



Tech Futures:
May 2, 2003

By [Michael Volker](#)

Prescription for a Junior Capital Market, Recent Financings, Capital Pool Corps Update and VEF Events

Prescription for a Junior Capital Market (Rx=CNQ+BC Model)

How do you create a vibrant junior capital market in Canada? Easy. Combine two great ideas from the West and the East. The one from the West comes from a very established institution, the **B.C. Securities Commission** which recently unveiled its prescription for securities regulation in Canada. The "B.C. Model", as the Commission refers to it, calls for a principles-based regulatory environment as opposed to a fat rule-book approach such as that being adopted in the U.S. under the **Sarbanes-Oxley** legislation introduced last year. The Americans haven't yet learned - as we have here in B.C. - that rules do not make shady operators reputable. We discovered that when we beefed up the rules in B.C. to shed Vancouver's image of "scam capital of the world". It worked - it kept the flakes away, but it also kept the good deals away, too, because of the excessive costs and red tape.

One school of thought is that Canadian companies should follow the U.S. rules especially if we want to get U.S. investors and ultimately trade in the U.S. While this may work for larger companies, it makes little sense for the juniors that will only be burdened with a disproportionate compliance expenditure.

The B.C. Model's recipe is simple. It's key features are a code of conduct, the use of plain language, firm-only registration, and a requirement to register in only one province (to get Canada-wide access). Industry has been broadly consulted on this and the BCSC has the support of many securities organizations such as the **Investment Dealers Association**. (see www.bcsc.bc.ca/bcproposals for details.)

The other idea, the Eastern one, comes from a private Toronto group (some angels and others). This group is planning to start a new junior stock exchange in Canada, called the **Canadian Trading and Quotation System** or **CNQ**. It has the ring of a Canadian junior Nasdaq. The CNQ has already received the blessing of the **Ontario Securities Commission** and expects to start trading in about 50 companies by mid-year.

Officials from the CNQ, which is the brain-child of **Ian Bandeen**, were in town in April to drum up business for the new exchange. The room was packed. Obviously there's a great interest in this.

According to the CNQ, it has "combined leading edge technology, a unique marketplace construct and comprehensive regulatory oversight to create an efficient new marketplace which facilitates integrity, transparency and liquidity. CNQ has been designed specifically to meet the needs and characteristics of emerging companies, their investors and dealers." This is possible, in large part, thanks to the internet.

This sounds nice, but what the CNQ is saying - and what I really like about it - is that a stock exchange should not impose an additional layer of rules that companies must adhere to. A market, such as the CNQ, should operate primarily as an efficient stock exchange and not pass

judgment as to the investment quality of any company. That's up to investors and it's up to company boards to make sure that investors are fully informed on company matters. In this regard, the prototype company datasheet (which will be on the CNQ web site for each listed company) is impressive and should serve this purpose. The CNQ is emphasizing the full disclosure of corporate information as distinct from trying to assess its merits. Unlike the TSX-V and its predecessors, the CNQ will leave the deal-making to companies and will leave it up to a company's directors to protect shareholders' interests (they way it should be).

A junior stock market can give companies a choice. It provides a mechanism whereby a relatively large number of investors can pool their capital and share in the risk and enjoy potentially high returns. After all, this is how our resource sector's development was fostered by the **Vancouver Stock Exchange**. The VSE often got into trouble because it was trying to act like a VC by vetting deals that often backfired. The VSE morphed into the **CDNX** that was then acquired by the **TSX** as its venture exchange, called the **TSX-V**.

To a certain extent, having another financing path also gives encouragement to first-in investors who know that these companies aren't at the sole mercy of VCs. Furthermore, they also know that the junior market may offer them an exit opportunity.

The TSX-V presently enjoys a monopoly. Companies listed on the TSX-V are burdened with excessive regulations that are inappropriate for their size. Unfortunately, it's become a costly and bureaucratic financing option.

Because of this country's disparate provincially based system of securities regulation, companies that wish to trade on the CNQ must become reporting issuers in Ontario suggesting that non-Ontario companies need to comply with certain Ontario regulations.

The best news for prospective technology companies is the bottom-line impact. The cost of listing on the CNQ is only \$300 per month plus a \$10K initiation fee. There are no filing or processing fees. The CNQ imposes no additional layer of policies or rules. Company oversight becomes the responsibility – and liability – of its Board of Directors.

Under these circumstances even those companies that can attract traditional VC financing may elect the pubco option as an alternative financing strategy. Each has its pluses and minuses but it's nice to have a choice. A little competition is good.

Regulators often forget that high tech is synonymous with high risk. Venture Capitalists as a rule try to avoid risk (is this an oxymoron?), especially with respect to early stage ventures with no proven management, customers, or technology. Yet, we all know that some of these will pay off. This is a fact - it's a numbers game. Almost all tech companies of any substance today were regarded as pariahs by VCs. That's why the *only* option for some of these is the public company vehicle. Get 1000 investors to jump on the bus, betting \$5K each (using their RRSPs or VCCs), and presto, you've got a tidy \$5 million. It's just too bad that there aren't many brokers that know how to get this job done (they understand mining, but they still don't get high tech - they too, think of it as a surer thing than resource exploration).

It'll be interesting to follow a competitive development south of the border. In the U.S. market, and arguably global market, the **Nasdaq Stock Exchange** has always been regarded by technology entrepreneurs and investors as the holy grail of all markets - notwithstanding the current slump. To be listed on Nasdaq, companies must meet certain standards - e.g. minimum share price (\$1.00 on an on-going basis), minimum capitalization and other substantial criteria. Smaller companies that choose to be public issuers have a choice of two markets in the U.S. (they could, of course, also list on the TSX-V and the new CNQ). These are the OTCBB (Over-the-Counter Bulletin Board) and the PK ("Pink Sheets"). These, like the proposed CNQ, have minimal listing criteria, but unlike the CNQ they've done a lousy job of helping investors get timely disclosures and access to corporate data. The OTCBB is generally regarded as a place where low-class companies trade and the PK is viewed as the leper colony of public companies.

Because of the technology market downturn, many companies (literally hundreds) have been forced off the Nasdaq because they have ceased to meet the continuing listing standards, e.g. many stocks have dropped below \$1.00 in trading price. Nasdaq has been talking about creating a new beefed-up OTCBB which has been referred to as the **BBX**. The BBX would ultimately replace the OTCBB. To list on the BBX, a company would need to meet certain standards (higher than the current OTCBB but much less than for Nasdaq). Eventually the OTCBB will be phased out and those that don't make it to the BBX will become the PK pariahs. This is exactly the strategy that the TSX (Toronto Stock Exchange) followed - i.e. have a nice place like the TSX-V (economy class) to bump those who can't make it to first class (TSX).

The BBX was supposed to be up and running by now. But it isn't. The current target is to get it operational sometime this year. One of the snags, among many (I'm not sure how accurate this is because I heard it through the grapevine from a New York based corporate lawyer), relates to the name, BBX. Apparently a beef (meat products) company in the Midwest has a claim to the BBX brand and is resisting the Nasdaq's attempt to use this moniker. I was thinking - wouldn't it be amusing if the BBX changed itself to the "BBQ" - the "Q" sounding more like Nasdaq (and CNQ, too!). That would amuse the beef marketers and I'm sure it's a name people would remember. I can just hear the naysayers now: "Come to the BBQ market to get roasted!"

Some Recent Financings

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

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

Neuro Discovery (TSX-V: NDI) announced a \$30-million fund. **James Miller**, co-founder of **QLT Inc.** (TSX: QLT) and **Inex Pharmaceuticals** (TSX: IEX) has launched a new VC fund called the **Neuro Discovery Limited Partnership** managed by Neuro Discovery Inc. So far the fund has raised \$20 million from its limited partners and \$1.5 million from NDI itself. Another \$8.5 million is anticipated for later this year. The fund, which will invest in Biotech companies across North America will focus on those with neuroscience technologies.

Growthworks, B.C.'s prominent venture capital fund (one of which is the well-known Working Opportunity Fund) managers with \$700 million in assets under management, raised \$68 million from retail investors this RSP season for its managed funds, representing the second largest capital raising effort on the national stage for labour-sponsored funds.

VIATEC, the Vancouver Island Advanced Technology Centre announced that the **BC Government** is providing it with \$150,000 to develop and administer a program that assists early-stage technology companies to obtain necessary capital.

i3Dimensions (Private) announced a \$690,000, three-year Department of National Defence (DND) contract to provide interactive 3D training applications to the Canadian Forces School of Military Engineering (CFSME). Under the agreement, i3Dimensions will use its NGRAIN™ technology and tools to develop a broad range of advanced interactive 3D training simulations designed to increase soldier preparedness and safety, while reducing training and equipment costs.

Stressgen Biotechnologies (TSX: SSB) and its wholly-owned subsidiary, Stressgen

Development Corp., announced the receipt of two milestones from Roche: an equity investment of approximately US\$3,000,000 and a development milestone payment of approximately US\$1,500,000.

Response Biomedical (TSX-V:RBM) has closed \$750,000 of the private placement being undertaken by the company as announced in Stockwatch April 9, 2003.

Imagis Technologies (TSX-V:NAB) announced the existing shareholder that has agreed to provide bridge financing by way of a line of credit facility for up to \$500,000 is Mr **Altaf Nazer**, a former director of Imagis.

Layer 7 Technologies (Private) announced it closed \$3MUSD in seed financing from two of Canada's leading technology investors, Working Opportunity Fund (WOF) Ltd.

Gemcom Software (TSX:GCM) announced the completion of a \$300,000 convertible loan financing with the Working Opportunity Fund Ltd. The financing consists of a \$300,000 term loan repayable on September 30, 2004.

Cardiome Pharma (TSX:COM) has completed its previously announced private placement, resulting in gross proceeds to the company of \$8 million.

Stockgroup Information Systems (TSX-V:SWB) a financial media and technology company, reports that they have retained First Associates Investments Inc. as investment banker and have signed a term sheet for the underwriting of a C\$2.0MM best efforts offering.

Vigil Health Solutions (TSX-V:VGL) successfully completed its Public Offering of \$2 million on April 8, 2003, completing its Qualifying Transaction and acquiring Vigil Health Management Incorporated. (note: This is a "CPC" deal - see article following on CPCs.)

Photochannel (TSX-V:PNI) announced that the TSX Venture Exchange has accepted for filing documentation with respect to a private placement of the PhotoChannel Networks LP in the amount of \$115,000.

Burcon Nutrascience (TSX-V:BU) intends to issue, on a private placement basis, up to 500,000 units at \$1.50 per unit for gross proceeds of \$750,000. (note - this was also originally a CPC deal)

Norsat International Inc. (TSX:NII) announced it has completed a financing agreement worth US\$2 million.

Strategic Technologies Inc. (TSX-V:STI) announced that the Company has completed a previously announced Private Placement raising \$650,000.

AVCORP Industries (TSX-V:AVP) announced that it has arranged additional short-term financing with a Canadian chartered bank.

Serebra Learning (TSX-V:SBR) has completed a private placement of 2.75 million units.

Carmanah Technologies (TSX-V:CMH) has announced that it has closed the private placement of 2,000,000 common shares of the Corporation at a price of \$0.74 per share, for gross proceeds of \$1,480,000.

ZIMTU Technologies (Private) has arranged a private placement of up to 900,000 units at a price of 23 cents per unit for gross proceeds of \$207,000.

Capital Pool Corporation (CPC) Comments and Update

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

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

Although I was a big fan of these CPCs and very hopeful for their use in developing tech companies, I (and others in the industry) and beginning to think that they've run their course.

One brokerage industry expert notes that "they still work for some companies, notably resource companies and select tech or industrial companies for whom alternative sources of financing are not viable (either not available or valuation terms not acceptable). They still work for groups who have a deal in place already (i.e. Qualifying Transaction identified previously or non-arm's length) - if the measure of CPC success is getting a deal done quickly after the CPDPO, then this model is ideal. I think the slowdown in new CPCs is indicative of how the street feels about them. They are still being done, but the whole process of finding an arm's length deal and then facing the tough process at the TSX Venture Exchange is grueling. However, the Exchange has certainly made things a lot better with the January policy changes. Time will tell whether these changes will help revive the market."

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

VEF Events

This month's [Vancouver Enterprise Forum](#) event, to be held on May 27th, will be titled, "Founder/CEO War Stories" featuring **Alexander Fernandes** of **QImaging** and **Steve Munford** of **ActiveState**. Both of these companies were sponsored by local angel investors less than four years ago and both have become successful tech ventures, notably QImaging which was sold not long ago to a US corporation for US\$12 million. I'm sure that both will have some valuable insights to share with budding entrepreneurs.

In addition to its traditional monthly events (held on the fourth Tuesday of each month), the VEF is now also involved - in partnership with other organizations - in sponsoring additional seminars. A good example of this is one that's coming up on May 14th - is on **New Financing Sources for Technology Entrepreneurs**" ([see details](#)). Finding equity financing has always been one of the biggest challenges for technology entrepreneurs, whether it's early stage financing or mezzanine investment to fund continued corporate growth. In light of recent reductions in provincial sources of financing, the hunt for new sources of money has become critical to the future growth of the technology industry in British Columbia. This seminar will provide some guidance as to who's doing what in this area.

First Forward's fourth Venture Capital Matchmaking event which will be held in Vancouver B.C. on 8-10 June 2003. First Forward Matchmaking attracts IT and Biotech Venture Capital investors from throughout North America. **Voyager Capital**, **OVP** and **Comerica** are amongst the top U.S. Venture Capital firms attending this year. First Forward Matchmaking is a major, three full day event featuring a "boot camp" for companies, a golf tournament and networking event exclusively for investors and a whole day function where pre-selected, top quality companies meet professional Venture Capital investment companies face-to-face for pre-arranged meetings. See www.FirstForward.org for more information.

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

Footnotes

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

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

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

[What Do You Think? Talk Back To Mike Volker](#)

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

[Printable Edition](#)

Contact: risktaker@volker.org

[Tech Futures Archive](#)

[B.C. High Tech Links](#)