel community has been. And again, sort of hitting Hans's point, this ability to, in essence, get rid of that middle manager and take your own cash, put it into a company that you have either a technical sort of understanding of or a personal relationship with that individual, is highly important. And I think that program has been very beneficial to companies like iCO.

DR. FORD: So Darrin, in your experience then, thinking by sector, would you say that the various roles of angels and VCs and retail investors alternates is different from one sector to another?

MR. HOPKINS: Yes, very much so. And I'll use the analogy and I know [with] this word securities regulators [might] jump -- but if you look at it as a pyramid with the broadest part of the pyramid being the base of retail investor. And again in resource, oil and gas, mining, it's a very broad base of retail investors that are willing to invest. So the angel investor who would be the top of the pyramid, the apex, has much less of a role because there's such a broad base of investors that this appeals to and that people made money before so they're willing to invest.

When you get to a more specialized market like a technology or like a biotech, then the angel investor or the early-stage investor, plays a much more important roll because that can be the go or no go for the company. So if the large angel investor says "no", then that really hurts the company in being able to raise more money. Whereas again, in mining, if you have one large investor says "no", well, chances are there are other large investors will say "yes". And there's a large number of retail investors that are willing to participate.

So in each sector, it's different. Retail investors are very important in the oil and gas, and mining because it's so well accepted.

DR. FORD: My question right now is for Hans. So what happens if these start-ups can't

actually get early-stage funding from venture capitalists or strategic corporate investors? So what do they do?

MR. KNAPP: So a number of things. I'm going to leave aside the obvious that if they don't get the funding, there are really negative consequences like they go out of business. Everybody is, I think, acutely aware of that.

I think the sad reality is that many of these companies have viable products, generally customers that are interested in their products and in many cases, their growth ends up being constrained if they don't get access to the capital at that kind of critical point, where there is customer interest, but it's not yet bankable.

So you go to the banks, and they'll say, "Fine. Show me three years of profit/loss," and these kinds of things, all kinds of personal guarantees for any loans and all these sorts of activity. But there is a stage much earlier than that where you have customers that are saying, “I want your product. I'll give you regular payment terms on it. And I can't yet guarantee how many more times I'm going to re-order your product but if it looks good and performs as advertised, we'll take more of it." And it's at that point often where these companies need to invest in plant and machinery to scale up their operations. They need to hire people to go out and interact with the customers or, on the manufacturing side, make the product or perform other functions.

And what ends up happening really is that when there is a sub-optimal quantity of capital available at that critical juncture, companies end up having delayed growth. So they grow more slowly. Sometimes they end up giving up a competitive advantage to better-funded competitors, some of whom are south of the border.

On the other hand, some companies are forced to become more

resourceful. And here's where things get interesting because sometimes the outcome is actually a net benefit, where the companies end up focusing and saying, “If we have limited resources, let's really focus on those few areas where we really are solving a customer problem that is so acute that the customer is willing to pay us to actually help solve it." So usually larger companies that have a software or related issue, company will be willing to pay upfront some of the co-development costs. In other cases, there are opportunities to joint venture with potential end-user customers early on. If the problem is important enough that they figure that without giving you some money as the start-up company, to help solve it, they'll continue to have a really big problem that goes unaddressed.

So that's something that we're seeing more and more companies are having to be resourceful in how they manage that, in order to access some customer money when investor money isn't as plentiful.

The other thing is they're just frankly having to be in the fundraising mode almost continually. And this has some perhaps not so good consequences because it diverts management's time and attention from running the business, to essentially becoming non-stop fundraisers. So you don't have these cycles anymore where you raise two or three million and then you execute for a year or two. You raise 500,000 to a million and then, right around RRSP season, you try to get some more money and then the next spring, you raise some more again. And it becomes this ongoing cycle where often you're going back to many of the existing investors, who came into your earlier rounds as individuals.

So really, it's a combination of customer money, being more resourceful and in some cases, unfortunately, delayed growth, that are getting companies through these phases.

The happy thing is, once they get out the other end, these companies have

often gotten more efficient in running their operations because they were forced to do more with less. So they actually, in some cases, end up being more profitable and more operationally efficient than companies that would have had a surplus of capital.

But I think it certainly would be the case if you waved an extra half a million or a million dollars in front of the CEOs, they'd all take it.

DR. FORD: We're going to take some questions and then hopefully get through a few more questions or a few more pieces of our conversation here before we come back for more questions. So please go ahead and introduce yourself.

MR. VOLKER: Good morning. My name is Mike Volker and I'm a start-up junkie and my specialty is investing in start-ups.

Here in Vancouver I run an angel network, which consists of over 500 fairly active members. We've invested millions of dollars and in hundreds of companies, including Andrew's.

Now, what I see is not really a problem at that stage. There's lots of money for lots of good companies. But how do we get the non-accredited investors engaged in developing this sector of the economy?

You know, here in B.C., we've done a really good job in the mining and exploration business, but why can't we do that in the tech sector?

This is a sort of a big pet peeve that I have and I see a couple of issues. One is the exemptions. The accredited investors who could provide the private capital, are only 2% of the population. And of that 2%, what percentage has an appetite in technology-type start ups? Probably only 10% of that, if you use the GDP ratio numbers. So that's 0.2% of the population. But what about all of the others? What about the gainfully employed, high-income earning individuals that don't quite meet the accredited test? Why do we have these archaic securities

regulations that shut out those people from the market? I agree that we have to protect investors but we can only go so far to protect them. And we could have them sign affidavits or other things to get them to take these risks that need to be taken because it is all about risk taking.

And as was pointed out by one of the panellists, going public too early may not be the solution. I think it's a good solution, personally, and I'd like to see more companies go that route. But what is the solution to getting more of this tied-up capital? There's millions, I would guess 10 times the capital that I see from private equity accredited investors, sitting on the sidelines, that just can't be aggregated and placed in some very valuable promising companies across the country.

DR. FORD: All right. Responses?

MR. EADY: Well, Mike raised a couple of interesting points and certainly the private capital market is extremely important. One fact that we saw was that actually the private capital market in British Columbia is twice the size of the prospectus market over the same period of time. So it's clearly a very key area where prosperity is generated, where the economy has grown.

There are, of course, other exemptions than the accredited investor exemption and one that is used to attract usually investments, usually smaller size, and also people who don't meet that, is the offering memorandum exemption. That's one of the types of exemptions used.

We've noted at the Securities Commission that there are a number of compliance problems with offering memoranda but there are different types of exemptions that people can use. And the offering memorandum [is] a prospectus-like document that summarizes the business and it's one that is used both in British Columbia and in Alberta to raise hundreds of millions of dollars every

year.

DR. FORD: I want to use that question as a springboard to move into some of the questions around the exempt market generally, and specifically, for Bill then, could you describe for us the balance that regulators need to be striking between ensuring efficient private capital markets and also ensuring investor protection?

MR. RICE: Well, it certainly was an interesting question because it runs contrary to the pressure that we receive most significantly or most strongly.

It is a difficult balance to reach. We, as regulators, appreciate that, particularly in the absence of venture capital availability in Canada, that the exempt market is very important, the retail market and the oil and gas industry has relied on to a significant degree.

We like to see companies go to a public stage and present the level of disclosure that we think is appropriate but certainly understand that they have to get there somehow. They need a start and how are they going to get that start? Where is the money going to come from?

We're not just talking about a convenience of being able to raise money in the exempt market. We're being told essentially that it's a necessary fundamental piece of our capital market process.

So we appreciate that it's important, but then we have obviously the responsibility to protect investors. And if everything operated the way the fellows in the panel have described, both investing and issuing capital and acting as intermediaries, the system would be perfect and we've probably got most of the right answers.

But people do make bad decisions. Not everybody is as forthright in influencing investing as they should be. We're talking about an environment where disclosure is not available, continuous disclosure is not subsequently

required. So there is a significant amount of risk and good faith that's in the process.

So there's a lot of pressure and usually the pressure on us is to tighten it up, impose more requirements, impose more protections, make sure that there are greater qualifications. It's probably a more paternalistic approach.

We try and resist it and have taken the tact of relying on investor education to make sure people understand the risks that they're taking. But it certainly is an environment that runs contrary to our mandate of protecting investors and we're always facing the question of, "Is the buyer-beware label enough or do we actually have to go further and prevent certain people from being able to participate in the market?"

So to reduce some of these standards -- and there are alternatives to those income and balance sheet tests, as Martin has pointed out -- but to reduce those standards and suggest that even more vulnerable people are now entitled to make investments with issuers who have not provided appropriate standard of disclosure, would be a difficult thing to do. The pressure that we're under already is to provide more protection to keep more people out of the market and away from risk, rather inviting more into it.

DR. FORD: So Hans, all of Yaletown's investments are in the private market, so as an investor in that market, what issues do you see around investor protection and efficient capital raising?

MR. KNAPP: The area where we most frequently run into this is when we have individual investors who are co-investing with us or who have already invested in the company in a prior round or two -- before we come along, and we've encountered a few issues.

One recently was a company we looked at. We spent a great deal of time,

probably four or five months, conducting extensive due diligence on the product, the technology. And then something came up. A shareholder called us. So the company in which we had not invested yet, but they had became aware that we were looking at it. And they said, "You know, I invested at this price." It was at like $1.50 a share or something. We were looking at financing around 25 or 30 cents a share. So they said, “It was $1.50 share about a year ago and the CEO" -- who was not the CEO at the time we were looking at it -- "said, 'Oh, yeah. Well, we're looking at selling the company within about two years. You should make three times, four times your money.' And I'm kind of wondering whether or not that's still your intention, if you invest?" And we sort of sat back. I got a call from one of my partners. He said, "You've got to come in here and we've got to look at this." So we start to kind of peel back the onion. And there were like 60 investors who fell into this category. It was a company in Alberta, I should say -- and I say that only anecdotally because it's not just B.C. that has these kinds of issues, okay? It was remarkable the level of -- I wouldn't call it outright deceit -- but highly subjective commentary that had been given by management to the individuals. These were not dumb people or small sums of money. The average investor invested over $100,000. The biggest were $200- $300,000. The smallest? This is where you feel sad. There were a few people that put in five or ten thousand. Some of whom really ought not to have been wagering those amounts. They did so because they were a friend of a friend of a friend who knew someone who worked at the firm who was not the CEO.

So there's a little story which is true. We ended up not investing because there were really too many, I'll say operational, but also financial shareholder-related issues. We had major concerns that if we were to invest, there would be litigation from the shareholders as a result of the capital reorganization we were

going to force upon the company, because there's no way you can have all that money out there at a $1.00, $1.50, when we're coming in at a much lower valuation.

So the points out of this are, number one, when we invest, it's typically a relatively even, and some people would even say unfairly weighted towards us, negotiation. So when we set a price, we have a fair amount of leverage with the company.

When individual investors are doing so, they often don't. So you have the company that sets the price, and we won't get into how, but they do. And that's often the take-it-or-leave-it price for the individual investors. They have little if any bargaining strength or negotiating leverage.

Of course the answer is, if you don't like it, don't invest. But the whole point here is to figure out how to invest. So you have a pricing mechanism that really isn't reflective of a true kind of arms length negotiation of parties of equal bargaining strength.

Number two, disclosure. Disclosure, in our case, we say, "You should give us everything we ask for and if you don't, we don't invest because that's a red flag." So documents flow and disclosure is usually forthcoming. If not? Well, we walk.

With individuals, those questions often don't get asked. If they do, they might get some disclosure up front, but as has been mentioned by some of the panellists previously, post investment, there's usually very little, if any. So you've got that issue of really supplying appropriate information to investors who then know what to do with that information.

I'm going to assume the information being conveyed is correct but that's not necessarily a valid assumption.

So then you have a situation down the road where , if things do go awry, well then of course, phones start ringing. Other people start getting involved and everybody starts to say, "How did we get into this mess?"

And the unfortunate thing is, for every 15 or 20 or 30 good companies out there, there are probably one or two or three that fall into some variant of what I've described here, perhaps not as egregiously.

And keep in mind, I'm not talking about any misappropriation of company money or any of that bad stuff, but just where money went in, valuation is too high. The company didn't hit the performance milestones they were supposed to. As a result, the company isn't worth anywhere near what people were thinking.

In a situation with hindsight, when we give them the opportunity to invest with us at the lower price value, most people said, "No. No thanks. I'm done with this. I've had it."

So I think the moral of this story, kind of is to sit back and say, "When you're doing this balancing act, you really have to think about what the implications are, not just for the particular one-off company, but what happens downstream." Because many of these people who had this experience with this company, they've said, "You know what? I'm done with private investing for awhile. My spouse has told me that it was a dumb idea. I never should have. And that friend who referred me to it, I now won't talk to." And then it goes from there. I'm not kidding. This happens.

So this is the other side of the ledger. When things go well, everybody makes money. We're all happy. All the money gets recycled. We all know that part of the story.

So the real question is "All right. Do we want it to look more like the happy scenario or be concerned about the adverse one?"

It's really around having some level of negotiating or information parity for the investor. So that there is a mechanism there for them to at least be able to understand what it is they are getting into. And I think having an enforcement mechanism there for the people on the company side. If they are doing or saying things that are inappropriate or creating circumstances that really don't reflect reality, in order to induce investment, the consequences for them for having done so are ones that will encourage them not to do so, either then or in the future.

But it's a tricky balancing act. And I think the thing to remember is for every good scenario, or a couple of ones, there are more than a few that are of the other variety of -- or some version of that, and those have consequences, too. And people have to remember that it's all part of the overall ecosystem. You can't neatly segregate these.

DR. FORD: We are going to squeeze in another couple of questions, but first I have a question for Martin and that is, what are you seeing in British Columbia in the private markets and what steps are you taking around that?

MR. EADY: Well, personally, I had a very early indoctrination into the private markets when I was an investigator and when I started with the Securities Commission.

And this was in the days of the old Vancouver Stock Exchange and a VSE promoter had attracted quite a few so-called friends and family to their promotion. And we had learned that, in fact, they'd only met these people about two weeks before and it was in connection with the offering. So we were pretty confident that they didn't have a case to even regard these people as friends.

And so as an investigator, I brought them in and I brought the promoter in and I asked her, I said, "Well, how could it be that these are people that you've just met? Why are you calling these people your friends?" And she looked at me and she said, "Well, if you have money, you're my friend."

That was a case of a public company raising private capital. And in fact public companies do raise a lot of private capital in B.C.

But as Hans referred to, there's a lot of private companies, too, that also raise private capital. And they are companies that we've most focused on in recent times because of the lack of transparency. Public companies have public disclosure. They have news releases. They have audited financial statements that come out quarterly and annually. But private companies don't and the opaque nature of them makes them a higher risk for people to invest.

So we decided this year to focus more on issues in the exempt market, because we had seen some compliance areas. And we felt the proper way to do that was only through an integrated approach of looking at what are our policies in that area, stepping up some of our compliance efforts in that area, and when people are significantly offside, making sure that that's taken care of in an enforcement context.

So in terms of compliance, we did form a compliance team this year, in corporate finance. It's a diverse group of people -- there's lawyers, there's financial people, there's accountants, analysts who are looking at all the offerings.

By way of example, we are now reviewing all of the offering memoranda that are coming into our office, to make sure that they're of a high standard and good quality. And when we notice issues where things appear to be out of the ordinary, someone reporting that they have hundreds of friends and family or so-called accredited investors who are investing unusually small amounts of money, when you would expect an accredited investor to invest larger sums, we're asking questions and we're following up. And those are a couple of examples of areas we're working on.

But not just in the compliance area, we think it's important. So we

recently put out a proposal to amend the actual reporting form for distributions, for exempt distributions in B.C., where we believe it's important that investors receive more information concerning their investments. So we're proposing that the information concerning officers, insiders, their holdings, be disclosed in the distribution and also that the identity of the purchasers be disclosed also.

So it's a combination of enforcement. It's a combination of compliance, as I discussed, policy and frankly, investor protection is also taken care of through investor education. And we recently revised our InvestRight website to more focus on investing in private companies, because it's clearly a very key part of capital formation.

DR. FORD: Okay. Well, let's try and squeeze in just a couple of questions.

MR. FUNT: I'm Warren Funt from IIROC. We were talking about the exemptions, both for OMs and the exempt market itself, talking about the challenges of raising money. At no stage did anyone ask, and I'm kind of puzzled, as to whether we should be making things easier for IPOs. And which is of course, a very small amount of money that's being raised. And the results are referenced to the fact that companies can come public too early. I was kind of questioning that, too, as to what makes it wrong for a company to -- or what are the consequences of a company coming public too early? Thank you.

DR. FORD: Was there a question near the front, as well?

MR. NOVIN: The question that I have is that Hans mentioned that the amount of capital has been materially reduced. My question is that, given what happened in this recession and all these five big investing companies that are gone, Merrill Lynch and so on, do you think that there has been a structural change, something that really is going to change the nature of venture capital in North America? In Europe and Japan, we have different model. Is there a possibility that we are

moving towards other model or do you think that this situation is going to go back to what we had?

DR. FORD: And I'm sorry, sir, your name?

MR. NOVIN: My name is Farid Novin.

DR. FORD: Okay. Any brief responses?

MR. HOPKINS: I'll jump on the going public too early. The company becomes an orphan. It becomes a private company essentially trading on a public exchange and there's no liquidity, because when they're measured against other comparables, if they're too early, they come up short against those other comparables. And an investor will go towards where it can get a higher return on capital, so essentially you have a company trading, with all the expenses being public, but little to no liquidity because they're too early on and they don't compare against other public companies in their sector, their industry, or other ones competing for capital.

And it would be great if the costs of doing an IPO could come down, because I think you would definitely see more companies lean towards going public, especially in the resource sector. I think [in] the resource sector, the biggest complaint from a lot of the junior oil and gas companies is, "We're just going to stay private because it's too costly to go public. There's too many time costs and dollar costs is just too high."

--- PROCEEDINGS ADJOURNED

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MR. MCCOACH: Good morning and welcome back.

My name is John McCoach. I'm the President of the TSX Venture Exchange and it's my pleasure to spend a few minutes here talking to you about a couple of things.

Before I do that, I wanted to congratulate and compliment the B.C. Securities Commission and the Alberta Securities Commission for putting on another great conference. I've attended these for many years, always enjoyed it and it's a real honour to be asked to speak at this one this year.

[I'm] particularly pleased to see both the Commissions working together on this conference. As was said earlier, there's a lot of common interests here and I hope this is a beginning of a good trend.

I was asked to spend a few minutes talking about the value proposition of the TSX Venture Exchange, to set the stage for the next session of this conference, talking about the public venture capital markets and to also give you a bit of an update on what's going on at the TSX Venture Exchange, some statistics and facts and figures.

But I didn't want to bore you by rambling on and throwing out a bunch of statistics. On the slides, I'll run some statistics, facts, figures, these sort of things, that will give you, I hope, a good sense of what's happening in the public venture capital markets in Canada *[see TSXV slideshow]*. And I'll talk about the value proposition. And if nothing else, while I'm rambling on about other things, you will at least have something to read.

Let me start off, a little bit of a general discussion about exchanges. We would live in a very different world without stock exchanges. Exchanges are a driver of economic activity. They've been called "an engine of job creation." At their core, exchanges are an infrastructural financial services company whose fundamental purpose is to facilitate companies, to access capital, and allow people to transfer savings to investments.

A regulated stock exchange's role in society is to help put capital in the hands of those that can create jobs. In this role, exchanges have significant

economic and social value.

I'd suggest that exchanges that service small to mid-size enterprises have an even greater social and economic value. We all understand the importance of SMEs. Other speakers have spoken very eloquently about that already. Simply put, large established companies do not create their proportionate share of new jobs. Small and medium-size enterprises create new jobs and I think we all agree that we want to support them.

This fact is not lost on stock exchanges. You might be surprised how many stock exchanges around the world try to facilitate access to capital for early-stage companies. In addition to the TSX Venture Exchange, AIM is an obvious example. But there's also junior markets on the Johannesburg Stock Exchange, the Hong Kong Stock Exchange, the Irish Stock Exchange. Tokyo Stock Exchange is developing a junior market. Deutsche Börse had a junior market for a number of years, and now even NASDAQ wants to be in this space.

Unfortunately, not many exchanges have been able to get very much traction in this area. It's not because they don't value SMEs. It's mostly because they're not as fortunate as we are in Canada, to have a capital markets community that supports early-stage companies. That community, of course, includes securities commissions, advisors, investment bankers and investors who are willing to take an appropriate portion of their portfolio and support an early-stage company.

We, and I mean all of us, have developed an amazing amount of expertise in operating markets for small cap companies.

We first created stock exchanges in Canada specifically to provide public venture capital over 100 years ago. We have made some mistakes along the way, but we've learned from those mistakes and now, many people think we have the

best public venture capital market in the world.

We are unique in that we -- and again I'm using the royal "we" -- support nearly 2200 companies at a critical stage of their development and we give them the opportunity that they might not have otherwise received, to discover the natural resources that the world needs, develop new life-saving drugs or create advanced technologies.

Of course, they don't always work out but I suggest that our companies' track records are better, or at least as good, as private venture capital. I will try to prove that point in a few minutes.

The number of new listings, financing activity and trading volumes are all evidence of confidence in a country's capital markets. They're also important indicators of a healthy economic environment.

As you can see by the statistics on the screens around us, by these measures, Canada is doing very well. Conversely (sic), a robust stock market helps to create a strong economy. The two are interconnected and when they are working together, as they are now in Canada, the benefits can be significant.

Numerous exchanges around the world admire what we have and they would love to have a similar, reputable and liquid market for early-stage companies. Several exchanges have approached us at TMX Group, for advice on how to operate a market for small cap companies. In fact, we met yesterday with a delegation from a respected exchange, who was trying to do just that.

We should all be proud of what we have achieved in building the TSX Venture Exchange. Our junior market is very special but we need to protect it and we need to nourish it. Market integrity has to continue to be job one for all of us. Without a credible market, we would never have seen the growth and liquidity and access to capital that we have all benefitted from in the last 10 years.

You're probably not surprised that I feel passionately about TSX Venture's value proposition. It may be best if I give you a couple of examples of other's perspectives.

This year, I have personally met with over 80 institutional investors in the United States and Europe. The purpose of those meetings is not to talk to them about specific investments, but to attract more capital, investment capital, to the Canadian markets.

A small number of the portfolio managers that I've met with, are still sceptical about Canadian junior stocks, but the vast majority recognized that our market has matured. They value our association with Toronto Stock Exchange. They value Canadian securities regulations and TSX Venture Exchange governance and disclosure standards. They recognize that the TSX Venture Exchange is unique. There's no better place in the world to look for early-stage investments in a regulated market with liquidity. They understand our strengths in mining and oil and gas, but they are also very interested to learn that we have almost 600 companies in diverse industries such as technology, life science, manufacturing. They're intrigued by the fact that TSX and TSX Venture have more clean technology companies than any other exchange group in the world.

These institutional investors feel more confident investing in TSX Venture Exchange companies than ever before and I suggest that that's an important reason for our success.

I'll give you another example of how our market is valued. Two weeks ago, I attended a World Federation of Exchange conference. At that conference, Duncan Niederauer, the CEO of the New York Stock Exchange, told me, in front of several other people, that what we do at TSX Venture Exchange is very important. He encouraged us to keep giving early-stage companies an

opportunity to access the capital markets.

During a presentation at that same WFE conference, Robert Greifeld, the CEO of NASDAQ, told the heads of 52 stock exchanges, that TSX-V was the best venture capital market in the world.

The fact that Duncan Niederauer and Bob Greifeld spent any time at all thinking about TSX Venture Exchange, never mind publicly acknowledging our value and status, is frankly incredible to me. I can tell you that I was pretty proud of our little exchange, our staff and this community in its entirety.

I know that I promised not to throw a lot of statistics at you, but please indulge me while I close my remarks by giving you one set of facts and figures. I think these numbers are the most telling evidence of the value of the TSX Venture Exchange. Since TSX Venture Exchange was created in 1999, almost 500 companies have graduated to the Toronto Stock Exchange and almost 100 have done M&A transactions with TSX companies.

These numbers are impressive in and of themselves. Any VC I think would be enviable. But when we drill down a little bit more, and we consider the composite -- the TSX composite index is made up of about 230 companies, and arguably these are the largest and most important public companies in Canada -- 18%, or almost one in five of the composite companies in Canada, started off as a junior company on our junior exchanges. I think that's an incredible statistic.

I hope that you will share these numbers with your colleagues, your clients and your family because you've made these numbers these successes.

We'll never know for sure if these companies would have achieved the success that they ultimately did obtain or if they would have made the same contribution to Canada's economy and our society, without access to the TSX Venture Exchange, but I'm sure glad they had that opportunity.

So thank you very much for listening and I look forward to the rest of the conference.

DR. FORD: We've just heard from John about how well our public venture capital system works here. And we need to think about why that is. So starting with Darrin, as someone who raises money for companies in the public venture capital market, what, in your view, makes our public venture capital market work as well as it does?

MR. HOPKINS: Well, as I was listening to John's talk, I started checking off all my points on here. Now I don't know what to do because he's covered most of them.

But from our perspective, being someone who finances junior companies, the TSX Venture Exchange is -- in the capital markets in Canada, junior capital markets -- well organized, well regulated. We have liquidity. We have a massive track record of success dating back many, many years. We're recognized as having the best small cap market in the world. TSX-V is recognized around the world as the premier place to go for small cap issuers, especially small cap oil and gas and mining.

We have a Capital Pool Company program that was born in Alberta in 1986-ish, that has taken well over 2,000 companies public since then. Many of them graduated on to the TSX, to New York, NASDAQ, et cetera.

And the population in Canada has a long history of also investing and it's a climate where people are not unaccustomed to investing in junior companies, junior public companies. People have made money over many, many years and they're willing to put that money back to work.

And so given that John's covered a lot of things I had on here, it allows me to take a hard right turn here, and talk about the massive disconnect between what our Federal Finance Minister Flaherty has said, when I think he referred to our

capital markets as an "embarrassment, internationally", because we don't have a national securities regulator. And yet, when you hear what John has had to say about the people around the world that bring companies to Canada, that invest monies in Canada or invest money in companies from around the world that have come to list in Canada, there is a colossal disconnect between reality and what this Minister has said.

I've been in the business 16 years and we've financed companies from Serbia, Burkina Faso, Guyana, Columbia, Ecuador, you name it around the world, and at no point, has anybody ever asked me, "Do you have a national securities regulator?" Or, "I'm not going to invest there because you don't have a national securities regulator." Or an investor say, "Well, we don't have a national securities regulator, so I'm going to put my money into a GIC instead." That's never happened.

And that's critically important when we look at why the venture markets in Canada are a success because they were created out of a need that wasn't being met by senior exchanges and they've grown because that need still has not been met by the senior exchanges for companies in Canada. So we have a very successful capital market that is recognized around the world and that's why capital comes to Canada to invest in these companies. That's why companies come here to invest and I think it's very dangerous to disturb that mix that we have right now.

DR. FORD: Okay. So following up on that then, I think I'm going to amalgamate some questions here and ask John to talk about the advantages that junior oil and gas companies may have in Canada, and then additionally for Darrin, whether or not those similar advantages also carry forward to other sectors like mining. And then for Andrew, I'd like to know how important the public markets have been in

the biotech sector for your companies.

MR. WRIGHT: Okay. Well, I'll start that one. And it's an interesting group. There's the regulators, the suppliers and then the users and the regulated on this end here.

And I think, when we talk about a junior oil and gas company in Canada, I think we grow a little jaded by the fact that there's always been this industry. It's always been vibrant. There's always been access to capital. But when you look around the world, you suddenly realize the Canadian junior oil and gas sector is unique. There isn't another junior oil and gas sector in any other part of the world, operating today and it is a function of the access to capital that's available here.

And for example, our biggest competitor in the United States does not have an equivalent sector, so there aren't junior oil and gas companies operating in the US. There is not access to public funds. There is a huge opportunity gap that often is filled by companies funded in Canada, that are able to move in, act very quickly, be agile, be aggressive and take advantage of the fact that (a) they have access to capital and (b) they have access to further capital if they're successful in their ventures. And that's really created a bit of a tiger on the world stage.

So Canada, in the oil and gas industry in particular, and I really think this is true in mining, I'm sure it's true in a lot of other sectors, is a real tiger, globally and really fights above its weight.

A great example that I think I could give you outside of Canada, is one of our subsidiaries, PetroMinerales, operates in Columbia. And I think six of the ten most active companies in Columbia are TSX or TSX-V listed companies, funded out of Canada, investing in Columbia, showing great returns and in fact, creating more and more interest in Columbia for Columbia-based, Columbia nationals to

come up to Canada, approach guys like Darrin and say, "Look. Can you take us public? We need to have access to this sort of capital. We can't find it anywhere else on earth."

And there's some small competitors out there, the AIM market in London does a good job of funding some initial start-up operations, but honestly, there's nothing like the access to public funding in Canada that we have for the junior oil and gas sector and, I think, for the mining sector.

DR. FORD: And is that right Darrin? How is it in other sectors?

MR. HOPKINS: I think that buying creates buying; success draws success. And I think when you look at the mining industry also when you look at British Columbia and you have Stikine and Dia Met, Diamond Fields, so not all B.C. companies, but Palmarejo, Kinross, Aber, Canada is looked at very, very favourably in the mining environment also. So that when there's a public mining company in Canada, that first hurdle is long since jumped over because the world accepts that Canada has expertise in mining.

And I think what you see is the follow-on effect. And for the biotech sector, Biovail was quite a large success for quite a few years, and we financed a couple of the junior biotech companies during that period because capital was drawn to that sector of the industry.

And the junior real estate market also, back in the kind of late '90s, there were a number of fairly large real estate successes in Canada and you had a bunch of junior real estate companies listing because the capital wanted to invest in these companies. So success creates more success and I think that it does trickle down to other areas.

And also I think what's important is when people make money in mining and oil and gas industries, they may put 80% of that money back into mining or

oil and gas but they'll take 20% of that money and go put it into another sector because they had that capital that they can invest. So it is sector-specific in Canada but once you have one success in an area, it tends to draw money in from other investors.

DR. FORD: What's your experience, Andrew?

MR. RAE: Speaking to the first part of our discussion, the issue in terms of raising capital for biotech companies, really *de facto,* Capital Pool Companies, et cetera, have been the source for sort of the going-public event in raising cash. And back when we did that, getting back to one of the earlier questions from the audience, how do you feel about that, sort of being a small cap company? You know, sometimes not [a] great feeling.

Now, it's interesting because I also talked about some of the structural differences between Canada and the States, the fact that in the States, healthcare is a representative index, whereas in Canada, it isn't. And of course, the access to venture capital in the States has been much bigger, historically.

Now, fast forward to 2010, 2011, and I think what's interesting here is I'm having my US colleagues tell me they're seeing venture capital contraction in the US. So that's going to be a huge issue because what have they done historically, is build pretty significant companies privately and then take them public. And what they don't have in the States currently is an IPO window for healthcare companies.

So interestingly enough, a lot of the folks in the States are telling me, "You must feel really pleased to be public at this point in time." And, quite honestly, it's sort of out of the frying pan into the fire, in terms of the issues that you face. But the long and short is, it probably is easier to access capital as a public company.

And as I mentioned earlier, some of the US VCs are starting to take a look at companies that are micro-caps because they see incredible value. They don't see those exits for private ventures and quite honestly, they can't continue to put in 100, 200 million into these companies and have appropriate exits for those investee companies.

So I guess what I'm saying is, I think we're nicely a step forward here.

And speaking to what Darrin's talking about, if you do start to see sector rotation, in terms of people starting to put some additional capital into this system, perhaps this is an ideal model for the time, versus traditional US Venture Capital market for healthcare.

So I have a reason to be quite optimistic. It's just for me, as a CEO of a healthcare company, trying to compete with momentum plays currently, is not the easiest venture, but I'm sure we'll get to an appropriate point where there's much more amenability to put money into companies like ourselves.

DR. FORD: And Bill, what have you heard from regulators and exchanges around the world about our small cap market?

MR. RICE: Well, I support the comments made by John McCoach and Darrin. My observations have been entirely consistent with theirs.

We are complimented heavily on our junior capital market. I know that many of the regulators and many of the representatives of world exchanges would like to understand how it's done here.

Many of the other countries also lack a venture capital pool, so they're also without start-up capital but they don't have the junior public market that Canada does.

So we're highly complimented for it and most of the inquiries I get is, "How does it happen? How do investors have confidence? How come all the

managements of these start-up companies don't steal all the money? How do you maintain any level of liquidity?

The exchange itself gets a great deal of plaudits for its successes but it certainly is, to a very significant degree, what Canada is recognized for and it's something that, worldwide, people look for some guidance and help to Canada and our jurisdictions.

DR. FORD: Okay. But so let's talk about the cost of capital in the small cap market and proportionate regulation in particular. So starting with Darrin, can you give us the 30-second primer on the cost of capital and what's driving the cost of capital for small companies and how expensive it really is?

MR. HOPKINS: Well, the cost of capital essentially relates to what dilution does the founder suffer or other shareholders suffer, the yield they have to pay if they take on debt, the transaction costs, regulatory costs, it's all built into the cost of capital.

So essentially, after the company raises money, what do they lose or expend from that whole process and what are they left with to go and invest in their business?

And the cost of capital, there's no question, has been escalating and a part of that is regulatory cost, processing costs. A good part of it, also, is market dependent.

For a two-year period, back two years ago now, the cost of capital became prohibitive for most junior companies because capital evaporated and what was left wanted a massive return on their money in order to place it.

My belief is that one of the most important things right now in Canada, is to try and reduce that cost of capital wherever possible for the junior companies, so they can put more money into the ground, into work, into developing a new drug or so on.

And that can be in two ways. Make it more attractive for investors to put money in, so they can get better yields, then the cost of capital comes down. And also reduce the regulatory and processing costs.

And I just use one example of a small Capital Pool Company that we did, when they did a qualified transaction, which was an Alberta-based 200 barrels-a-day of oil and gas, Alberta directors, very simple. And you get into a circular that's 400 pages long. It goes out to shareholders to describe the transaction and it's quite remarkable that it takes that much to describe a 200-barrels-a-day locally.

So I think that there needs to be a movement to try and reduce these costs on the regulatory side, on the transaction side, and also reduce the cost of capital for the junior companies.

When you start getting up in the 20%, 25% cost of capital, that's a big hit. That means a company has got to get a 20% return just to be flat, and it's often overlooked. And when you compare that to the mutual fund industry, where people get concerned about management expense ratios of 1.5%, and Canada being the most expensive in the world, and then we look at the cost of capital for junior companies, it's clearly out of whack.

So I think there really needs to be a focus here on reducing the cost of capital to these junior companies in Canada, however possible, and I think we really need to look inwards as to what needs to be done in order to do that.

DR. FORD: So Andrew and then John, have you also noticed changes in the regulatory burden that your companies have been facing over the last decade or so?

MR. RAE: Yes, I guess it's all relative, is the answer.

I have actually a colleague of mine who took another ophthalmic company public in the States, one of the few IPOs in the US. We were sitting at a

conference together and I quizzed him and asked him what he thought it would cost for my annual audit with PWC. And when I gave him the number, which was very, very low, I think it caused his jaw to drop. So it's relative, relative to other jurisdictions.

There's no doubt that there are additional compliance hurdles that you see, behaviours, whether it be with various brokerage houses, et cetera, that are more onerous in nature. But what I've seen, at least in my industry, is actually a contrast to the SOX-compliant colleagues that I have south of the border.

And , there's a marked difference in terms of those compliant costs in the biotech space and we were chatting about it last night. We've started to see companies list on the Tel Aviv Stock Exchange, for example, instead of going to NASDAQ.

So those certainly tell the tale and I would probably follow those breadcrumb trails in terms of where the listings are happening, to tell the tale of what's happening from a compliance perspective.

So it is more onerous. You notice it when you're dealing with some of your broker friends. But net net, it's nothing like what we see south of the border.

MR. WRIGHT: Yes, I think I'd echo Andrew's point.

We would certainly never list on a US stock exchange now and I've been there before, but the new burdens are just too onerous.

I think the Canadian burdens are heavy and should never, ever be underestimated for the cost to management, in order to comply is a cost to the shareholders, for management failing to create value during that time.

And I think the regulators are faced with a tough challenge here, because as the world becomes more complex and business becomes more complex, they try and find a report card that actually gives an investor a fair view of what the

market is. And I think, unfortunately, the burden on that disclosure has reached the point where the average investor has a lot of difficulty sorting through all the documentation and all the reporting, to actually come to a fair assessment of what the companies are actually doing and what they're worth and what their future prospects are. Coupled with a lot of the compliance and risk avoidance associated with having to disclose things, I think you create almost a paper wall that most retail investors certainly won't want to climb to get over. There should be a better way. I think we should take a lesson from the States that there is a wrong path to go down and we may have taken a few steps on that path already.

DR. FORD: So over to you Hans. Thinking about the overhead on public companies in particular, what's the impact on them, of this regulatory burden and does it affect whether or not they end up going public?

MR. KNAPP: Well, unequivocally, given the comments that have been made earlier, there's a financial cost; then there's the operational cost. The diversion of management's time and attention from running the business to basically managing the disclosure, the quarterly reporting, all the other things that come with the analyst road shows and so forth. And it's important for companies to really make sure that they're up to that challenge and are going to be up to it for the entire period of time that they consider being public for, not just for the IPO and then forget what happens after.

So the reality is, it definitely causes companies, certainly ones we're working with, to make sure they're more mature, once they begin the process of wanting to tap the public equity markets that way. What that means, is they spend a great amount of time raising private capital, to getting there. That's certainly the big impact that we're seeing.

And the other is that you need to make sure you've got a proper

management team in place that actually has run a public company and understands what those requirements and those obligations entail. Often when companies are small, and they're going public just to raise money because they can't raise money privately, it's usually not a happy solution because they're usually understaffed and under resourced. So the key is, do so at a later stage in time when you can properly carry out the responsibilities that come along with being in that class.

DR. FORD: I understand that Alberta and B.C. are leading a project called "Proportionate Regulation" that's meant to address some of these challenges that we've heard about, especially in regard to the regulatory burden on small companies. So Bill, why did you start this project and what are its challenges?

MR. RICE: Well, there's probably a long list of why we started it, but a few of the prominent reasons would be policy development, for one. It's been explained earlier in the day, that we have large companies in Canada and extremely small companies, and securities regulators nationally trying to develop policies that suit both ends of the spectrum. It's a pretty tough job and takes a lot of time and ends up consuming a lot of energy, trying to satisfy extremes that really, in my view, deserve differing treatment. And would probably, if they were treated differently, allow some of the pressure to come off, in developing policies for the big companies, and separately developing appropriate policies for the small companies.

The relevancy of disclosure was another issue. There are different issues that are important to an investor in a small or junior company. Many of the disclosure requirements that are currently in place, simply aren't of relevance to an investor and they get bogged down in material that isn't relevant, provided with information that really isn't helpful and in many instances, aren't getting the

specific information that would be relevant to them. They want to know who the people are, what the track record is, what the project is all about. To suggest that a long history is going to be particularly relevant for a start-up company is nonsensical. So the priorities of different disclosure requirements certainly would appear to be significantly different for an investor in a big established company versus a junior company.

And then obviously, as we've heard, there is the cost issue. We would rather see, as regulators, transparent operations, disclosures, capital raising. [We] understand the necessity for the exempt market but it's a riskier market. If we're able to have more companies, more comfortable with the public process, certainly from a regulatory standpoint, that's going to be more comfortable for us and there's a great deal of pressure, obviously, to reduce costs.

So we thought there were many instances where we could reduce volume. The volume just wasn't necessary. It wasn't helping the investor. It was a burden on the issuer. There were repetitive disclosures. The same disclosure has to be repeated in a variety of places, which is a waste of time and resources and in many instances, professional fees.

So we thought there were many places where we could reduce volume and certainly reduce duplication and try and consolidate information so that it could be found in one place and prepared by the issuer and presented once, instead of many times.

The challenges? Probably fear is at the top of the list. Are we going to go back to the bad old days that were once described by a former Governor of the Bank of Canada as "the wild west", a comment that's done extensive damage to the capital markets in Canada? The suggestion that we have lower standards, that less volume, less duplication means light regulation of some sort. So there's a

concern that we're going to, by changing the requirements, be perceived as presenting a less rigorous environment, where issuers can't be trusted, disclosure isn't as good, the integrity has gone out of the market, investors are more exposed to risk, et cetera. So that's a big concern.

Getting the interest of some of the regulators across the country has been a challenge, because this is not an area of priority for every area of the country. As we've discussed, it's a greater priority in British Columbia and Alberta.

I think that one of the things we decided at the beginning was that if we were going to go through with this project, that it should be worthwhile. So we're really in a circumstance where, if we're going to suggest a new regime in the area and ask professional advisors, issuers, investors, to get used to yet again something new in the regulatory world, it had better be worthwhile. Which means that tinkering and making small changes are likely just going to be annoying. And the only real change that if it is going to be worthwhile and have a significant impact, is probably a significant change.

So for example, we've been discussing that the utility of quarterly financial statements, to get rid of the requirement to prepare, file, publicize quarterly financial statements, is a big change and might make a significant difference. But because it's big, it becomes more frightening. It's a bigger change. It's going to be something that people are less likely to quickly grab onto and accept as the new regime.

So our challenge is to make sure we're getting out to the public markets, a good description of what it is we're doing, what we're proposing and get good feedback in return.

And this is an area where it's difficult to get feedback. People that are running junior companies don't have time to write letters to securities regulators,

other than to maybe complain, but certainly not to recommend how they should be undertaking their regulatory responsibilities. They don't have the resources to pay professionals to do that kind of job. They don't have the time to devote to the subject of securities regulation. So it's difficult for us to get good feedback, but we've been working hard at it and I think we've been successful at it and we hope to have something concrete to put on the table pretty soon.

MS. FORD: Well, Martin, talk to us about the consultations that B.C. and Alberta have been doing and maybe if you can briefly identify some of the important things you've heard?

MR. EADY: B.C. and Alberta have led the consultation process. We conducted consultations with market participants here in Vancouver, in Calgary and Edmonton, in Winnipeg, Toronto, Montreal and Halifax. We wanted to do that because it's a very diverse community of interest and there's lots of different experiences out there.

And we did hear some quite important common themes. And probably the most significant theme we heard was that people are actually very supportive of the idea of a tailored venture regime for venture companies. Very few disagree with the notion that there should [not] be the same requirements for venture companies as for larger ones and that it's important to tailor all regulation to the size of companies.

And right now, for example, requirements for venture companies are found sprinkled in various different regulatory instruments in the Securities Rules. And many people told us that they find that confusing and support the notion of consolidating all that in one place so that it would be easier to follow.

Another theme we did hear, as Bill mentioned, is a concern from many people that there might be unintended damage to the reputation of the capital

markets if we are not careful with the proposed changes that we do make. As John talked about earlier, certainly the volumes and the amount of business on the venture exchanges has just skyrocketed in the last number of years, partly as a result of the improved reputation of our exchanges. So they are concerned. And we heard that more in Vancouver than anywhere else, that we should be careful with the changes that we do make, to make sure that there isn't the unintended consequence that people perceive it as being light regulation. We always like to think about more as being right regulation for that.

And finally, I think the third theme was there is pretty strong support for putting disclosure in one place. Bill mentioned you have to talk about your related-party transactions in your notes to the financial statements. You have to talk about it in the management discussion and analysis. You have to discuss it in the proxy circular. And if you change one number in one place, you'd better change it in the other two places or you'll be in trouble. And preparers really feel that we should do our best to bring that disclosure into one place, that users would actually find that useful. They'd be able to look -- and that we use technology so that they can actually access that information more easily and make it easier to be a public company.

DR. FORD: Okay, so pulling back a little bit, both John and Darrin have talked about the relevance of disclosure and the volume of disclosure, so thinking about these comments, about proportionate regulation, my first question is for John. How does the disclosure that you think that investors get today compare to the information that investors really need to be getting?

MR. WRIGHT: Well, and again, I can speak specifically to the oil and gas industry, but we try and emphasize internally with our companies that we don't produce oil and gas; we produce money. And the disclosure that's available to us, starts with a

reserve report and an estimate of what the future production is going to be, from all the properties that a company owns. And then a financial statement that converts those reserves into a cash flow stream, and then a future capital investment program that tells you how much money you have to keep pumping back into the ground to get all those barrels out. And it's a fairly complicated process and it's all integrated.

The disclosure that's available kind of gives little pieces of each one of those data sets. But frankly, you start with a reserve report that is significantly hedged in how forward-looking it can be, because it's a very conservative cautionary document for investors. And then you have financial statements, which don't allow really proper assessment of the cash-flow-generating capability of an oil and gas venture. To the point where, if you followed oil and gas company disclosure, a lot of us and most companies I've ever looked at, actually disclose a number of non-GAAP, non-standard accounting measures, that allow people to actually assess how well the company is doing, because standard accounting doesn't allow that. And then I think when we get into IFRS, we're going to open up a whole new can of worms.

But the companies that do a good job of it, provide great data. Yes, you have to dig through three or four different public documents to find it, but you can get to the bottom of it and get a very, very good feeling around it.

The problem I would say is that the companies that don't want you to know that, can disclose the same information in a way that you're not really sure what they're doing and how well the company is doing. And that ultimately means they end up in Bill's office, trying to explain something. I love this gradational regulation concept. I think that's brilliant and I really encourage you to follow up on that.

DR. FORD: So Darrin, I'm going to give you a chance to jump in as well, just to talk briefly about the kind of information that you get as a broker, and whether in your view, there's a difference in the kind of information that investors need when they're investing in a private company and a public company?

MR. HOPKINS: Well, for us, because we focus on taking companies public, we get all the information, just as was said earlier. We ask for everything and if somebody doesn't want to give us something, then we pass, because we need to be able to look at engineering reports, material contracts, everything there is to know about the company, we want to know so there are no surprises. If there is something, we want to find it before it becomes a problem.

So in terms of, is that enough for retail investors? That's overkill for retail investors because they probably don't want to go to that length themselves. They're hoping that I've looked at it and so when I say to them, "I think this is a good company. Here are the reasons why we should invest," they're hoping for me to condense all of that information down into something that's presentable to them.

And I think that's the great struggle right now. What is it that the retail investor needs and wants? Because right now, we perhaps have overshot the target, in terms of the information that's being given because it's just overkill. There's too much. And people just throw it in the garbage because it's too complicated to go through.

And in terms of a private company, that's a really difficult question. If I step back for a second and say, "Well, if we can lower the cost of capital and make it easier for companies to go public, then it would decrease the number of private financings done perhaps" because it is a complicated area. And often a private company needs what is not disclosed, that's the problem, not so much

what they have disclosed to potential investors. Because there is no cleansing through a brokerage firm or an agent or something, of that information -- or a stock exchange or a securities commission, a lot of the information is really suspect. So you just don't know. It's a struggle to find out what that correct regulation is for private companies because there is so much unknown.

We financed a company a while ago and the founder of it said something I found very interesting is that, at 31 years old, his dad died and left him running the largest uranium company in North America and a one-week old, 40%-owner of the Denver Broncos. And he said to me, "Darrin," he said, "There's two ways to get a financial education." He said, "One, go to college or university, and two, be a minority shareholder in a private company." And I think that is very much the case as an investor in a private company. , it's really tough. You're almost left to your own accord.

DR. FORD: Well, I think we can take about three minutes for questions, after which I'm going to give all of the panellists an opportunity to wrap up.

MS. SINGER: Hi. I'm Ilana Singer from FAIR Canada and this question is directed to Bill and Martin.

Thank you for all the remarks on the panel. It's been really interesting.

With respect to the venture issuer initiative that we were discussing, I attended one of the consultations which was the one that was put on in Toronto, which was very helpful. I would say there were a number of vocal concerns that were expressed during that consultation, particularly with respect to proposals to eliminate for example, the quarterly financial statement requirement, the proposal to eliminate the requirement to file material contracts and also the proposal to consolidate or to change the compensation discussion analysis disclosure that's currently required. I have a two-part question. The first part of the question is --

and I had posed this question during the consultation -- a lot of what you've explained and a lot of what was discussed during the consultation was that from an investor perspective. Investors are not necessarily happy with the disclosure that they're getting and that there has been evidence that the disclosure has to change. And one of my questions was, "What is that based on? Has there been research?" For example, how would you specifically decide that eliminating the filing requirement for material contracts was the right decision, as opposed to another filing requirement? The answer that I got at that time was that there wasn't a specific study but this was more anecdotal evidence. And I guess I wondered if you have anymore light to shed on that?

[Secondly,] one of the points that was made during the consultation and you've made it today as well, which I agree with, is that it's quite confusing for venture issuers in many cases to go to a lot of different places to find all of the different requirements that are currently found in rules and instruments, et cetera. And I'd asked, “Rather than looking to a substantive change of the rules, had there ever been thought turned to taking all of the existing carveouts and exemptions, et cetera, and putting them into guidance or policy or whatnot?" Which is normally a much less resource and time-intensive way to do the rule-making or notice-making process. Thank you.

DR. FORD: I'll pass it back to the panellists to respond and if you would please, role in your final thoughts on the private capital market, then the public venture capital market while you're at it.

MR. EADY: The points raised by the last question, actually were all very valid. They were comments that we got in a number of the sectors. And so for example, why was the idea to eliminate the first and third quarterly report?

We heard from many market participants that they support the disclosure of first and third quarterly reports. So there's definitely a diversity of views. As I said, many support the overall principle of tailored venture regulation but when you get into the actual specifics and the nitty gritty, that's lots of diversity of views.

So as the project continues, we plan to continue with the proposals and further discussions.

My final thought about this is it really is so important to remind ourselves of just about how important the private capital market is in B.C. and Alberta and across Canada. And any way you slice it, whichever way you want to analyse it, it's in the billions of dollars. And we heard this morning about how almost all net job creation is caused by firms in their first 10 years of life. And I think that just reminds us then, how important it is that we, as securities regulators and then those of us in the wider general community, get this area of our economy right, that we don't mess it up. There is a large cohort of young people coming in who need employment opportunities and the private capital market is one of the best ways of providing that work for our future. It's very critical to our economy, going forward.

MR. RICE: Just to address Ilana’s questions. First on the guidance, certainly a lot of consideration was given to the use of guidance. We thought it was simpler if we set out the rule and explained the rule and requirements up front and not suggest that somebody now have to go to another document for guidance to figure out what to do. So those are alternatives but we're a little inclined to try and be as simple as possible.

In respect to research, certainly the message has been pretty clear. Documents were going into the wastepaper basket. We're not really learning what

we'd like to know. Research is very difficult to undertake. Where do you go? Who's going to give you the time and how broadly can you undertake this research? That was why we published a consultation paper so that we could put proposals out there. And what we did was sit and say, "What are we, as regulators, prepared to suggest as a better way to go about this?" And then let's hear from the issuers, the investors, the market generally, as to how they react. With that feedback, then we will have done our research.

For some concluding comments. I guess I'd make two pleas and one modest request. In the exempt market, as regulators, we could really do with some help in a specific way. To hear comments like, "Boy. There's some bad stuff going on out there," is not helpful for a regulator. "You know, you really should be looking at this type of disclosure." All that does is open up an enormous job for us. Where do we start? Where do we look? If somebody could come and say, "You know, so-and-so or such-and-such a company or this document really is off-base." Well, that gives us something to go on and we deal with that in a confidential manner. So both the discloser of the problem and the subject of the discussion are not made public and I think you should feel that we will deal with these issues in a discreet manner. But so often I hear, "Oh, yeah, I knew that guy was a bad apple for the last 15 years." Well, if you're looking after your own market, give us some help in that respect.

On the public venture side, a message maybe to the professionals, is, as a guiding principle, will you just tell it like it is? We try and set out guidance. We set out rules; we set out requirements. We tell you as much as we possibly can. But you know when it gets down to it, just tell us the story and just tell the investors what they would like to hear. For the most part, you're the best people to do that. So we'll try and work with that, as regulators. It doesn't fit into our

little compartments; it may not fit into our little boxes, but I'll undertake to you that we will work with that, if you just tell us the story. You tell us what's really important. And when I mean "us", I mean, we're the first ones to see it, but you're telling the investors.

And the last request or suggestion I'd make is Canadians, and certainly everybody in this room, should be doing a lot of bragging about the junior capital markets in Canada. Please do not be apologizing or accepting any suggestions that Canada has anything to make up. We're clearly well into the 21st century in this area and I think you should be very proud of it and make sure the rest of the world knows that.

DR. FORD: Andrew?

MR. RAE: I think, in the absence of traditional venture capital that we've seen, at least in my sector, in the States, both these exempt markets, as well as the public venture capital markets have been exceedingly important to our company. Our survival really was based on funding from those sources.

What I think you'll see, not only in our sector, and have seen, certainly in some of these other sectors, are some pretty brilliant companies that are emerging from that type of a genesis. And in some respects I think Canada has always sort of played a hybrid role, sort of straddling itself between Europe and the States. And perhaps this model in particular for the public venture capital, is very timely given what we're starting to see in terms of trend lines in the States, that this type of model might flourish in other places as a result of some of those structural issues that they're seeing, particularly south of the border. So I think many reasons to feel very optimistic about our public venture markets up here in Canada.

DR. FORD: Thank you. Hans?

MR. KNAPP: There was an earlier question just before the last break about maybe a shift taking place in the venture capital market in North America or certainly that component of the private capital markets. And my comment is, generally you're going to see a major change in the way that industry operates, the amount of capital that's available in it; the number of managers that are active in that industry. It's going to be trending down and will be for some time.

What that means is that there is going to be more pressure for capital to come from other sources, other stages. And I think really part of today's discussion, what's imperative is that people realize the importance of other capital sources and the role that they play in an environment where arguably one of the largest sources of private company capital supply is going to be decreasing and will be doing so for several years to come. So when you're doing this balancing act, of on the one hand investor protection disclosure and those legitimate objectives, you on the other hand need to make sure also that you're doing this in a manner that doesn't further exacerbate an already critical capital supply issue.

DR. FORD: Thank you. Darrin?

MR. HOPKINS: I still can't believe I have a soap box to talk about this. Canada is very fortunate in having an incredibly robust well-functioning public venture capital market. I think at times the disclosure has overshot the target and maybe even overshot a different target. And I think now it's become about exhaustive CYA. In some of the documents on oil and gas companies, it's disclosed that the price of oil might go down. So at some point I expect we'll see something that the sun may not come up.

I think we need to enhance the capital cycle in Canada. We know it works. It's just a matter of tweaking it now, enhancing it. Flaherty should be out there, focusing on how to encourage the creation of wealth and not discouraging

the creation of wealth in Canada. If we need to decrease the cost of capital of the junior public companies, even junior private companies, eliminate capital gains. Perhaps that will get the capital markets kick started in Canada.

Instead of saying Canada is an embarrassment, why doesn't he trot around successes like John Wright of PetroBank and Sam Kolias with Boardwalk, Dave Demers at Westport and Jim Crombie, Dave Fennell [of] Palmarejo, Samir Manji of Vancouver of Amica. Why not trot these guys out around the world and say, "Look at the success stories we have in Canada in our capital markets." Because there's much more mileage, there's much more benefit to Canadians and the junior companies in Canada if that's done.

The people at the TSX Venture, John and his group, at the Alberta and B.C. Securities Commissions, do a great job and I think that we can really boost the capital markets in Canada by just tweaking some of the things that need to be done and I don't want to put John on the spot, but how many people did PetroBank start with as employees?

MR. WRIGHT: Two or three.

MR. HOPKINS: And how many now?

MR. WRIGHT: Probably about 600.

MR. HOPKINS: And market cap when you started?

MR. WRIGHT: $35 million.

MR. HOPKINS: Now? With all the companies in?

MR. WRIGHT: Probably close to $8 billion, I guess.

MR. HOPKINS: That's what needs to be told the world, not "We've got a securities regulation issue."

So with that, I'll be quiet.

DR. FORD: John, you're on the spot again. The last word is yours.

MR. WRIGHT: I don't have a lot to add. First of all, and I will say to Bill's comment, I am proud of the Canadian capital markets and I brag about it on a global basis.

I think it's our job to make sure that there are no changes that come about to in anyway detract from our ability to efficiently and transparently put capital to work. And I think it's incumbent on us, talking to provincial ministers, federal ministers, and regulators, saying, "Look. We need to make sure that we remain the tiger in the world, certainly on the public venture capital side."

And the second thing, it's not an admonition or anything, but one of the things we always have to remember, is you can't regulate ethics. So whatever amount of regulation is put in place, it can never replace people's moral and ethical values. And there's always going to be bad guys out there and we have to have ways to catch them, but we're not going to catch them by making them sign another document.

DR. FORD: Please join me in thanking our panel for a very illuminating discussion.

MS. LEONG: Cristie, John, Darrin, Hans, Andrew, Bill, Martin, John McCoach, I think I got everybody. Thank you very much for an informative, engaging and sometimes provocative discussion.

We covered a lot of ground this morning but I think everybody here will agree that what came across, loud and clear, was that Canada has a unique venture capital market. It's something that we all have earned the bragging rights to. It's something that we can all be proud of.

Jock Finlayson had to leave, I believe, at the break, but I wanted to steal one of his slides, because I thought it was a fitting closure to our conference. He said it very well. He said, "A very small proportion of companies are responsible for the bulk of job creation in our country."

A key challenge for Canadian policy makers and also for financial and

capital market regulations is to facilitate the financing of potential high-growth SMEs, given the disproportionate economic benefits that these firms deliver. This leads to issues involving access to capital, including equity capital, as well as tax policy, the regulatory environment and how best to nurture and reward entrepreneurship.

Canada is recognized globally for having the best public market in the world for small companies to raise capital. It is essential that we preserve and build on this national advantage.

Thank you for your time and your interest in Capital Ideas.

PROCEEDINGS CONCLUDED