National Angel Organization

Angel Investment in Canada: A regional and national perspective

March 31, 2003

For Industry Canada
ICT Branch

By Steven Ilkay, on behalf of the National Angel Organization

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Executive Summary

Overall, many angels investors across the country are dissatisfied with the current climate for angel investing in Canada. Many have dramatically curtailed their activities or plan to. The reason angel investors cite most often is an overwhelming sentiment that they are not provided appropriate incentives, when measured against the risk required.
There are common threads nationally in some areas of discontent:

- The funding gap experienced by both startups and their investors;
- Relations with the venture capital community;
- The dearth of institutional seed and early stage funds;
- Problems experienced by junior public companies in Canada;
- The lengthy going public process;
- A perceived lack of federal tax support for investment in emerging advanced technology companies; and
- Punitive personal and corporate tax rates.

However, equally significant are the unique regional challenges and success stories articulated by angel investors.

Some of the challenges faced by angel investors can no doubt be attributed to the market downturn, which began in the spring of 2000. Most angels interviewed for this study identified the poor health of the capital markets as a source of strain on their angel investment portfolio. They require some sort of return, or liquidity, on their private company investments to continue re-investing in early-stage, highly illiquid investments. Since the market has taken a downturn and investors of all stages of the financing spectrum have lost appetite for higher risk early-stage ventures, angel investors are faced with holding private investments for an indefinite period. Many angels report a belief that venture capitalists in Canada, including Labor Sponsored Investment Funds (LSIF's), originally designed to invest in the earliest stages of venture capital on a tax-advantaged basis, have all but abandoned the early-stage market. These challenges are often coupled with increasing "cash calls" to angels, as their investments require additional capital investment to stay afloat, or "pay to play" clauses invoked by venture capitalists. It should be noted that cash calls and pay to play clauses are more prevalent for technology investors, versus energy exploration companies or traditional small businesses that were likely never suitable candidates for either institutional venture capital or publicly traded capital markets.

On the positive side, angel investors in some regions of the country, such as the Vancouver area, report a high degree of comfort and success. Fundamentally, angels attributed their activity to a strong entrepreneurial and technology industry climate, vibrant angel investor networks, collaboration amongst stakeholders in the business community, community support for university-based spinouts, and provincial and federal tax incentives that have created an improved appropriate risk/reward equilibrium in their view.

Introduction

This study was commissioned by the Information and Communication Branch (ICT Branch) of Industry Canada in late 2002.Therefore, particular attention is paid to strategies that may encourage investment in Canada's ICT sector.

The intent of the study was to generate a strong understanding of the angel investing market, its current challenges, and to document suggestions from angel investors as to how to generate more participation, with greater returns.

To generate valid results, a large and diverse enough pool of angel investors, across multiple geographies and sector preferences, with varying financial ability and skill sets, had to be included. With input gathered from 167 angels in Canada using three different methodologies, these objectives have been met.

The absence of definitive market data on the angel investing market is a limitation of this study. The angels included may not be representative of a typical or average angel investor. It is important to note that the angel investing market, particularly in Canada, is still relatively underground. Few market participants self promote the fact that they are angel investors. There are no known scientific measures quantifying either the number of participants in the angel investor market, or the total annual capital they invest, although Industry Canada's Financing Data Initiative will obtain better data in these areas.

Two further caveats need to be applied to such data: There are provincial discrepancies as to the definition of an Accredited Investor, which can act as a self-selection mechanism for one to determine if they meet the financial requirements of an angel investor, and not all Accredited Investors are angel investors. In light of this reality, by no means has this study been exhaustive. The sample of participants in the survey, interviews, and roundtable discussions was limited to only about 1000 known angel investors in the researcher's investor database, as well as another group of angels accessed through the National Angel Organization (NAO), partner databases, industry associations, venture groups and regional angel networks.

Methodology

The study was conducted nationwide over a 12-week period in early 2003. Three methodologies rapidly captured both qualitative and qualitative input from large urban "Tier 1 tech clusters" and smaller "Tier 2 tech clusters". Although the study is focused on the angel investor market, key stakeholders from several related communities were also consulted. Input was received from information and communication technologies (ICT) associations, venture capitalists, pension funds, investment banks, research institutions, regional economic development agencies, and from relevant provincial and federal government agencies. These groups were also quite helpful in providing introductions to a critical mass of angel investors across multiple geographies in Canada. Further informal discussions were also held with a number of US angel investors and venture capitalists that are active in the Canadian marketplace.

Angel Investor Roundtables

Six Angel investor roundtable discussions including 38 angel investors were conducted in Vancouver, Calgary, Ottawa and Toronto, representing most of the Tier 1 tech cluster cities in Canada. At the time of publishing, an angel investor roundtable discussion is being organized for Montreal, for April 7, 2003. The results will be included for comparisons in the presentation of this report.

Tier 2 tech cluster cities proved much more difficult to access in a short timeframe, and on a cost-effective basis. Only Winnipeg was included for an angel roundtable discussion. However, one on one interviews were conducted in several Tier 2 cities across Canada, including Kelowna, Edmonton, Saskatoon, London, Peterborough, Halifax, and Moncton. Interviews were also conducted with angels in Tier 2 tech cluster cities of Montreal and Kitchener/Waterloo.

One on One Interviews

Telephone and in-person interviews were conducted with 37 angel investors from across the country. These participants indicated they preferred a discussion to participating in a roundtable, due to a combination of reasons including time constraints and not wanting to be identified or singled out for their views. Mostly, those who agreed to an interview, contributed their time and input to the study because angel investing is a topic that they hold dear and have given a lot of thought to. Some participated simply based on a personal relationship with the researcher. Interviews provided candid discussion around the study's objectives and drew suggestions from the participants. In some instances, these interviews went on for over an hour at the requests of the subjects, who wished to communicate the challenges they experienced and offer suggestions to improve the overall prospects for angel investing in Canada.

Survey

A detailed survey was developed, with primarily closed questions and two open-ended questions. The survey was sent out via email to 908 known and probable angel investors, over a two-week period in March 2003. In total, 92 angels responded to the survey, resulting in a 10.3% response rate. A sample copy of the survey is included as Appendix A.

Survey respondents were assured confidentiality, and results are reported in aggregate only. The primary objectives of the survey were to capture detailed profile information, decision-making criteria, and demographic data from angel investors across Canada.

The profile information focused on:

- Typical involvement in the company in addition to investment
- Experience as an angel investor, measured in years
- Geographic distribution,
- Level of lifetime activity, in terms of number of angel investments made, and amount contributed

Equally important was data captured on expected rates of return on their current angel investment portfolio and level of estimated activity, measured by number of investments, total projected capital invested, and broken down by sector.

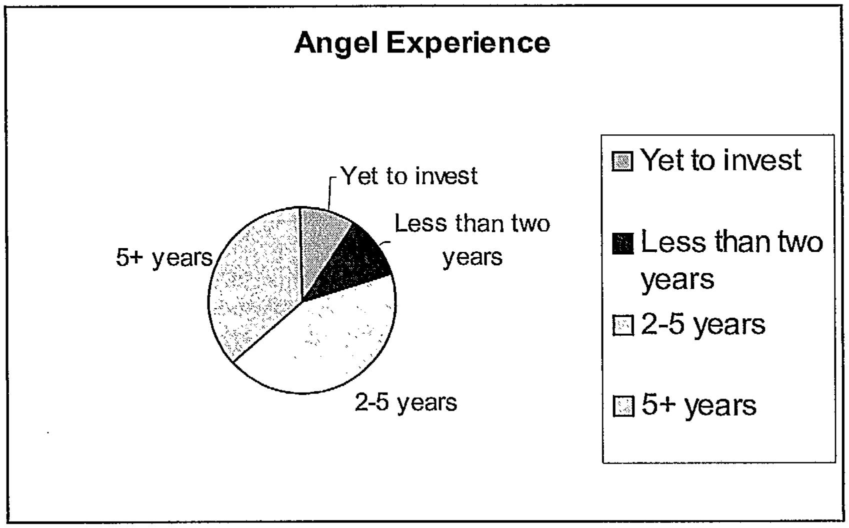

Figure 1.1 Angel Experience

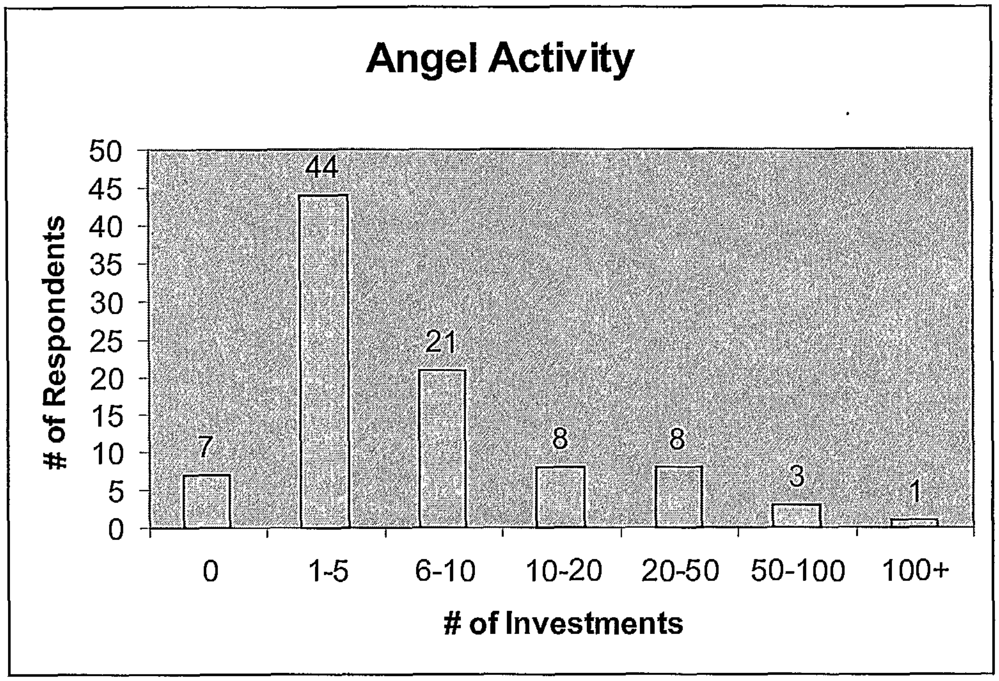

Figure 1.2 Angel Activities

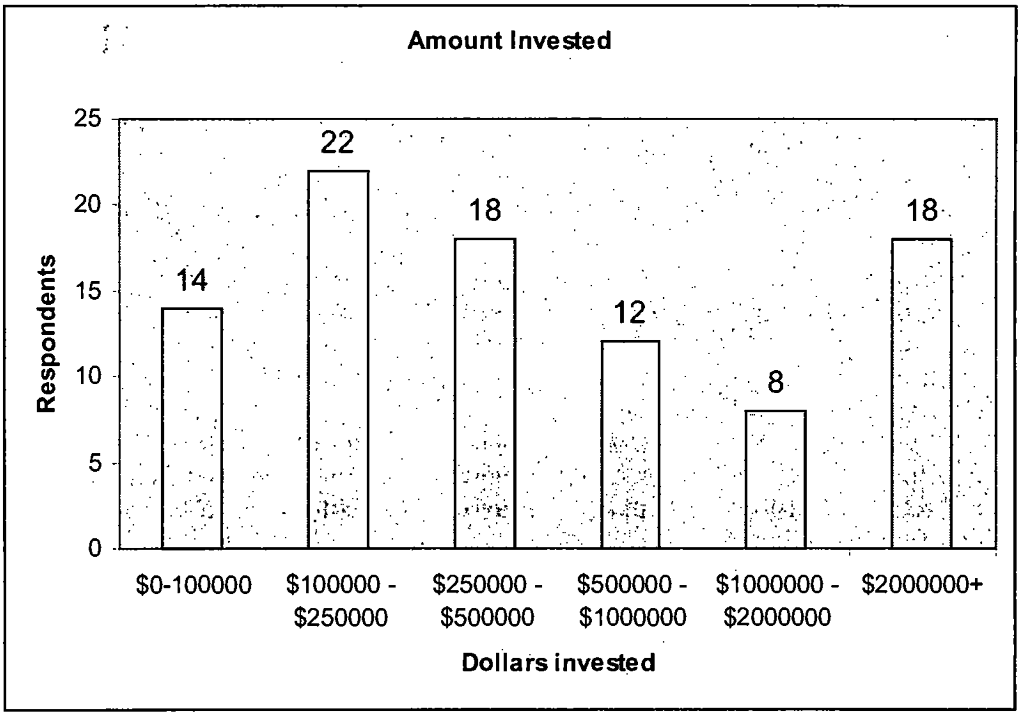

Figure 1.3 Angel Investments By Dollars Invested

Results: Regional Learnings and Disparities

A number of angel investors contacted for this study cited their commitment to supporting local innovation through investment. A prevailing belief amongst many is that local wealth is built through investing in ourselves - our own assets, our own entrepreneurs, our own ideas.

Several communities across Canada, empowered through angel investment activity and community development, live by this belief. Several of the cities included in the study demonstrated clear evidence of such support, and belief in local development.

Vancouver – Small Steps Towards Success

In Vancouver, there is a very developed angel investor community across multiple sectors that go back several decades. Partly this comes from the days of a small group of angels seeding the efforts of small mineral prospectors. In areas of advanced technology, a number of companies have been created, with the support of local angels.

These include:

- QLT Inc, a global biopharmaceutical company dedicated to the discovery, development and commercialization of innovative therapies to treat cancer, eye diseases, and immune disorders,
- Ballard Power Systems, a world leader in developing, manufacturing, and marketing zero-emissions proton exchange membrane fuel cells; and
- Crystal Decisions, a Business Intelligence software company.

All have benefited from local community support, and gone on to become global players in their respective markets.

Angel investors in Vancouver are quite active in supporting local innovation, particularly in biotechnology and ICT. This is due in part to three factors - an established angel community that is easily identifiable; a concentration of high net worth individuals, and the Venture Capital Corporation (VCC) structure investment structure, which effectively allows angels to invest on a similar tax basis as Labor Sponsored Funds. An angel roundtable was hosted in partnership with the British Columbia Technology Industry Association (BCTIA), Vancouver Enterprise Forum (VEF), Catalyst Law and KPMG.

Active angel investment in Vancouver can be attributed to a strong entrepreneurial climate, provincial tax incentives, a diversified industry base of traditional industries and advanced technology, an unparalleled standard of living, a long history of angels supporting startup companies, and several startup success stories. British Columbia also benefits from having angels active in investing in University spinout companies. Simon Fraser University, although a small school in the late 90's was ranked as the top school in North America for technology transfer in 1998.

There are also efforts underway to streamline the securities regulation process, known as The Deregulation Project[1], through the British Columbia Securities Commission.

Calgary – The Need for Sector Diversification

Calgary residents benefit from living in the province with by far the greatest GDP per capita in Canada, [2]and a favorable tax climate

Angel investors who participated in this study's survey, interviews and the roundtable hosted at Calgary Technologies Inc., an ICT and Life Sciences Cluster, reported that there was still early-stage capital available for emerging ventures.

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[1]Deregulation Project - http://www.bcsc.bc.ca/Policy/dereg_team.asp
[2] $47,506 in the year 2000 (Stats Canada, Alberta Economic Development)

Eight angel investors with investments across multiple sectors, including energy, exploration, manufacturing, ICT, financial services, and biotechnology attended the session.

The challenge for angels active in the Calgary ICT sector has remained, however, convincing other local angels to diversify their portfolios of angel investments, away from an overweight in the resource/energy sector, into ICT and biotechnology. Ultimately, a portfolio management approach to angel investment, may well prove to be a sustainable model for long-term success for a greater number of angels over an extended period of time. This has not been an easy argument to make, as investors in the resource sector are granted much more favorable tax incentives through flow through share structures. In addition, many angels from the resource sector have noted that the sector has served them well, and are inclined to stick to what is working.

For a market as large as Calgary, it is surprising to hear technology angels speak of going to Vancouver in search of venture capital, and in some cases, even angel investment. Angels noted a dearth of venture capital available locally for technology ventures. The potential reasons for this phenomenon are not covered within the scope of this study, but certainly call for examination. According to MacDonald & Associates, all the Prairie provinces accounted for only 7% of all venture investment in 2002[3]. Angels noted that Business Development Bank of Canada's (BDC) Venture Capital program was not particularly active in this market, so did not hold out much hope that the creation of the new BDC Seed Fund would alter this situation much. The federal fund has a mandate to invest $50,000,000 nationally, over the next several years, so it would be unlikely that this would have an appreciable impact on early-stage funding in any one given market.

Another challenge faced by emerging technology companies in Alberta is the lack of regional analyst coverage of local technology issues. This becomes an issue more for publicly traded companies, as without analyst coverage, it is very difficult for a company to generate meaningful trading volumes, to attract capital investment, or at times even to attract and retain top employees.

There are a few local innovative approaches to solving the early-stage technology funding challenge. Calgary Technologies Inc (CTI) is a 22-year-old initiative with an annual budget of approximately $6,000,000. With a staff of approximately a dozen full-time employees, CTI facilitates networking functions, operates a technology incubator, facilitates technology transfer and commercialization, and operates several community development programs, such as the Smart Communities Program, and related to angels, a 12-week venture coaching program, called "Concept to Capital".

Other Alberta angel-related initiatives referred to by participants are the Calgary Angel Network (CAN), the Edmonton-based Venture Matching Network, Deal Generator also based in Edmonton and the Alberta-California Venture Channel (ACVC). ACVC is a provincially funded program delivered by VentureAlberta, an Edmonton based venture matching and venture strategy organization. ACVC is a relatively new organization aimed at partnering the expertise and larger capital pools that exist in California with entrepreneurs and investors from Alberta looking to expand elements of their current company into the California region.

[3] MacDonald and Associates – www.canadavc.com

While it is too early to assess the success of ACVC to date, due to its embryonic nature, the concept is quite an interesting one, and may prove to be a model that can be successfully implemented elsewhere.

Winnipeg – Cultural Challenges

A roundtable of five angel investors was conducted with e-Stage Capital, an incubator operating in partnership with the University of Manitoba. e-Stage invited a group of prominent local investors to the roundtable discussion. Additional angels were contacted via telephone interviews and online survey.

Participants reported that they were focusing primarily on perceived less risky sectors, such as retail, real estate, manufacturing and agribusiness. Most of the angels in Winnipeg who participated in this study were by nature quite risk averse. Angel investors active in ICT investing noted a significant level of frustration in attempting to locate other co-investors for emerging local opportunities and bridge the gap of risk aversion. Although there are cultural differences amongst the different groups of investors, the more risk adverse investors pointed out that they would be willing to take early-stage risk by investing in ICT startups, should there be more local success stories: Success breeds success. It is beyond the scope of this study to ascertain whether viable emerging technology opportunities cannot advance in Winnipeg due to lack of access to capital. Local angels are divided on the issue.

Angels referred to a few provincial incentive programs to encourage local investment in emerging research-focused companies in Manitoba, that they found stimulative to a degree. The Manufacturing Investment Tax Credit, the Research and Development Tax Credit, and the Manitoba Film and Video Production Tax Credit are programs aimed at providing incentive for local investment in targeted sectors. (See glossary of terms for further details).

The funding gap for local ICT companies is reported to be severe, as there are very few sources of institutional capital for them in Manitoba. There are two Labour Sponsored Investment Funds in the province: The Crocus Investment Fund and ENSIS Growth Fund. That there is virtually no regional investment banking coverage of local ICT firms is quite important for technology companies seeking to pursue a public markets avenue. Analyst coverage can create local investment interest amongst a large pool of retail investors, as well as attracting additional management. Given the size of most local ICT companies, Winnipeg angels felt that most of their companies were not suitable candidates for public markets, given the time, expenses, lack of trading volumes and local institutional coverage.

Therefore, the unique regional challenges in the Winnipeg angel investor market, seem to be cultural, distance and community based. There does not seem to be a community-based entrepreneurial and association infrastructure developed to support technology startups, and in particular ICT startups.

This point rings especially true when compared against other communities in Canada that have very developed associations and events geared towards bringing entrepreneurs, investors, and stakeholders together to solve common areas of concern. In the sample of participants in this study, not one Winnipeg-based angel could identify even a monthly networking or venture group with a focus on ICT companies.

Ottawa – Challenges in the Relationship with Venture Capitalists

An angel roundtable with six, mostly advanced technology, angel investors present, was hosted at the Ottawa Centre for Research and Innovation (OCRI). OCRI has created a number of initiatives that address challenges faced by local angel investors and their companies, including the Ottawa Capital Network, Smart Capital, The Entrepreneurship Centre, and the Capital Technology Research Project (a research partnership with National Research Council and the Industrial Research Program, Communications and Information Technology Ontario, Carleton University, and University of Ottawa). A number of Ottawa angels are quite organized and speak with pride about their community-based entrepreneurial activities, several located in and around OCRI.

It should be noted that many of the Ottawa angels who participated in the roundtable and interviews made a disproportionate amount of their investments in technology, and the ICT sector in particular. Furthermore, given that many such companies generally require significant capital infusion before they are profitable businesses, many are on the "VC funding track", meaning they typically require venture capital investment at some point in their development cycle. This is an important regional distinction to note, because Ottawa investment angels are reliant on venture capital, more so than in any other city. When the markets were performing well, this was not a problem. However, in the current market environment, where most venture capitalists themselves have experienced tremendous portfolio losses, this relationship has become quite strained from the perspective of many angel investors.

The situation has broken down to the point that several very prominent angels have indicated that they will no longer invest in companies that are on a VC track, meaning companies that require upwards of $1,000,000-$2,000,000 to reach profitability. Were this trend to continue, there is a real danger that years down the road there will not be as many viable, high growth ICT companies in the region. Angels are a critical source of seed capital. Without these seedlings, the growth prospects and competitiveness of the region's ICT sector are at risk.

Angels cited that they felt that many venture capitalists were exerting far too much pressure on early investors in companies that they were investing in. If a company requires significant investment capital, there are few alternatives, such as strategic investors, available in today's market. In many cases, previous investors, often primarily comprised of angels, were entirely wiped out of their positions, via a cramdown. Angels noted that in many cases, venture capitalists added detailed and complicated provisions into financing term sheets, that would invariably give venture capitalists more downside protection of their losses, were the company to experience economic hardship, or require future, dilutive rounds of investment., before other investors, such as angels, or founders.

Similarly, angels complained that venture capitalists in many cases were also demanding a disproportionate amount of the investment returns, in the event of a liquidity event, at times demanding several times liquidation preference.

A number of angels also felt that they had grounds for oppression, but did not want to pursue the alternative, not wanting to get into a potentially lengthy fight, nor alienate their potential funding lifeline down the road. Fundamentally, a consistent complaint of angels in Ottawa was the need for more protection for minority investors.

In fairness, it is important to examine an issue as contentious as the angel investor – venture capitalist relationship from the perspective of the other party as well. Some angels concurred with a prevailing view of venture capitalists contacted for this study: that some venture capitalists may act more aggressively than others, with less regard for angel investors. Most venture capitalists agree that angel investors need to understand their role in the financing food chain, in which there can be several links. In a difficult economic climate, each link of the chain may put pressure on other links in order to protect their positions, investment capital, and overall internal rates of return. Fundamentally, the role of the venture capitalist is to maximize internal rates of return to their Limited Partners (LP's), an objective that has to be their underlying investment motivation, and not always congruent with the needs of angel investors.

Because the venture capital industry is still relatively new, and angel investing in advanced technology in Canada even newer, the survey results indicate that this is the first economic downturn many angels have experienced, with the 63.1% of angels having been active five years or less. (see Figure 1.2)

Toronto – Capital Flight Towards Later Stage Investing

Two angel investor roundtable discussions were conducted in Toronto with thirteen angel investors. Numerous interviews and results from the survey triangulate the findings for this region. Toronto participants generally had the greatest exposure and awareness to the financial services industry, whether it be venture capital, investment banking, pension funds, or public markets. It is important to note that it is difficult to get a definitive description of all angel activity in a city the size of Toronto without a far more comprehensive study scope. Equally important was the feedback that it is hard to lump all angels together, particularly in a city as large and economically diverse as Toronto. One angel may make investments of $500,000 at a time, and another $10,000. While the same can be held true in any community in Canada, Toronto likely has a critical mass of angels representing various diverse characteristics. Each group makes up a large enough market segment to provide a testing ground for similar segments across Canada.

The Toronto angels interviewed for this study were quite diverse in their investing activities across multiple sectors. As a result, only about half of the angels interviewed, or included in the roundtable reported making investments that would require venture capital later on.

The overwhelming consensus amongst angel investors in Toronto was that until a more favorable balance could be struck between the risks and rewards associated with angel investing, most would either dramatically reduce their angel investing activity, or not angel invest at all.

Angels in Toronto, not unlike angels in Ottawa, expressed frustration with their dealings with venture capitalists. Some of this may be due to general market frustrations along all stages of the financing food chain, as evidenced by the meteoric decline of major international investment indices, such as the Standard and Poors 500, or NASDAQ.

Angels in Toronto, and in other locales in Ontario, noted that although there have been improvements to securities regulations, as they pertains to raising equity in private companies, many feel that these regulations are still far too restrictive. As an example, the new "closely-held exemption" has replaced the previous "private company exemption". It permits the closely-held issuers to raise a "lifetime" maximum of $3,000,000, over any number of financings, from up to 35 investors regardless of an investor's financial status, sophistication, or ability to withstand the loss. Neither $3,000,000 nor a maximum of 35 investors is perceived to be appropriate maximum levels, as many ventures require greater financing, often from larger pools of investors.

Conclusions

Many challenges face angel investors across the country. Angels are facing challenges receiving returns on their private company portfolios, are often faced with longer than anticipated timelines to profits, all the while being asked to invest more capital in existing investments. Funding challenges remain for most early stage companies across multiple sectors, fewer sources of institutional capital are available for early stage advanced technology ventures, and most angels, who are still relatively new to angel investing, require actionable assistance, incentive, to continue investing.

Challenges

The Funding Gap

Tight capital markets exist for all stages of companies, but particularly so for earlier stage ventures. With Initial Public Offering (IPO's) for virtually all ICT and technology companies non-existent, most venture capitalists have responded by not investing at the seed or early revenue stage. They prefer to focus on more mature companies, at or near profitability, sacrificing potential large long term gains, for less riskier, later stage, lower risk opportunities. The funding gap between when an angel investor would make an initial investment to develop an emerging concept, and the market acceleration stage at which VC's are now willing to invest has been an ever-widening gulf the past few years. There is a dearth of capital available for early-stage ventures, particularly in areas of advanced technology.

According to MacDonald & Associates, in 2002, seed, start-up and other early stage deals accounted for 356 financing transactions, or 53% of the total, for a total of $1.0 billion, or 42% of all disbursements[4]. These statistics are disturbing when measured against those from even a year before, when $2.3 billion was invested in 412 seed, start-up and other early stage companies.[5]

Current economic climate

Most angels contacted for this study indicated that the current economy has had a significant negative effect on their angel investment portfolio. With the decline of both public and private equities over the past three years, with little relief in sight, this reality is not a surprise. However, those investors fortunate enough to have most of their angel investments in the past few years in the resource sector, real estate, or in businesses not reliant on the capital markets, were quick to point out that the current economy was actually working in their favor, primarily due to more reasonable valuations.

Lack of portfolio liquidity on angel investments.

A further constraint that angel investors have been dealing with in many cases, is the absence of liquidity in most of their private company portfolios for the foreseeable future.

The IPO window is all but closed, for technology issues. To reverse this trend, some large private ICT companies, generally perceived as solid companies from a fundamental basis, would have to have a successful public offering. Only upon a successfully entry of some industry stalwarts such as Google, Salesforce.com, or Crystal Decisions, will the market for new offerings loosen up. This would ease the way for angels in the ICT to begin realizing meaningful portfolio returns. The IPO window generally opens a minimum of 3-6 months after an overall turnaround in the capital markets. Since to date this has still not occurred, angels active in the ICT sector in most cases are resigned to the reality that portfolio returns on a consistent basis are still a significant amount of time away.

Angels who have been active in the resource and exploration sectors are still experiencing some portfolio exits, as are those investing in income trusts. Mergers and acquisitions are all but non-existent in the ICT sector as well, given the share collapse of industry heavyweights that would traditionally have been logical exit strategies for ICT startups and their investors. Angels who have not employed risk mitigation strategies in their private portfolio are often not able to continue investing until the capital markets for technology issues improve.

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[4] MacDonald & Associates, *Fledging Firms Still Command Attention,* http://www.canadavc.com/info.aspx?page=stats&file=2002Overview.htm
[5] MacDonald & Associates, *Fledging Firms Still Command Attention,* http://www.canadavc.com/info.aspx?page=stats&file=2002Overview.htm

Time commitment required growing companies.

In light of the current market dynamics, the time commitment for each angel investment is rising. As financial markets become more difficult to access, corporate governance is becoming more restrictive and the sales cycles to acquire new customers has increased. Across Canada, 64.1% of survey respondents categorized their involvement with their angel investments as providing capital as well as entrepreneurial and industry experience. (Appendix A)

A perceived unfavorable personal tax climate

53% of survey respondents cited that the personal tax regime had a negative effect on angel investing in Canada. In addition, 24% said it had a neutral impact, while only 21% of respondents felt that the personal tax regime in Canada had a favorable impact on angel investing in Canada. (See Appendix A.)

A perceived unfavorable corporate tax regime

45% of survey respondents cited that the corporate tax regime had a negative effect on angel investing in Canada. In addition, 33% said it had a neutral impact, while only 17% of respondents felt that the corporate tax regime in Canada had a favorable impact on angel investing in Canada. (See Appendix A.)

Lack of access to institutionalized start up capital.

In many geographies, access to any form of institutionalized capital for startup or emerging technology ventures is difficult. Investors in Calgary and Edmonton cited frustration that in order to raise money for technology ventures, they often had to access the angel and institutional investment communities of Vancouver. Very little venture capital investing occurs in all of the Prairie Provinces. According to McDonald & Associates, the region accounted for only about 7% of all venture investing in Canada in 2002. A further frustration amongst technology angels in Alberta was that while the BDC maintained a local presence, rarely were technology investments made in Calgary: perhaps only one or two in 2002. The BDC has recently earmarked $50,000,000 for a seed stage venture fund, but this amount is to be invested nationally, over a period of several years.

A strong regional investment banking presence is vital to the growth prospects of many emerging companies. Local investment brokers know where the regional pockets of wealth are and how to market junior public and private offerings to this investor base. In the past several years, a number of such regional or smaller national brokers that typically dealt with smaller companies have been acquired or collapsed. The financial services consolidation of the past few years has included names such as Richardson Greenshields, Gordon Capital, First Marathon, Newcrest Securities, Goepel McDiarmid Shields, primarily by the Big Five banks. In addition, the demise of Thomson Kernaghan and difficulties experienced by Yorkton Securities have dramatically reduced the pool of investment brokerages that in previous times would have syndicated small rounds of financings of both public and private securities. The disappearance of many regional brokerage houses, that at one time were the primary funding source for syndicated angel investment rounds has led to a significant market inefficiency of early-stage funding.

Angels as fundraisers

Because the capital markets are very tight, and most venture capitalists have all but abandoned early-stage investing, once an angel makes an investment in a company, those who are hands-on investors often become company fundraisers almost by default. The inefficiencies created by trying to find investors sometimes for as little as $25,000 at a time, are significant. Some angels have addressed this problem by either forming their own formalized angel group, or by joining an existing one.

Lack of time to keep on top of regulatory changes, reforms, programs

In the six roundtable discussions conducted for this study, it was readily apparent that almost every angel investor's knowledge of highly relevant information, including legislation, tax reform, government programs, or shareholder provisions, was incomplete. Most angels are either extremely busy people with another primary occupation, or else they are semi-retired, and have thereby made a lifestyle choice, or else their domain knowledge is from a perspective of industry experience.

Recommendations

This section sets forth realistic strategies on how a more favorable environment for angel investing in Canada can be created.

Expand the flow through share program to technology investors

Flow through shares have been used for several years as a funding enticement for investors to take early-stage risk in the resource and exploration sectors. The rationale has always been that resource and exploration speculation, is by nature, a highly risky activity. Many ventures may have minimal, or even no economic viability, but this cannot be determined until capital costs are incurred, often with funds raised from angel investors. Investors can take some comfort in the knowledge that if a junior exploration company is unsuccessful in locating an economically feasible deposit, it can still "flow through" capital losses back to the original investors. The benefit of this favorable risk mitigation structure has been a continual stream of small junior exploration companies, graduating to become economically viable companies that generate jobs and profits.

It is an easy argument to make that a startup company in the ICT sector is just as risky as an exploration play; therefore investors should be have the same tax write-off ability, should the venture fail. In a tech company, the risks are of both a technical and business nature.

Venture capitalists traditionally operate on certain belief mechanisms to predict how many large successes, complete losses, and partial capital recoveries will occur in their portfolios, on average, over an extended period of time.

In a good or boom market, study participants noted that for every ten investments made by a VC, two would result in large successes, as measured by rate of return on invested capital. Such a large success, generally classified as a "ten bagger", or a return of greater than ten times the invested capital, will generally be as a result of a highly successful IPO, or company acquisition. Prevailing wisdom is that a further six out of ten investments made will lead to a complete loss of invested capital. This could be due in part to a company failure, insurmountable technological hurdles, a mistimed market opportunity, poor execution of an opportunity, poor market demand, intellectual property disputes, etc. Finally, two out of ten investments are projected to earn some return for the venture capitalist, generally as a result of an IPO, or acquisition. While not nearly as profitable as a ten bagger, the VC is generally happy to have some of these companies in their investment portfolios. In the ICT sector, these are often, but necessarily limited to, service businesses, where investment returns are generally a function of revenues and profits.

The problem is, given the high risks associated with early stage investing, not every angel has the ability to make 10-20 investments, to "normalize" their returns, through a basket of private investments in their portfolio. Nevertheless at the very least tax relief should be offered to those investors willing to take such risks, to cushion some of their losses, provide ongoing incentive to keep angel investing and to keep innovation moving forward through continual job creation in advanced tech sectors.

Improve the relationship between angels and venture capitalists

Clearly, in many areas of the country, this relationship has broken down, to the point where emotions have taken over. It is time to mend this relationship, as angel investors are the feeder network for venture capitalists, by acting as a crucial source of early-stage risk capital, industry experts, company advisors, managers and operators. From the perspective of the angel investor, the venture capitalist is a critical component of the "financing food chain". To quote a Toronto-based venture capitalist: "I have worked with, and been both, an angel investor and venture capitalist. It is important for both parties to realize that in VC type deals, angels are part of the financing food chain, plain and simple."

Some solutions that seem readily accessible are available at this juncture. It is important to understand that venture capital firms are generally well-funded institutions, operating with a high degree of professionalism. It is not feasible for venture capital firms to sit down with each and every angel investor who may have had a perceived negative experience. Where angel investors feel that they need resources, leverage, or a voice for their concerns, some achievable remedies to bridge the relationship with the venture community are:

- Co-invest with other angels, particularly where the other investors compliment each others' skill sets, to generate a critical mass of investment size, and ability to continue funding the company;
- Angel investors unfamiliar with the venture capital and investment banking industries may be well advised to determine beforehand the likely funding path of future angel investments; and
- Understand before making an angel investment if, from where, when, and on what terms, the next round of capital may arrive;

- Work with local industry associations to communicate their experiences, both positive and negative, in dealing with the venture capital community

For the venture capital industry, an opportunity exists to reach out to the angel community, through organizations such as the Canadian Venture Capital Association (CVCA), in developing outreach programs to promote greater education for angel investors.

In order to make qualified detailed suggestions on how to address this issue, one must examine the drivers of the breakdown in this relationship, where breakdowns exist (See "Recommended Future Analysis").

Segment the angel investing market by company type.

Venture capitalists traditionally seek to invest in companies that can capture large market opportunities, typically with a market potential of $100M+ in revenues. Primarily this is because such investors seek rates of return in the 30-40% annually compounded range, and there are associated risks with such ventures. In the ICT sector, while very few of total new businesses created will ever grow to realize such a market opportunity, they may yet very well become viable businesses, with strong profit and valuation potential.

One such effort designed to help entrepreneurs - and their investors - understand the different financing paths that a company can take to finance to finance itself, is an education initiative, spearheaded by OCRI. It suggests that startups and their investors separate the two different funding streams when devising a company's financing investment plan. An example of this is that some software companies do not need venture capital in order to become profitable, as the end product can often be developed for under $2,000,000. This amount can be financed through a combination of angel investors, government programs, such as IRAP and Technology Partnerships Canada (TPC), SR&ED credits, and client installs. The key differentiator, however, is that the company may be going after a market opportunity, that despite its best efforts, may never result in more than $10,000,000 in annual revenues, a figure that does not excite most venture capitalists.

Similarly, in previous research conducted by Professor Allan Riding of Carleton University, and Dr. Jeffrey Sohl of the University of New Hampshire, estimate of the percentage of venture capital as a total of all early-stage capital, range from 2-20% of all capital invested in startup companies.(Industry Canada) Even though the data is by no means is conclusive, it is notable that a significant portion of angel investment will always be funneled into companies that do not appeal to venture capitalists. Those angels clearly belong to a different market segment, based on their sector preference, risk tolerance, time horizon, geographic location, and amount of proceeds available, to name a few.

Improve the risk adjusted real rates of investment returns for angel investors.

At the end of the day, three factors primarily drive an investment decision: What is the expected rate of return? What is level of risk? Over what period of time? Several variables can be affected to improve the risk adjusted real rates of investment returns for angle investors:

- reduce the overall risk to angel investors
- offer some downside protection of losses when incurred,
- rebate a tax credit to angels upon initial investment, similar to the benefits offered to Labour Sponsored Investment Funds,
- or employ strategies to de-risk angel investing to a degree, by encouraging pooling, rollovers;
- increase the total gross investment returns (before tax);
- increase the net investment returns (by reducing some of the tax burden on investment windfalls);
- reduce the time from original investment to returns on angel investments; and finally,
- reduce the time required for angel investors to receive returns on their investment.

Levers are not as readily available or accessible, but pooling, net asset value writedowns before bankruptcy, and allowing for Limited Partnership and trust structures in the Rollover provision (Section 44.1 of the Tax Act), would go a long way towards realizing these goals.

Enhance the capital gains rollover provision in the Tax Act.

Although the Income Tax Act was revised in this area as recently as 2000, a number of angels pointed out that the measures needed enhancement, before its provisions would be stimulative.

The addition of Section 44.1 of the Income Tax Act enables, in some circumstances, the deferral of taxes otherwise payable on capital gains realized from the sale of shares of a Canadian controlled private corporation. Capital gains can be avoided on the sale of shares of a qualifying corporation if the proceeds from the sale are reinvested in shares of another qualifying corporation (the purchasing of "replacement shares"), to a maximum deferrable benefit of $2,000,000 per corporation, within 60 days after the end of the year that the eligible small business shares were sold, or a maximum of a 120 days after the qualifying disposition occurred. A number of angels expressed the opinion in roundtables, interviews and survey results that 120 days is simply too short a timeframe, therefore, many have not taken advantage of this provision. In many cases, an angel investor (or one that can only become an angel investor upon successful completion of the sale of their principal business) may not have the time or ability to seriously evaluate more than one investment opportunity at a time, at least, not while the first is being liquidated. Data collected from the nationwide survey shows that approximately 78% of the angels surveyed had made 10 or fewer angel investments in their lifetime (Figure 1.2), with a majority 55% having made 5 or less (Figure 1.2). Given that it is not uncommon for venture capitalists, in any market, to evaluate an investment opportunity for several months, and at times a year or more, it would seem appropriate to allow angel investors one year to reinvest the proceeds from the disposition of shares of a qualifying corporation to take advantage of the capital gains deferral program.

A further limitation of the provision, is that the maximum aggregate value per qualifying corporation, is $2,000,000. At present, an angel investor seeking a complete capital gains deferral on the sale of $6,000,000 worth of shares in a qualifying corporation would need to invest a maximum of $2,000,000 in at least three separate qualifying companies, in less than 120 days. For even the most sophisticated angel investor, it is not feasible to find three viable private companies to invest in, successfully complete due diligence on all three, negotiate terms, and close transactions in these timeframes.

The limitation on the maximum amount allowable per qualifying company should be raised to at least $10,000,000. The rationale for this recommendation is that it often takes several investment rounds of venture capital for early stage technology companies to reach profitability. In 2002, ten private companies raised more than $25,000,000 *in a single round of investment.*[6] Given that it can take significant capital to build large-scale market opportunities, angel investors who want to have greater financial exposure to more capital-intensive technology companies should not be deterred from doing so.

Restriction of rollover provision to individuals only, versus trusts and limited partnerships is also quite limiting, as they are common share ownership structures for individual investors. One Toronto roundtable participant reasoned that angels commonly use limited partnership or trust structures when angel investing is to limit their liability. For example, were this program available to a Limited Partnership structure, funds could be pooled collectively and re-deployed on a more meaningful scale in greater frequency and quantity. The net effect would be similar to the US provision, where pooled angel funds co-invest alongside venture capital pools, on the same tax advantaged basis. The end benefit would be more capital available for angel investing, with less administrative burden, in a shorter period of time.

Treat angel investors on the same tax basis as other early-stage investors, such as Labour Sponsored Funds

One way to accomplish this might be to expand provincial programs, such as the Community Small Business Investment Fund (CSBIF) , available in the Province of Ontario and the Venture Capital Corporation (VCC), created under the Small Business Venture Capital Act (SBVCA) by the provincial government. Angel investors have commented in both provinces that both such investment vehicles need some tweaking as it is. 85% of respondents identified that were angel investors to be on the same tax basis as angel investors, it would have a positive impact on angel investing in Canada (Appendix A)

[6] (Source: Macdonald & Associates). *Top Ten Deals Done (By Size) 2002* http://www.canadavc.com/info.aspx?page=stats&file=2002Overview.htm

Provide investor education programs for angels

An opportunity exists for angel investors to take a more active role in mentoring other angel investors. Some angel investors struggle with their relationship with venture capitalists, investment due diligence, domain market knowledge, international expansion, tax planning, and other senior management issues on a continual basis. These areas can be addressed in a more open, angel-to-angel relationship-building environment. Greater collaboration between angels, across different regions in Canada, can lead to knowledge transfer across multiple sectors and in some cases bring new investment into ICT.

Ultimately, angels need help to become better investors of private companies. Investors in Canada have generally been well educated by the investment industry on issues such as retirement planning, portfolio planning, and to a degree, stock picking. Angel investors are not currently offered these types of tools and resources on a consistent scale

Utilize the Internet to disseminate angel education programs, regulatory information

Angel investing in Canada, particularly in advanced technology, is a relatively new industry. Given the critical role that angels play in often providing the earliest seed capital, it is imperative to provide as much information as possible online, from simple downloads of commonly used term sheet clauses, to more developed educational topics, ranging from company valuation tools to seminars on utilizing existing government programs.

Improve the delivery and efficiency of federal R&D programs to stimulate investment in the ICT sector.

Many angels speak quite highly of programs such as the Industrial Research and Assistance Program (IRAP) and utilize Scientific Research and Experimental Development (SR&ED) tax credits.

In the words of David Raffa, Partner, Catalyst Corporate Finance Lawyers: "The most active angel investor in the province of British Columbia in the past couple years has been the IRAP and SR&ED program."

Without such program support, many ideas would never advance beyond the concept stage. IRAP grants not only provide early-stage capital, but also are also non-refundable, therefore non-dilutive to founders and shareholders. With these benefits in mind, an opportunity exists to refine the efficiency and delivery of these programs. Many angels who play a key role in the success of the IRAP program, by providing the matched outside investment required to trigger the grants, report that the time and expenses required to utilize these programs often act as a deterrent. The SR&ED program provides tax incentives to Canadian businesses that conduct SR&ED in Canada.

The program is intended to encourage businesses – particularly small and start-up firms – to conduct SR&ED that will lead to new, improved, or technologically advanced products or processes[7].

Start-up companies, or their investors, lack the time, expenses or expertise to take advantage of SR&ED credits. A company that is awarded an approved SR&ED claim is often forced to wait several months before receiving the tax credits. Angel investors in such circumstances are often then asked to provide "bridge" loans throughout this process, which exposes the angel investor to an additional investment risk of estimating the probability of the success of an investment tax claim.

The Province of Quebec has a novel solution to this problem, reducing the friction in the process for both companies and their angel investors. Through Investment Quebec , a provincial government program, a company can have their approved SR&ED claim insured with relative ease. The insured claim can then be borrowed against at reasonable rates, quite easily by lending institutions. On a national scale, such a program would dramatically increase the short-term cash flow for many start-up and emerging technology companies, increasing their chances of competing and succeeding.

It would appear that the SR&ED program as currently implemented is very difficult for small companies to utilize, given the time lag of up to a year between the initiation of a SR&ED claim to receipt of refund.

Harmonize securities regulation across Canada

There is an ongoing frustration across the junior company and angel investment communities in Canada, regarding the administrative burden required to both understand and issue securities across Canada. The elimination of artificial barriers to investment in trade will lead to a healthier public market in Canada, more investment in all stages of companies, and greater job creation.

Develop strategies to increase the number of female angel investors in Canada

Of all the countries included in the GEM 2000 study[8]conducted by the Global Entrepreneurship Monitor, Canada had the highest participation rate of women in new business startups, with a female to male ratio of .67, compared to a mean of .34 for the 21 countries included in the GEM study.

[7] Source: Canada Customs and Revenue Agency. http://www.fin.gc.ca/resdev/fedsys_e.html

[8] **Paterson, Rein, Global Entrepreneurship Monitor, 2000, Pg 13**

About the NAO

The National Angel Organization (NAO) is an incorporated not-for-profit that provides angel investors with a secure environment to network and learn from their peers as well as the opportunity to be heard collectively on national issues. Through a secure online directory, angel investor education and networking events, angel investor resources and angel investor studies, NAO members will have access to the tools they need to be more successful.

About the Researcher

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Glossary of terms

ACVC
ACVC is a provincially funded program delivered by VentureAlberta, an Edmonton-based venture matching and venture strategy organization. ACVC is a relatively new organization aimed at partnering the expertise and larger capital pools that exist in California with entrepreneurs and investors from Alberta looking to expand elements of their current company into the California region.
www.venturealberta.com

Accredited Investor Exemption
A self-declaration of a certain amount of net worth, and/or earned income. Can act as a self-selection mechanism to determine if an individual meets the financial requirements of an angel investor. Not all Accredited Investors are angel investors.

Angel Forum
www.angelforum.org
British Columbia's largest annual investment fair for angel investors and local companies.

British Columbia Technology Industry Association
BC's largest technology industry association.
www.Bctia.org

BDC Venture Capital
The Business Development Bank of Canada's Venture capital unit.
http://www.bdc.ca/en/business_solutions/venture_capital/about_us/venture_capital.htm

BDC Seed Fund
A new federal seed fund of $50,000,000 at time of publishing. Part of the Business Development Bank of Canada.

http://www.bdc.ca/en/business_solutions/venture_capital/about_us/techno_investments.htm

Calgary Angel Network
An embryonic angel group, being formed in Calgary.

Calgary Technologies Inc.
A Technology Cluster in Calgary. For a full listing of the activities of Calgary Technologies Inc, please see:
www.CalgaryTechnologies.com

Cash calls

When a company requests additional investment capital from existing shareholders. Fairly common in a difficult market, yet angels often do not have the means to continue answering these calls.

Capital gain *(or loss)*

Profit (or loss) resulting from the sale of a capital asset.

Closely-held exemption

An exemption, often capital gains or shareholder escrow related, for an insider, founder, or significant shareholder.

Cramdown

The practice of a later investor exercising certain provisions into a financing term sheet, which significantly dilutes a group of previous shareholders.

Crocus Investment Fund

Manitoba-based Labour Sponsored Investment Fund.
www.CrocusFund.com

Community Small Business Investment Fund

Ontario's Ministry of Finance Municipalities, research organizations or aboriginal groups are eligible sponsors of CSBIFs. Investors can include Labour Sponsored Investment Funds, financial institutions, individuals, pension funds and corporations. Investments by a CSBIF can be made in Canadian companies within the sponsoring community. CSBIF's are designed specifically to invest in early stage funds, with a constraint of maximum of $1,000,000 in assets, at the time of investment. CSBIF's offer the same tax advantages to investors as LSIF's, with an additional 5% rebate, to a total of 35%, of tax credits, for investors who hold for a period of eight years.

Deal Generator

Edmonton-based deal matching/brokering network.
www.dealgenerator.com

Deemed Disposition

Under certain circumstances, taxation rules state that transfer of property has occurred, even without a purchase or sale; e.g. transfer of ownership of a security from one party to another.

Escrow

An agreement under which a security or document is delivered by a grantor to a third person, usually a trust company, to be held by the latter until a certain event or performance of a condition is met and delivered to the grantee.

e-Stage Capital

Winnipeg-based incubator. Operates in partnership with the University of Manitoba.

ENSIS Growth Fund

Winnipeg-based Labour Sponsored Investment Fund.
www.ensis.mb.ca

Flow Through Shares

A flow-through share provides an investor with the income tax benefits relating to the expenditures made by a resource company by the subscription proceeds. Exploration expenses renounced by a Company (Or a Limited Partnership) in favor of the flow-through share subscriber are deemed to be incurred by the subscriber. Therefore, up to 100% of the exploration expense made by a Company is fully deductible to reduce taxable income. Currently, flow-through shares are confined to the resource sector.

Provinces can also offer additional enhancements for basic exploration. As an example, exploration companies in the Province of Quebec can receive a total tax deduction of up to 175% of the amount invested. In the Province of Quebec, for taxation year 2002, the net after-tax cost of each $1,000 of flow-through shares is $224, for taxpayers in the highest marginal tax bracket.

In the federal tax system, under the *Income Tax Act*, an individual can claim a basic deduction of 100% of the cost of the investment made in connection with an issue of flow-through shares. In addition, the federal government grants a non-refundable tax credit equal to 15% of the surface exploration expenses incurred before 2004. When the flow-through share is sold, the individual pays capital gains tax on the entire sale price, since the adjusted cost base of the shares is zero. (Source: Government of Quebec)

Industrial Research Assistance Program

Federal program that provides scientific and technical advice, assistance and information to the Canadian manufacturing industry and the small business community. Staffed by scientists and engineers, IRAP offices have access to all the resources, services and expert advice of the National Research Council (NRC), other government laboratories and a network of specialized centres.
http://irap-pari.nrc-cnrc.gc.ca/

Initial Public Offering *(IPO)*

The securities offered for sale by a company whose securities have not previously been publicly traded.

Internal rates of return
Commonly used expression by venture capitalists to calculate return on investment.

Labour Sponsored Investment Funds
Venture capital funds that operate with certain provincial, and often federal, tax advantages. The Quebec Solidarity Fund (Fonds de Solidarite des Travailleurs du Quebec—FTQ) was the first LSIF created in Canada. Fund investors receive a 30% tax credit

Liquidation preference
When an investor has a preference, or right, to receive often a multiple of their own investment back, upon a company liquidation, often before other investors receive any of their returns.

Limited Liability

The liability (responsibility for debt) of the company's shareholders is limited to the money invested in the company's shares

Manitoba Film and Video Production Tax Credit
The Manitoba Film and Video Production Tax Credit provides a 35% refundable tax credit on wages paid to Manitoba residents involved in the making of films and videos. The tax credit is administered by Manitoba Film & Sound. The Manitoba Tax credit is also compatible with the new Film Video Production Services Tax Credit. For further information, visit http://www.mbfilmsound.mb.ca or contact Angie Glesby, Manager, Film Programs at (204) 947-2040.

Manufacturing Investment Tax Credit
The Manufacturing Investment Tax Credit provides a 10% non-refundable tax credit (3 year carry-back and 7 year carry-forward) applied against Manitoba corporate income tax payable. This credit is for new manufacturing equipment and buildings and includes new information technologies used directly in the manufacturing process. Investment Tax Credit, The Research and Development Tax Credit, and the Manitoba Film and Information on the Manufacturing Investment Tax Credit can be obtained from Manitoba Finance - Federal-Provincial Relations and Research Division, 910 - 386 Broadway Avenue, Winnipeg, MB R3C 3R6, phone (204) 945-3757.

Portfolio exits
A return on investment of a portfolio company. Often occurs through an IPO, sale of the company, or sometimes, through dividends.

Preferred Shares

Class of shares that entitle the holder to certain rights and privileges not enjoyed by the holder of common shares, including preference to payment of dividends and, in the case of liquidation, preference to the assets of the company. However, preferred shares do not normally carry voting rights.

Research Development Tax Credit

The Research and Development Tax Credit provides a 15% non-refundable tax credit (3 year carry-back and 7 year carry-forward) applied against Manitoba corporate income tax payable. Eligible corporations must incur qualifying scientific research and development expenditures, as defined for federal income tax purposes, in Manitoba. Firms will also be eligible for a federal research and development tax credit on qualifying expenditures, which may be refundable in certain circumstances. Further information on the federal and Manitoba tax credits can be obtained from the Canada Customs and Revenue Agency at 325 Broadway Avenue, Winnipeg, MB, R3C 4T4, phone 1-800-959-8281 or at
www.ccra-adrc.gc.ca

Scientific Research & Experimental Development Tax Credits (SRED)

Federal SR&ED programs provide significant tax breaks to companies undertaking SR&ED activities within Canada. Companies performing qualifying SR&ED activities are eligible for federal tax credits of 20% of the amounts expended. The credits, which are earned, are deductible against taxes payable and may be carried back three years and forward ten.
http://www.ccra-adrc.gc.ca/taxcredit/sred/menu-e.html

Strategic investors

Investors that invest or acquire assets for more than pure financial gain, but for industry specific advantage, as well. . Often these are large enterprises.

Term Sheet

An investment offer from an investor. Binding as long as the results of the previous, more detailed analysis hold and no other significant factors arise. Although it varies somewhat according to company practice, the term sheet generally contains information on the company value, the investment sum, investment quote or even more detailed terms and conditions

Tier One Tech Clusters

Communities where a large technology base exists. In Canada, these are Vancouver, Calgary, Toronto, Ottawa, Kitchener/Waterloo, and Montreal.

Tier Two Tech Clusters

Communities with some critical mass of technology industry base.

T-Net
A large technology industry association in British Columbia.

Venture Alberta
A venture matching and strategy network, based in Edmonton.
www.venturealberta.com

Appendix A

Please indicate how you would categorize your angel investing activities:

	Response Total
Provide capital entrepreneurial and industry expertise	59
Provide capital and entrepreneurial expertise	24
Provide capital and enterprise (large company) expertise	0
Provide capital for purely financial returns	0
Don't know	2
Other (please specify)	7
Total Respondents	92
(skipped this question)	0

Approximately how long have you been an angel investor?

	Response Total
Yet to invest	9
Less than two years	10
2-5 years	39
5+ years	34
Total Respondents	92
(skipped this question)	0

How many angel investments have you made in your lifetime?

	Response Total
0	7
1-5	44
6-10	21
10-20	8
20-50	8
50-100	3
100+	1
Total Respondents	92
(skipped this question)	0

Approximately how much you have contributed as an angel investor in your lifetime?

	Response Total
$0-100000	14
$100000 - $250000	22
$250000 - $500000	18
$500000 - $1000000	12
$1000000 - $2000000	8
$2000000+	18
Total Respondents	92
(skipped this question)	0

On average what distance from your principal residence are your angel investements?

	Response Total
Locally (Up to 100 kms)	51
Regionally (Up to 250kms)	14
Within Canada	14
Within North America	10
North America wide and Overseas	3
Total Respondents	92
(skipped this question)	0

Please indicate the industry sector allocation within your angel investment portfolio to date and your expectations for the next two years

By number of investments

	0	1-3	4-6	7-10	10-20	20-50	50+	Response Total
Information Communication Technologies (ICT)	3	35	17	6	6	3	1	71
Biotechnology	9	19	7	0	1	1	0	37
Manufacturing	5	22	0	1	1	0	0	29
Oil and Gas	7	6	0	1	0	1	1	16
Mining	8	3	1	0	0	0	0	12
Real Estate	8	7	1	1	1	0	0	18
Financial Services	5	17	1	0	0	0	0	23
Other	5	19	5	1	1	1	0	32

By dollar amount invested

	0-25K	25-50K	50-100K	100-250K	250-500K	500K-1M	1M+	Response Total
Information Communication Technologies (ICT)	2	5	8	19	11	4	14	63
Biotechnology	5	1	8	8	3	2	2	29
Manufacturing	1	4	2	5	7	1	1	21
Oil and Gas	2	5	0	0	1	1	2	11
Mining	3	2	0	0	1	0	1	7
Real Estate	1	0	0	3	2	1	3	10
Financial Services	2	5	3	4	1	0	0	15
Other	5	2	6	7	1	0	6	27

Next two years

	increase	maintain	decrease	Response Total
Information Communication Technologies (ICT)	18	23	22	63
Biotechnology	16	10	4	30
Manufacturing	6	7	5	18
Oil and Gas	3	4	4	11
Mining	2	3	3	8
Real Estate	5	4	2	11
Financial Services	5	8	1	14
Other	7	8	10	25

Total Respondents	86
(skipped this question)	6

On average how long do you typically plan to stay invested in your angel investment portfolio companies?

	Response Total
Under 1 year	5
1-3 years	20
3-5 years	31
5-10 years	24
10+ years	2
Don't ever plan on exiting	0
There is no "typical time period"	10
Total Respondents	92
(skipped this question)	0

What is the approximate annual rate of return you expect to earn on your current angel investment portfolio?

	Response Total
Less than 10%	5
10-25%	27
26-40%	25
41-60%	16
61-100%	5
100%+	11
Don't know	3
Total Respondents	92
(skipped this question)	0

Please indicate how many angel investments you plan on making in the next two years.

	Response Total
0 Investments	7
1-3 investments	50
4-6 investments	15
7-10 investments	5
10+ investments	3
Don't Know	8
Total Respondents	88
(skipped this question)	4

Please indicate how important the following items are to you when making an angel investment decision.

	Unimportant	Somewhat unim	Neutral	Somewhat impo	Very Important	Don't Know	Response Total
Amount of funds that I am being asked for	6	8	9	24	42	1	88
Amount of funds required by the venture to reach profitability	4	1	1	15	66	1	88
Confidence in management	3	1	2	6	73	3	88
Probability of success	3	0	5	16	63	1	88
Confidence in product/technology	3	0	5	18	61	1	88
Timelines to return on investment	4	8	15	42	19	0	88
Valuation	6	4	11	30	37	0	88
My industry knowledge	4	6	13	35	29	1	88
Total Respondents	88						
(skipped this question)	4						

For your current portfolio of angel investments please assign a rating of importance to the following exit strategies.

	Prefer Least		Neutral		Prefer Most	Don't Know	Response Average
Uncertain exit strategy	41	13	27	3	0	4	1.9
TSX Venture	21	12	38	12	3	4	2.57
Toronto Stock Exchange	9	11	32	25	6	5	3.1
Nasdaq	10	11	28	23	13	5	3.22
Merger or Acquisition	3	1	8	18	58	0	4.44
Royalty Agreement	10	7	38	24	8	3	3.15
Remain with investment indefinitely (no exit)	46	10	14	9	6	3	2.05
Venture Capital investment	15	12	22	27	8	4	3.01
Strategic Partner investment	4	4	10	33	33	4	4.04
Total Respondents	88						
(skipped this question)	4						

In the current capital market environment please assign a rating of importance for the following as your motivations for being an angel investor

	Not important		Neutral		Very important	Don't Know	Response Average
Fun - enjoy entrepreneurship	6	2	12	25	43	0	4.1
Community Building/Altruism	15	9	19	28	19	0	3.28
Higher returns	5	2	12	29	40	0	4.1
Portfolio Diversification	18	6	28	18	20	0	3.23
Early investor of cutting-edge technology	18	3	20	33	16	0	3.34
Tax incentives	21	10	30	18	9	0	2.82
Total Respondents	88						
(skipped this question)	4						

The following items have been cited by your peers as influencers on angel investing in Canada. Please rank order the following as potential influencers to successful angel investing.

	Negative impact	Somewhat nega	Neutral	Somewhat posi	Positive impact	Don't Know	Response Average
Personal tax regime in Canada	23	23	21	9	10	2	2.53
Corporate tax regime in Canada	13	25	33	8	7	2	2.66
Strength of targeted industry sector	4	4	16	38	24	2	3.86
Valuations	4	6	24	33	18	3	3.65
Access to quality deals	5	8	12	27	35	1	3.91
Current state of the economy	12	15	22	24	14	1	3.15
Public markets in Canada	16	18	32	13	6	3	2.71
Venture capitalist term sheets	14	21	23	14	8	8	2.76
Access to capital for emerging companies	16	21	9	19	21	2	3.09
Total Respondents	88						
(skipped this question)	4						

Please rate the following in rank order in terms of their ability to positively impact angel investing.

	Negative Impact		Neutral		Positive Impact	Don't Know	Response Average
Reduce corporate taxes	3	2	29	14	34	6	3.9
Reduce personal taxes	3	1	13	13	56	2	4.37
Allow flow through shares for non-resource sectors	3	0	11	15	50	9	4.38
Tax free asset rollovers	3	0	9	14	54	8	4.45
Reduce the regulatory burden for securities in Canada	5	3	27	22	26	5	3.73
More funding for research and development	3	0	13	25	45	2	4.27
More formalized angel investor networks	4	3	13	27	35	6	4.05
Tax credits for angel investors (similar to labour sponsoured funds)	3	0	5	11	64	5	4.6

Total Respondents	88
(skipped this question)	4

Please provide any recommendations/suggestions to Industry Canada as to how a more amenable climate for angel investing in Canada can be created.

Total Respondents	32
(skipped this question)	60

Sex:

	Response Total
Male	77
Female	5
Total Respondents	82
(skipped this question)	10

Age:

	Response Total
Under 30	1
30-39	18
40-49	27
50-59	26
60+	7
Total Respondents	79
(skipped this question)	13

Education:

	Response Total
Grade School	0
Some high school	1
Completed high school	3
Attended college/university/CEGEP	6
Completed college/university/CEGEP - undergrad	15
Completed college/university/CEGEP - graduate	46
Other post high school education	9
Total Respondents	80
(skipped this question)	12

What is your primary occupation?

	Response Total
Professional investor	24
Non-executive Director	2
Retired or Semi-Retired	7
Director	9
Company Owner	23
Other (please specify)	17
Total Respondents	82
(skipped this question)	10

Current province of residence?

	Response Total
British Columbia	11
Alberta	9
Saskatchewan	0
Manitoba	1
Ontario	52
Quebec	6
New Brunswick	1
Nova Scotia	1
Prince Edward Island	1
Newfoundland & Labrador	0
Yukon NWT Nunavit	0
Other (please specify)	0
Total Respondents	82
(skipped this question)	10

Please indicate your gross annual income

	Response Total
Under $50000	1
$50000-$100000	6
$100000 - $250000	40
$250000 - $500000	23
$500000 - $1000000	9
$1000000+	2
Total Respondents	81
(skipped this question)	11

Please indicate the amount of your current liquid assets (A liquid asset is one that can quickly be turned into cash without significant loss. Checking accounts money market accounts and freely trading st

	Response Total
Less than $100000	6
$100000 - $500000	22
$500000 - $1000000	11
$1000000 - $2000000	13
$2000000+	26
Total Respondents	76
(skipped this question)	14

Please indicate your current net worth (defined by savings and investments other than your personal residence and minus any loans and mortgages)

	Response Total
Less than $100000	3
$100000 - $500000	9
$500000 - $1000000	7
$1000000 - $2000000	18
$2000000+	43
Total Respondents	80
(skipped this question)	12

Please indicate if you would like to be contacted regarding this study

	Response Total
Yes	24
No	57
Total Respondents	81
(skipped this question)	11