



Tech Futures:
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By [Michael Volker](#)

Financings are Alive, Capital Pool Corps Update and Local Happenings

Contrary to comments I'm hearing, deals are still being done. The so-called market correction has only returned us to what, until last year at this time, was a typical process of raising capital - i.e. a long, demanding exercise of courting investors and gaining their confidence. Indeed, financing activities are still alive.

Although junior company financing activity on the **Canadian Venture Exchange** (CDNX) declined 30 per cent over the same period last year, equity financings in the first quarter totaled \$424 million as compared to \$606 million in the same period last year.

Technology companies accounted for 36 per cent of these financings. Capital pool companies represented only three per cent of capital raised (this is only the startup "seed" capital which they raise - not the follow on financings).

So far this year, CDNX financings reflect a move away from technology and towards increased interest in oil and gas. Of the \$2.37 billion in equity financings for all of 2000, 11 per cent went to oil and gas, 50 per cent went to technology and 16 per cent went to mining.

Interestingly, new listings showed a 134 per cent increase so far this year. There were 75 new listings in the quarter, 14 of which are former Canadian Dealing Network (CDN) companies that were invited last fall to list on CDNX as tier 3 listings. There were 32 new listings for the same period last year.

The CDNX continues to feed its maturing ventures to the senior markets as evidenced by 11 companies which graduated to the TSE during the first quarter. These CDNX graduates accounted for 34 per cent of the TSE's new listings during the quarter and 38 per cent overall in 2000.

With respect to more senior financings on the **Toronto Stock Exchange** (TSE), this week's announcement by Vancouver's **Westport Innovations** (TSE:WPT) is a good example of a larger Canadian financing.

A syndicate led by investment dealer **Raymond James** (formerly **Goepel McDermid** in Vancouver) agreed to purchase (in a "bought deal") 1.5 million common shares of Westport from the company at a price of \$10.25 per share, for gross proceeds of \$15,375,000. The syndicate had the option to purchase up to an additional one million common shares. Demand for the offering was sufficiently strong to cause the syndicate to already exercise its option, thereby increasing the offering to \$25,625,000. The offering is scheduled to close on or about May 15, 2001. At March 31, 2001, Westport had 40,368,753 shares outstanding. Net proceeds of the offering will be used for research and development expenditures, and for general corporate purposes.

On its news release file, **Canada Stockwatch** shows that Westport had 35,634,560 shares issued as compared to the company's report of 40,368,753. Why do I mention this? Because it points out one of the difficulties in tracking the worth of tech stocks - as we do in the T-Net20 index. Due to on-going financings and the exercise of employee options and investor warrants, dilution continues as market caps rise. Based on Westport's number, the company was worth \$413.8 million on Apr 30th at the financing (i.e. market) price of \$10.25 per share. After the 2.5 million share dilution and taking into account the \$25.6 million raised, the company's valuation is \$439.4 million. However, based on the positive market reaction to these events, the stock is currently trading in the \$11.25 range (a nice little increase for the \$10.25 investors) giving it a value of \$482.2. So, a \$25 million investment has added over \$68 million in value in less than a week! Cool.

Westport makes for an interesting case study. The company is based on an enabling technology from the University of B.C. that allows diesel engines to use gaseous fuels such as natural gas. Natural gas burns cleaner and typically costs less than diesel fuel in most parts of the world. I've heard that it is even becoming economical to haul natural gas from Australia to California by ocean freighter. Westport technologies promise to retain the high performance and fuel efficiency of the diesel engine while significantly reducing pollutants. Environmental legislation in jurisdictions such as California will drive the demand for vehicles using this technology.

Westport started life as a Junior Capital Pool company (now called Capital Pool Corporations on the CDNX - see below) on the **Alberta Stock Exchange** selling shares to local investors for pennies. It's one of the best examples I know of which demonstrates how a junior exchange such as the CDNX can give a company the access to capital that it needs to grow and become successful. Although most companies are not going to perform like Westport, the CDNX can at least give them a shot at success and for investors a winner like Westport - even if its one in ten or one in a hundred - it's still worth taking the risk.

So, evidently financings are not dead. Deals continue to be done. I suspect that if our regulatory system were overhauled, we'd see even more. I personally know of many junior financings which fail simply due to the expense and delays caused by archaic rules and procedures. And a better *investment stimulus* tax break like an upfront write-off scheme which I've espoused before (versus an *investment reward* like a cap gains exemption) would help, too.

In my last column I wrote about what it'll take to make the CDNX work for its listed companies. I complained about the red tape brought about by our system of inconsistent Provincial securities regulations and the challenges faced by stock exchanges such as the CDNX in somehow unifying its policies so as to be compatible with Provincial laws.

Just after writing this, I was subjected to just the type of nonsense that I was bemoaning. Maybe I should've kept quiet. I received a letter from the Commission des valeurs mobilières du Québec (i.e. Quebec Securities Commission) advising me that I would now have to start filing an insider trading report in Québec. This is because a B.C. company of which I am a director, has become a "reporting issuer" in Québec (this means that the company has to file its reports in Québec in order to be able to attract investors from Québec).

To help me do this, I received the requisite form, in French, which I have to complete and send to Québec. Interestingly the form looks identical to that which is filed in B.C. I'm not sure if they'll let me use the B.C. form (in English) and just send a copy to Québec. I remember doing this for a company which was a reporting issuer in B.C. and Alberta - requiring me to file the same report with both agencies.

In Canada, we have SEDAR - the System for Electronic Document Analysis and Retrieval (see it at www.sedar.com). It's *the repository* for public corporation information. So why not just use this for purposes of making a single filing in Canada instead of having to file certain reports with each applicable commission. Am I missing something?

Apparently, I'm allowed to submit these forms by fax. I'm not sure what a "fax" is. I think lawyers still use this technology. Why not just submit them via a web-browser managed by Sedar for all securities commissions?

On a side note, the **B.C. Securities Commission** should be commended for taking the lead in providing investors with disclosure information. For example, it is much easier to get insider trading information on directors of B.C. companies than it is to get such information on directors of TSE companies in Ontario. Similarly, the CDNX provides a lot more information on its listed companies than you'll find for TSE companies. Hopefully, upon taking over the CDNX, the TSE will apply some of the CDNX's practices to its operations.

Here's a little feedback from a reader who responded to my CDNX article in the [previous column](#).

He wrote: "I liked your latest article on CDNX. You are absolutely right when you say the client has been forgotten in the TSE/CDNX process and securities policy formulation in general. The Bill Hess approach has also left members out in the cold otherwise the Corporate Finance rules would not be the flaming pile of crap they are. (Amen!) I guess he figures with such an ineffective board he can do what he wants anyways. I understand the BCSC has some significant reservations about the merger but whether or not they could block it even if they wanted to is unclear. The costs of complying with CDNX policies is staggering for an issuer."

He went on to say that policies are being written by Exchange employees who have never raised a penny for a junior company and that perhaps the CDNX board should apply the same rules to itself that it imposes on company boards. How true! I used to sit on the policy committee as a volunteer trying to get in a word here and there on behalf of that often forgotten entity - the listed company (i.e. the customer). That committee faded into the woodwork and the Exchange seems to have stopped using it - neglecting to inform its participants. Hence, I was a little surprised to see, in a press release this week confirming the takeover by the TSE, the formation of a new board as well as a new policy committee. Let's hope it works a little better. Maybe with some folks like **Harry Jaako** (local high tech investor and supporter) on the new TSE board, there's still hope! Readers of Harry's comments in **Business in Vancouver** will know what I mean.

Capital Pool Corporation (CPC) Update

In this column, I keep track of **Capital Pool Corporation** ("CPC") companies (see chart below) as defined by the 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. CPCs are the continuation of the former VCP and JCP programs on the Vancouver (VSE) and Alberta Stock Exchanges.

Some observers believe that the CPC program may be a victim of the TSE takeover and will be disbanded. I personally believe that unless some sweeping changes are made in the administration of this program, they won't survive regardless of what the CDNX's new owners think about the concept.

Since the program was launched on the VSE, more than 250 CPCs have been formed and more than 30 have completed their so-called Qualifying Transactions (QT). It takes at least a year - usually longer - for a CPC to find a suitable takeover candidate and another six months to a year for a deal to be finalized. See my earlier remarks on red-tape!

New additions to the list over the past month are **Benem Ventures Inc.**, **CastleRock Capital Inc.**, **EREZ Inc.**, **Mondex Ventures Inc.**, and **Wyatt Capital Corp.**

CastleRock and EREZ are from Alberta and Benem, Mondex, and Wyatt are from BC.

Since the previous update, the following companies have come to trade: **Essendon Solutions Inc.**, **Jessian Capital Corp.**, **Lattice Capital Corporation**, **Old Sun Resources Ltd.**, **Revolve Capital Corp.**, **Trioptimum Capital Corp.**, **Wireless Capital Corp.**, and **Zena Capital Corp.**

Baden Technologies Inc. has been removed from the list because it has completed its QT.

Check our [Capital Pool Corporation chart](#) (in .pdf format) for a complete list of the CDNX's CPC and VCP companies, thanks to **David Ing** of **Pacific International Securities**

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

Local Happenings

The next **Vancouver Enterprise Forum** event will be held on Tuesday, May 22nd. It's banner is: *CEO War Stories, The Good, The Bad and The Ugly*. This event will take attendees inside the boardroom as local CEOs tell their war stories - the good, the bad and the ugly. You'll hear CEO stories on turmoil, turnarounds and triumphs from three veterans of the B.C. high-tech community. These include **Shawn Chute**, President, CEO & Director of **Voyus Inc.** (CDNX: VCS.U,U\$0.29), **Iain Black**, President & CEO of **Electric Mail** (CDNX: ELE,\$0.44), and **Robert Craig**, former President & CEO of **Stratford Internet**. They'll provide valuable insight and anecdotes on how they've addressed some of their greatest challenges and turned potential failure into success. Each CEO has been in a position where a single decision would have significant consequences to the future of their company and, indeed, their personal careers. The CEOs will discuss the events that brought them to the brink of disaster, and the actions they implemented to bring them back onto the playing field. The organizer of this event is **Glen Scobie** of the **BC Ministry of Employment & Investment**

Got a hot idea? Check out **New Ventures BC**. The New Ventures BC Competition is an annual event open to all BC residents, with prizes totaling \$125,000 - which is believed to be the largest of its kind in North America. Individuals with a new business idea can attend seminars and networking information sessions that will give them the chance to turn their idea into a successful startup. A number of these are scheduled to take place during the month of May. Check www.newventuresbc.com for details.

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? Why hang out at MacDonald's when you can work productively at the TIME Centre? Drop

by and check it out! It is located at SFU's downtown Harbour Centre campus at 515 West Hastings St. More information can be found at www.sfu.ca/time. PS - there are some great facilities for holding your company's AGM.

For a convenient printable, pdf version of this column, [click here](#).

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

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