



Legislative Assembly of Alberta

The 28th Legislature
First Session

Standing Committee
on
Public Accounts

Enterprise and Advanced Education

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First Session**

Standing Committee on Public Accounts

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Hale, Jason W., Strathmore-Brooks (W)
Hehr, Kent, Calgary-Buffalo (AL)
Jeneroux, Matt, Edmonton-South West (PC)
Khan, Stephen, St. Albert (PC)
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Standing Committee on Public Accounts

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Ministry of Enterprise and Advanced Education

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Stan Blade, CEO, Alberta Innovates: Bio Solutions

Paul Haggis, Chairman of the Board, Alberta Enterprise Corporation

Barry Heck, Interim CEO, Alberta Enterprise Corporation

Stephen Lougheed, CEO, Alberta Innovates: Technology Futures

David Morhart, Deputy Minister

8:32 a.m.

Wednesday, June 5, 2013

[Mr. Anderson in the chair]

The Chair: Good morning. I'd like to call this meeting of the Standing Committee on Public Accounts to order. I'm Rob Anderson, your chair, MLA for Airdrie, and I would like to welcome everyone in attendance both here and via teleconference.

We're going to go around the table first to introduce ourselves. I'm going to start with the telephone, and then we'll go to my right and go right around to everyone sitting at the table. Please indicate if you are sitting in on the committee as a substitute for another member. Who do we have on the phones?

Mr. McAllister: Bruce McAllister, Chestermere-Rocky View, sitting in for Ian Donovan.

The Chair: Okay. Anybody else on the phone?

Mr. Hehr: Kent Hehr, MLA, Calgary-Buffalo.

Mr. Hale: Jason Hale, MLA, Strathmore-Brooks.

Mr. Stier: Pat Stier, Livingstone-Macleod.

The Chair: All right. Deputy Chair?

Mr. Dorward: David Dorward, MLA for Edmonton-Gold Bar.

Mr. Goudreau: Hector Goudreau, Dunvegan-Central Peace-Notley.

Mr. Allen: Good morning. Mike Allen, Fort McMurray-Wood Buffalo.

Ms Fenske: Jacquie Fenske, Fort Saskatchewan-Vegreville.

Mr. Amery: Moe Amery, Calgary-East.

Mr. Quest: Good morning. Dave Quest, Strathcona-Sherwood Park.

Mr. Khan: Stephen Khan, MLA, St. Albert.

Mr. Jeneroux: Good morning. Matt Jeneroux, Edmonton-South West.

Mr. Lougheed: Stephen Lougheed, Technology Futures.

Dr. Blade: Stan Blade, Alberta Innovates: Bio Solutions.

Mr. Morhart: David Morhart, Enterprise and Advanced Education.

Mr. Haggis: Paul Haggis, Alberta Enterprise Corporation.

Ms Barr: Alice Barr, Alberta Innovates: Energy and Environment Solutions.

Mr. Driesen: Rob Driesen, Assistant Auditor General.

Mr. Saher: Merwan Saher, Auditor General.

Mr. Bilous: Good morning. Deron Bilous, MLA, Edmonton-Beverly-Clareview.

Mr. Anglin: Joe Anglin, MLA, Rimbey-Rocky Mountain House-Sundre.

Mrs. Sarich: Good morning and welcome. Janice Sarich, MLA for Edmonton-Decore.

Dr. Massolin: Good morning. Philip Massolin, manager of research services.

Mr. Tyrell: I'm Chris Tyrell, committee clerk.

The Chair: Thank you, everyone.

The microphones are operated by *Hansard* staff. Audio of the committee proceedings is streamed live on the Internet and recorded by *Alberta Hansard*. Audio access and meeting transcripts can be obtained via the Leg. Assembly website. If everyone could be sure to speak directly into the microphone, it helps the folks at *Hansard* hear what we're saying, so that kind of means leaning forward a little bit. Please don't lean back in your chairs. Also, if you could just double-check your phones to make sure they're on vibrate or off so they don't disrupt the proceedings today, that would be great.

We'd first like to approve the agenda, which has been circulated. Do we have a mover that the agenda for the June 5, 2013, Standing Committee on Public Accounts meeting be approved as distributed?

Mr. Quest: So moved.

The Chair: All those in favour? Any opposed? Carried.

We will go on to the approval of the minutes from the last meeting. They've also been circulated. Do we have a mover that the minutes for the May 29, 2013, Standing Committee on Public Accounts meeting be approved as distributed? Mr. Amery. All those in favour? Any opposed? Carried.

Okay. The reports to be reviewed today are the Advanced Education and Technology annual report for 2011-12; the Treasury Board and Enterprise annual report for '11-12; the reports of the Auditor General of Alberta for July and October 2012 and February 2013; and the 2011-12 annual report of the government of Alberta, as usual, the consolidated financial statements, and the Measuring Up progress report, again for '11-12. Members should also have a copy of the briefing documents prepared by committee research services and the Auditor General.

Joining us today are representatives from Alberta Enterprise and Advanced Education as well as Alberta Innovates and the Alberta Enterprise Corporation. What we'll ask our guests to do is take no more than the next 10 minutes to make their opening remarks, and then we'll pass it on to the Auditor General to make some remarks and proceed to questioning.

Go ahead.

Mr. Morhart: Thank you very much, Mr. Chair. I'll provide some general overview comments and pass it to each of my colleagues to make a few introductory comments as well.

Good morning. It's a pleasure to be here on behalf of the Deputy Premier and Minister of Enterprise and Advanced Education. The last time we were at Public Accounts, a couple of months ago, we had a chance to discuss the Advanced Education portfolio, and we thank you for the opportunity now to talk about our enterprise side of the ministry for the fiscal year 2011-2012.

I have with me today representatives from the Alberta Innovates corporations that report through to the ministry: Dr. Stan Blade, to my left, CEO of Alberta Innovates: Bio Solutions; Mr. Stephen Lougheed, CEO, Alberta Innovates: Technology Futures; Ms Alice Barr, director, strategic planning and operations of Alberta Innovates: Energy and Environment Solutions; as well as Paul

Haggis, chairman of the Alberta Enterprise Corporation, to my right.

I'll keep these comments fairly brief so that we can talk a little bit more about the specifics from each of these organizations.

The former advanced education and technology ministry mandate was to secure Alberta's economic future by working to build a more educated population and broadening and diversifying our economy. The ministry had three goals outlined in 2011-2012: to provide a globally recognized, quality advanced learning system that meets the needs of Albertans; excellence in research, innovation, and commercialization that drives Alberta's success; and a learner-centred, affordable advanced learning system accessible to all Albertans.

Relative to enterprise, the ministry has been working collaboratively with advanced learning and the innovation system partners and stakeholders to co-ordinate, fund, and promote research and innovation in key areas of the bioindustries: energy and environment and information and communications technology. The ministry also supports the creation and establishment of new and emergent technology companies, investments in key emerging industries, and international collaboration.

Alberta Innovates consists of the Alberta Research and Innovation Authority and four provincially funded corporations. Alberta Innovates builds connections among industry, researchers, entrepreneurs, government, and support agencies. In 2011-12 the ministry provided \$213 million in grant funding to Alberta Innovates corporations to support research, innovation, and technology commercialization in the province.

The ministry was able to facilitate valuable partnerships with multinational companies and foreign institutions from priority markets, including an MOU to advance early-stage pharmaceutical innovations.

Additionally, 72 Alberta Innovation vouchers were awarded to small technology businesses, assisting them to transform innovative ideas into commercial products or services and gain a competitive advantage in domestic and export markets.

The ministry worked with Alberta Innovates: Technology Futures to launch the technology development advisors program as part of Alberta's Action Plan: Bringing Technology to Market. Technology development advisors are experts with industry and business experience who assist small and medium-sized innovative companies with technology, business, financial, and product development issues.

Another strategy supporting commercialization is to attract venture capital to the province. The Alberta Enterprise Corporation works to develop more venture capital funds located in Alberta. Investment in these markets has continued to rebound since 2009, producing a strong effect on Alberta's relative percentage of Canadian venture capital.

Our enterprise division partnered with a number of organizations to launch programs like the Alberta Centre of Excellence for Building Information Modelling, the Alberta metal fabrication innovation program, and the Alberta Industrial Alliance. These efforts support and encourage value-added activities in Alberta with a focus on sustainable integrated approaches to economic diversification.

Eight new rural Alberta business centres were launched as three-year pilot projects to support small business in rural communities across Alberta. We also spun off Productivity Alberta to assist in small-business development. These centres extend and expand on services available through the Business Link, a federal-provincial partnership to provide information and advice to Alberta's business community.

8:40

Enterprise also produced a number of information products to generate awareness and expand knowledge about the province's economic performance. In 2011 some of these reports included the highlights of Alberta's economy, the Alberta small-business profile, the inventory of major Alberta capital projects, and monthly economic reviews.

I'll stop there, but before I hand it over to my colleagues, I just want to acknowledge the hard work of the department and the staff in the many things that we work on. Without their continued efforts we couldn't succeed on the things that we are working towards. With that, I'll pass it over to Paul Haggis for a few moments to talk about the Alberta Enterprise Corporation.

Mr. Haggis: Thank you, David.

Good morning, all. I'll start with the obvious. A building block for our economy and the diversification of our economy builds on brainpower and entrepreneurship. Venture capital is the mother's milk of that. It's been a struggle in Alberta, going back to my days as CEO of ATB, when it was constantly said, "I need start-up money." I'd say: "Well, we're a bank. We're not an equity lender." And this is the driving force to diversify the economy away from digging it up and sending it south.

AEC was established in 2009, an initiative by the province to promote the creation of venture capital and, in fact, feet on the street in the province of Alberta, which will generate wealth, generate business, generate jobs. So with a hundred million dollars from the province to prime that, to invest in venture capital funds on the condition that the funds have feet on the street in the province, to actually have people here investing in Alberta from Alberta, that's been very, very successful. The hundred million has been leveraged into something like \$650 million of access for Alberta entrepreneurs, with eight venture capital offices now in the province that weren't here before. The key component of this is that the hundred million is not spent; it's invested. And there will be a return to the province with appropriate risk-rated values that come over the next 10 to 15 years.

However, the cost of managing the program is about \$2 million a year, which is right where it should be, a 2 per cent, a 2 and 20 kind of arrangement in the private sector. With the hundred million and our investing we've attracted feet on the street here in the province and \$650 million of capital that's available to Alberta entrepreneurs. I think that's a pretty good record.

Mr. Morhart: Thank you.

Dr. Blade: Good morning. Thank you, Mr. Chair, for the opportunity to speak to the committee on the work of Alberta Innovates: Bio Solutions. Our mandate is to lead and co-ordinate research and innovation in Alberta's agriculture, food, and forestry sectors. Although you'd know this, I will remind you that between ag, food, and forestry in this province it represents more than \$25 billion worth of economic activity every year.

AI: Bio is part of the Alberta innovation system. We serve as a bridge between industry, between academia and government. In the past three years we've followed our strategic plan to support our industry in five areas: sustainable production, food innovation, advancing the bio economy, ecosystem services, and the prion work of the Alberta Prion Research Institute.

How do we do this work? We do everything from thinking about foresight – Alberta Innovates: Bio Solutions initiated thinking about how we develop our bio economy over the next 10 years and has produced a report alongside all of our industry partners. We've led in strategy development, working with the

Alberta forest industry in the production of the forest products road map through providing resources but also providing personnel of expertise within our corporation. We've evaluated technologies. We've put out calls for proposals to industry and to our academic partners. We've looked at a wide array of activities. We've had a very rigorous scientific review as well as an industry review to make sure that we're doing the right things in everything from lentil breeding for southern Alberta to new types of livestock food safety operations all the way through to new products that can be produced in this province.

We've been involved in networking, bringing new companies to the province like Magna auto parts, thinking about how they might be able to source wood fibre as part of their operations for producing their components. We've created an array of networks in funding new genomics opportunities in oil seeds and livestock.

We've also been very involved in knowledge translation. We have an up-and-running website where all of our research reports are available to the public at the click of a button. We do work across the board in international meetings: coming to Calgary this September in biotechnology, and we just hosted the world's researchers in prion, that came to Banff last week because of the work that we do in prions in this province.

We think about outcomes. We think about producing the knowledge that will either lead to a new, improved product or process or service. We think about producing knowledge that's going to change practice in our industries. We think about knowledge that's going to create new vehicles for science as well in this province. We have an important set of industries that we work with, and we see our role very much as the bridge to make sure that all of the various entities are working together.

Thank you very much.

Mr. Morhart: Thank you, Stan.
Alice.

Ms Barr: Thank you. At Alberta Innovates: Energy and Environment Solutions we work with our partners to support, advance, and adapt technologies with the ultimate objective of developing cleaner energy, reducing environmental impacts, and better managing Alberta's water resources. By collaborating with government, Campus Alberta, and industry, we're developing solutions to the biggest challenges facing Alberta's energy and environment sectors. We develop solutions around bitumen upgrading . . .

The Chair: Thank you so much. I appreciate that. The time is short, actually. That's over 10 minutes, so we're going to have to move on.

Ms Barr: Thank you.

The Chair: Okay. We're going to go to the Auditor General briefly.

Mr. Saher: Thank you, Mr. Chairman. I won't repeat the opening comments I made when the ministry appeared before the Public Accounts Committee on December 5, 2012, and when four colleges appeared on April 24, 2013. I'll simply note one outstanding recommendation on page 164 of our October 2012 report. It relates to Alberta Innovates: Technology Futures, the subject matter being new information systems.

Thank you.

The Chair: Excellent. All right.

Well, let's move on to the question portion. We have about an hour and 15 minutes left. Half of the time will be taken by the government MLAs, a quarter of the time by the Wildrose, and then the remainder will be split between the ND and Liberals. With that, we'll start the first 10 to 15 minutes with the government side. The deputy chair is going to handle this.

Mr. Dorward: Thank you, Mr. Chair. I have to leave to get over to the U of A convocation, and when I leave, Mrs. Sarich will take over our line of questioning and kind of allocate the questions out to members from the government side.

Mr. Morhart, could you take the time just briefly to introduce the individuals who have taken time out of their busy schedules to come and join us and are in the back? If anybody needs to come up to the microphone, please identify yourself as we roll forward.

Mr. Morhart: Thank you very much, Mr. Deputy Chair. We have Justin Riemer, our ADM of the economic competitiveness division. Mel Wong is the ADM of our advanced technologies innovation division. We have Darrell Dancause, our senior financial officer. We have Barry Heck, CEO of the Alberta Enterprise Corporation and chair of the Alberta Economic Development Authority. Denis Plumb is the controller at Alberta Innovates: Technology Futures.

Thank you.

Mr. Dorward: It may come as no surprise, Mr. Haggis, that I'm going to ask you the first question. Just by way of background Mr. Haggis and I used to work together, so we may get personal here a little bit.

Firstly, maybe I should do an overview. We do go fairly quickly. There are a lot of MLAs here. They have a lot of questions. We may cut you off, actually – it's not that we're being impolite – but there is the opportunity to provide written responses after to the committee. So please be brief. If we want more, we'll ask another question to kind of draw that out, but otherwise we may go fairly quickly.

Mr. Haggis, the Alberta Enterprise Corporation emphasizes an in-depth due diligence as part of its venture capital selection process. I just wanted to get your comment a little bit on that. When we look through what you're doing to the funds that you're investing in, we as a committee have a question relative to when we look at the dollars being invested there. When we look also at things in the annual report relative to investments in Alberta work, we're a little bit concerned about how you know that Alberta is going to benefit rather than other places. Our researchers did some work which indicated just from a website analysis, a very cursory analysis, that funds are invested in places other than Alberta. Can you just discuss that? How do you decide, what is the selection process, and how the heck is this helping Alberta?

8:50

Mr. Haggis: Sure. One of the big things about the role we have in creating venture funds in Alberta is that we can only invest one-third of the fund. The other two-thirds to create the fund has to come from private money that is only there to make money. Anything that we initiate has to be confirmed twice over by other investors in the likely outcome that they're in it to make money. We're not going to be successful in the province and have people in venture funds working here unless they make money.

The focus we have is to ensure that that is indeed the case. We don't invest, for example, in any start-up first-timers. We want to see a track record. We're going to invest in funds that have deal flow or can generate deal flow that is built on, in fact, the province's strengths. I know there was some mention of it here,

but there's not much in the way of venture pharma in Alberta. If you want to do that, you go to Montreal or Toronto or Boston.

What we're focused on is clean tech, energy, and agriculture, the building blocks, the fundamentals of the province, and individuals that have a track record and experience, that are likely to do well in that space. So we would maybe make an initial investment, but that's confirmed twice over, two-thirds more, by other parties that support that view.

Now, you're never going to get money in an environment where you say, "Well, pure public policy: you've got to invest in the province." The fund would never be raising capital because of the mandate and the requirement. Those other two-thirds will say: "Well, I don't have that public policy. I want to invest to make money." But we also know that if you have an office here and you're going to generate deal flow, the likelihood is that a good portion of the money that represents the fund as a whole – let's say that it's \$200 million of which we have \$20 million – will likely stay in the province because what goes by your front door is much higher.

In fact, what we have seen is that of the money we've put out – it's approaching \$100 million – we know for a fact that \$80 million of that so far has been invested in Alberta.

Mr. Dorward: So this is something you do keep track of?

Mr. Haggis: Absolutely.

Mr. Dorward: I hear you saying, then, that the fund has investments, but the subset that we believe we're investing in, our third, I think I heard you say, is 2 to 1 for somebody else.

Mr. Haggis: Outside money, yeah.

Mr. Dorward: Yeah. It's pushing the Alberta side of things.

Mr. Haggis: Well, I think, David, that the very fact that you've got people here – I mean, that's the key criterion. We don't invest in a fund unless we know that there are people here in Alberta that are investing from Alberta, but you can't write a rule to say that you can only invest in Alberta. We know just by the nature and the fact that these offices are established that clean tech, advanced energy, computing, and ag-related business, ag sciences: there's a lot of activity here, so naturally you're going to have deals flow here.

Now, what we're talking about is investing money, what we have committed versus what's invested. We know that \$80 million has been advanced in the province, but what we've actually put out at this stage, between \$90 million worth of commitment, is somewhere around \$45 million. In fact, you've got more money here than we've actually written a cheque for at this stage.

Mr. Dorward: To what extent would you interact with the funds? Would you talk with them monthly? Would you just go to their annual meeting? To what extent do you interact?

Mr. Haggis: Well, I think you would describe Alberta Enterprise Corporation as an activist limited partner. In many cases we're the catalyst to create the fund, and we take vital interest and require the fund, with penalties if for some reason they don't follow through on their commitments, to have offices. I'm not talking about, you know, a plate, a mailing address; I'm talking about with an investment-grade officer and an office operating in the province.

Mr. Dorward: Thank you, Mr. Haggis.

We'll go to Mrs. Sarich and then from there, to other MLAs who are biting the bullet to get on the list.

Mrs. Sarich: Thank you, Deputy Chair. Just to build some capacity on the initial question raised by my colleague, he has indicated that our researchers have done a little bit of research in this particular area. It shows on the website, for example, that the AEC made investments in four venture capital funds, but their research also showed – and I think you started to answer the question – that there were just under a hundred other investments made to entities outside of Alberta. I'm just wondering if you could comment on that because of some of the guiding principles about having, you know, to be here in Alberta, to invest in Alberta. So just help the public, because this is their money, to understand that.

Mr. Haggis: You know, again, I'll go back to that foundation that we're never going to attract money here and offices here and operations here unless there's a strong prospect of making money. There's a public policy angle on this, which is to say that the condition of our investment is that you have an office here, but you can't put a ring around the money and say that you can only invest here.

We know and I've just told you that of \$45 million advanced, we've had \$80 million invested in the province out of a round number of \$650 million that represents the total investment of the funds. Of all the funds that we've invested in, you know, I can't say that there's a requirement to put the money here. There's not. We just know naturally that when we generate deal flow and we identify entrepreneurs and we identify innovation – and that's one of the ecosystem roles to make these funds successful – we spend a lot of time working with industry, working with groups and so on to identify the opportunity to attract the fund here. So there's a kind of chicken-and-egg thing. Then naturally business will happen here.

Mrs. Sarich: Maybe it would be helpful for, you know, transparency and accountability. I mean, on the website you see four, but there are other layers behind what you're just pointing out to the committee. Having said that, if there are over 90 other entities or whatever that number may be, why wouldn't that be easily accessible by anybody from the public, to see what that investment would be so that it would help to provide that clarity? Do you have any comment on that?

Mr. Haggis: Sure. Well, happy to do it.

Mrs. Sarich: Okay. Thank you.

I'll pass it to another colleague.

The Chair: I'll just make a clarification on that. What are you asking them to provide, and have you just agreed to provide it?

Mrs. Sarich: It's just a matter of ease of finding information.

Mr. Haggis: She just asked about identifying more clearly how much money is invested in the province by the various funds. The funds would identify that, you know, so we can get that information.

Mrs. Sarich: Yeah. Because, just to clarify, what has been pointed out – and, Mr. Chair, I appreciate your follow-up as well – is that the research arm here has indicated that there are four venture capital funds. It was easy to find that information. Should there be more entities, then that would be accurately reported, you know, on the website, in your reporting mechanisms as well to

really show what the investments are and the return on the investment as well.

Mr. Haggis: Sure. The returns are remarkably good at this stage of the game. You expect the so-called hockey stick, you know, where in the early stages you're spending a lot of money. It's a long game. It's 10, 15 years to see these monies come back, but we expect to have a positive return.

Mrs. Sarich: Thank you.

I'll pass it to another colleague.

Ms Fenske: Thank you. My question would be based on the Auditor General's recommendation, the outstanding one. That is to Technology Futures. The recommendation was to create a corporate information system. Now, I'd like to know what progress you have made on that and how you are linking with the other Technology Futures groups to be able to see if there are cost efficiencies using this system.

Mr. Lougheed: Yes. I'd be happy to answer that. Thank you very much. The Auditor General recommended that we put in a solid governance structure around the installation of a new information management system, principally financial systems. We have done so. The Auditor General has somebody that is reviewing what we do on our steering committee.

We have selected a vendor, and the work is under way to build the information management system now. The design and most of the prototyping and all of the software development that's required is done. It's a standard package. JD Edwards is the system. We've used Deloitte to do the implementation with our staff. It's going very, very well right now, and it will be implemented later on this year. It is not fully integrated at this stage with any of the other Alberta Innovates corporations. Alberta Innovates: Bio Solutions and Alberta Innovates: Energy and Environment Solutions have their financials done by the provincial government. In our case we run a large research establishment, about a million square feet of facilities in the applied research centre, which is the old ARC, and a lot of fee-for-service work. So we have some unique financial requirements that required us to replace an old system with a new one.

9:00

Ms Fenske: Thank you.

If we still have time, I'll continue. The next is to Alberta Innovates: Bio Solutions. Can you tell me what contributions you have made to commercialization in the past few years, the last several years, and then could you tell me what the availability of a highly qualified workforce is? That's always an issue here in Alberta.

Dr. Blade: Thank you very much to the member for the question. With regard to commercialization we do work across the continuum, starting from basic research all the way through to those product development opportunities. Through the government of Alberta we've co-operated on something called the advanced materials and chemicals program. That's resulted in funding to three Alberta companies that are doing work with Alberta biomass, that are turning those into new products that are available to the rest of the world.

We've worked very closely with a number of the multinational groups. I've already mentioned Magna and some of the other genetics companies, where they are developing new projects, again, within Alberta for Canada but the rest of the world as well.

So we're very focused on making sure that the research that's done does have a receptor somewhere.

To your question about highly qualified people: we did a survey of the projects that were finished in '12-13. In the last year we found that there were 292 students that were involved in the projects that we have funded in this last three-year period at the level of masters, at the level of PhDs, and also post-docs. There are a number of opportunities that we have been able to do as well.

Ms Fenske: Thank you.

I guess a general question. All of the Innovate corporations require oversight. How do we know that Albertans' dollars are being spent in the best way possible to ensure that research is meeting the needs and the goals of the province right now?

Mr. Morhart: Thank you for the question. The oversight for the corporations is provided by the department directly. We work with them on an annual Alberta research innovation plan that lays out priorities on the part of government as well as the outcomes that we want to track and measure. We work with them very closely. We also encourage them to work between each other on sharing experiences, so there are opportunities where Tech Futures is working with Bio on particular industries and likewise in other areas. That collaboration between the corporations certainly helps from both an administrative point of view but also advancing research opportunities with our university partners and industry partners elsewhere.

Ms Fenske: Some of the investment is a long-term investment in some of the corporations, particularly Alberta Innovates: Health Solutions. What happens if and when the province changes direction as far as what its focus is? How are those long-term investments evaluated as to whether or not to continue to fund them? When you look at the financial statements, we have proposed commitments, but we really don't have all those dollars in the bank in this current year.

Mr. Morhart: Thank you again. The commitments are something that we certainly take quite seriously. Where we lay out our research priorities and our investment priorities, we expect that those don't change over the long term. We have certain advantages in this province – energy, environment, water – in the health and life sciences. There are areas where we will always have investments, so we don't expect those things to dramatically change. There are things that happen in the course of business, though, where we actually engage in some exit strategies.

Perhaps I can ask Stephen and Stan to just comment on some of those things that do change over time.

Mr. Lougheed: Yes, certainly. Very clearly, some of our responsibility is that we operate and work in the various parts of our organization. We do fund a series of postsecondary investments in terms of advanced materials, nanotechnology, and others. As that evolves, we continue to evolve our investments and move into new areas and out of areas that are now mature.

A key component of what we're focusing on is commercialization. As things move to commercialization, it's very important for us to then make sure that we have receptors in Alberta, companies that can take that over. In many cases that provides the exit for investment that is being done through the Alberta Innovates operations in areas such as reclamation in the oil sands or environmental monitoring sensors to get that activity commercialized here in the province.

Dr. Blade: I would use the example of agriculture. If I think about investments that our legacy groups have done on tillage agriculture or other kinds of things, certainly in the last five or 10 years we've focused on other kinds of reduced tillage and ways that farmers have now completely changed their production practices. Really, we're guided by industry in these kinds of opportunities, and we're following through on where new science breaks through, where new technology breaks through that gives producers, the industry a greater opportunity to follow on. I think that because of our connection to industry we have a good sense of where we're moving to and what no longer needs to be supported.

The Chair: Okay. We're going to move on to the Wildrose. Mr. Bruce McAllister will be acting on behalf of Mr. Bikman in regard to asking questions on this file. Mr. McAllister, go ahead.

Mr. McAllister: Thanks, Mr. Chair. How much time do we have approximately?

The Chair: Seventeen and a half minutes.

Mr. McAllister: Wow. You're all heart.

Well, forgive me right off the top. I don't have the benefit of the name cards in front of me, so I'll ask some questions and whoever might best address it, that would be terrific. I will save some time, Mr. Chair, for some of the other Wildrose members that I know are there and have questions related to some of their portfolios.

Maybe the first question I'd like to ask, following up on some of the discussion already – there have been some terrific questions – is that the advanced education and technology 2011-2012 annual report says, "Alberta's relative share of venture capital investment declined from 6.7% to 3.8%." I wonder if somebody could address what the factors are that contributed to this. Is it market driven? Will you be making any changes to investment strategy to address that decline?

Mr. Haggis: Starting in 2009, when we came off the meltdown, it's been the worst period for venture capital ever, so trying to raise new funds and generate new money has been very, very difficult. Who's driving venture capital over this period is, then, governments exclusively, primarily led by the Quebec government with Teralys and the Ontario government fund managed by Northleaf Capital. Those funds resident in the province of Quebec: there they have a much stronger initial view of how that's going to work. Of the total amount of monies – that was Ontario, Quebec, and the feds through sustainable development resources – if you just add that up and where that comes from relative to what we had out here, that's how you get a lower number.

Mr. McAllister: Okay. Well, thank you.

In the draft letters of expectations that we know were sent to postsecondary institutions, they were told that research – I think they said that they had to "enhance alignment of Campus Alberta research priorities and capacity with the key outcomes and themes articulated in the Alberta Research and Innovation Plan." How do Campus Alberta and the Alberta Research and Innovation Committee and Authority currently work together, and how will you work together going forward?

Mr. Morhart: Thank you for the questions. My overview provided a bit of a context for that. The Alberta research and innovation plan is the culmination of government's priorities in discussion with its many partners. It includes our Innovates partners. It includes our partner ministries across government and

includes our postsecondary institutions. What we do is accumulate all of the capacity, the desire of our researchers on the things that they want to focus on, and we talk then about priorities and how we can actually link some of these pieces together. That is the basis for us to set the framework.

9:10

In the draft letters of expectation that we put out to our Campus Alberta partners, it was really just to reiterate our need to focus on priorities with our various partners, and we're doing the same thing with our Innovates partners. We need to continue to focus on government's priorities and work together as a broad system.

Mr. McAllister: David, thank you.

I'd like to follow up. I think it even adds to what Mrs. Sarich was talking about just a moment ago, too. Will postsecondary institutions need to align their research topics with the priorities of Alberta Research and Innovation? Maybe a part B to that question: are you concerned, then, that if government priorities change, some of these projects will be abandoned?

Mr. Morhart: Thank you for the question. I would argue that the alignment is already there in many respects. You heard from our Alberta Innovates partners that they have large degrees of grant investment already with our research institutions. We are working daily on the exploratory research but also the applied research in all of our institutions. There's a great degree of alignment today, so we're not concerned in that regard. What we're trying to do is find even more opportunities for leverage in creating those windows for industry to know where to find willing partners.

Mr. McAllister: What would you say that the role would be of the Cross-government Portfolio Advisory Committee when it comes to setting research priorities?

Mr. Morhart: The portfolio advisory committee, the PAC, consists of the main departments that have research components to it. Alberta Enterprise and Advanced Education leads that, but we have the ministries of Health, Energy, Environment and Sustainable Resource Development, and Agriculture as part of that mix. Their responsibility is to bring together all of the high-level priorities that government has and talk about how we can leverage what we have within our system, the Innovates system, our postsecondary system, and with industry partners that are out there doing their own research to actually achieve those priorities. Those priorities don't shift dramatically over time, although we are looking to broaden and diversify our economic base, so we're certainly expanding our work in the bio areas, the environment areas, and also life sciences.

Mr. McAllister: Thank you.

David, I'm sure you're going to tell me that this is done by a big group of people or, you know, that there are many people involved in it, but where essentially does the accountability rest for the approval of research funding?

Mr. Morhart: Ultimately the accountability for research funding sits within each department. The alignment of our PAC priorities is that we all will make sure that we're focusing dollars where the priorities for government are. Within our department, which is the lion's share of research dollars, the accountability lies with me and with my minister, likewise with Health and Agriculture and others. They have more limited research dollars, but the accountability lies within that system.

Mr. McAllister: Okay. David, I know you're probably the one to answer most of these questions, but, again, to anybody around the table, you know, feel free to jump in. I'm trying to get a lot in here in 17 minutes.

How is the mandate of the Alberta Research and Innovation Authority different from that of the Alberta research and innovation committee? How will they be different, I guess, under the Campus Alberta umbrella? How will that change?

Mr. Morhart: Thank you. There is no Alberta research and innovation committee. We do have ARIA, which is the Alberta Research and Innovation Authority, so a slight syntax difference there.

Mr. McAllister: My mistake.

Mr. Morhart: The innovation authority is one that constitutes a number of very knowledgeable people from around the world. There are only, I believe, one or two Albertans sitting on that committee, but we have researchers from various areas of the world – Australia, Germany, and others – that bring us ideas from various corners of the planet. They're meant to help advise our portfolio advisory committee and our minister directly on what our research priorities should be and how we actually go about partnering with industry in different ways. So ARIA, or the Alberta Research and Innovation Authority, really is an advisory group that helps us set priorities and actually does some side work for us in looking at opportunities on new things that we want to explore.

Mr. McAllister: Okay. Excellent. I'll let you take a breather there and ask a question specifically to Alberta Innovates: Bio Solutions. The financial statements show that Bio Solutions is almost entirely funded by grants from the government of Alberta, which is different from Alberta Innovates: Technology Futures, which takes in significant revenue other than provincial grants. Can you explain to me and, obviously, any members of the public that might have a question on how this works, how there's a difference in structure and funding?

Dr. Blade: Thank you for the question. In the case of Alberta Innovates: Bio Solutions we are exclusively a group that has our priorities set by our board, but we primarily fund activities in the research and innovation continuum. I'll turn it over to Stephen in a moment, but the difference is that we work with our partners as that bridge I described for developing new ideas, for investing in those new ideas. In the case of Tech Futures they also have an active research arm, and I'll let Mr. Lougheed talk about that.

Mr. Lougheed: Great. Thank you very much, Stan. We very much work in collaboration with the other Alberta Innovates corporations. Where the Bio Solutions group, for instance, is investing in long-term projects or research, a lot of that will inform, then, the development of industry, joint ventures, or joint activities. Then industry will come to us – we have the facilities – to work with us either using our facilities or industry activity to then start the move towards commercialization. It's more the applied research side which we get involved in, research and development. It is in a sense a hand-off from the two corporations working very well together.

One good example is that we're working with Bio Solutions on the forest products road map, which involves all of the forest products companies in Alberta, on a number of their issues. Some of that would be related to forest waste, turning it into biochar or energy, green energy, other activities to improve the operational

efficiency. We're then pulling together companies to work on commercializing that activity and working with them on applied research.

Mr. McAllister: Thank you.

I'd like to ask one more, Mr. Chair, and try to save a couple of minutes for my colleagues. It's maybe to Alberta Innovates: Technology Futures. One of the risk factors you identified in the annual report was the challenge of aligning strategic planning and priorities with government of Alberta priorities to maintain relevance and provincial grant funding. Among other things, your plan is to redesign your corporate performance measures. Which of your current performance measures achieve that outcome, and do you see the need to develop more? Maybe you could give us an example or two if you have one.

Mr. Lougheed: Yes. We're very much working again with the department and the other Alberta Innovates companies on building performance measures that are focused on outcomes, increasing the tax base through corporate expansion, business start-ups, exports. Those sorts of measures are far more important than measures of activity. Investment in projects as opposed to outcomes. We're trying to move the measurement system over time to a much more outcome-driven focus, where we're looking at companies creating jobs, job expansion, and companies' export development, and also in terms of what the economic impact is. We're doing a lot of work, for instance, with the oil and gas industry in SAGD and others, where we've been involved for years working on production optimization. Cost reduction has a significant impact in terms of the tax base. Those sorts of things are what we're driving to.

Mr. McAllister: Thank you.

Mr. Chair, I have a long list, but something tells me that you and the members for Rimbey-Rocky Mountain House-Sundre and Strathmore-Brooks probably do, too, so I'll give you some time.

The Chair: All right. Thank you.

I'd like to take a couple of minutes real quick and talk about the Alberta Enterprise Corporation. My understanding is that of the original \$100 million allocated for that, \$9.9 million has been invested, with the remaining \$90 million or thereabouts still there as cash.

Mr. Haggis: Committed is a better word than invested. It is allocated to various funds, and those funds will draw on the commitment over the next five years.

The Chair: So what you're saying is that \$9.9 million has been committed?

Mr. Haggis: Committed, right.

The Chair: Now, of that, what are the types of investments that you've made there? In other words, in particular, where are they at? Are these Alberta corporations? My understanding is that a couple of them are Vancouver-based corporations.

Mr. Haggis: Well, they're general partnerships.

The Chair: Yeah.

Mr. Haggis: We won't get into all the legal mumbo-jumbo of the structures, but we are limited partners in those funds. Some of them are based in Vancouver; some are based here. EnerTech is Toronto based. But they all have offices here.

The Chair: All right. I guess my question is: if they're based in Toronto and they're based in Vancouver and this is the Alberta Enterprise Corporation, which was meant to create a pool of venture capital for our organizations here, for our entrepreneurs here to innovate with, why are we doling that money out to companies in Toronto and Vancouver? I mean, it seems like it's pretty easy to set up an office in order to access this funding in Alberta. We'll just set up an office in Alberta and get the funding. Why are we doing that? Why are we not focusing on Alberta entrepreneurs?

9:20

Mr. Haggis: Well, we are achieving that by having offices in Alberta. Remember that the \$90 million or the \$100 million allocated is part of funds that represent \$650 million. Of the partners that are limited partners with us and general partners – and I'll use the firm Chrysalix, for example. Limited partners that our entrepreneurs have access to include Shell International research and Total. There's no way you're ever going to get that if you say you're going to limit it just to the province of Alberta. You've got to think that this is a global enterprise, and it's here to make money. If you start to put rings around it, then by definition you're going to have nothing. By this, we have offices here and we have a lot of activity. Of the \$90 million that's committed, remember that the advances are about \$45 million. We know for a fact that \$80 million, twice the amount that has been advanced, has been invested in the province. So the system works.

The Chair: Yeah. Well, there's lots of money. I mean, we'll have to agree to disagree on that, but this was meant to be venture capital for Alberta entrepreneurs, and I think you're . . .

Mr. Haggis: Well, let me just say that . . .

The Chair: Is that not what it was meant to be?

Mr. Haggis: . . . Alberta entrepreneurs are benefiting by a leverage of 7 to 1 on access to capital and expertise and innovation through the investments we've made in these funds with feet on the street in the province. To imply that Alberta entrepreneurs are not getting full benefit from this is simply not true.

The Chair: So if I'm a Vancouver company and I want to access this fund, all I need to do is stick an office in Edmonton and I can therefore employ some people there and I can access millions of dollars in government funds? That's what this was meant to do?

Mr. Haggis: Well, let's not forget that this is not money that's spent. It's a commitment of money, of investment capital, with every expectation of getting an appropriate rate of return on top of it. Okay? When it comes to having that kind of leverage, to imply that, you know, somebody is just going to come here and open an office – these guys have to have the ability to make money, and they're not going to open an office unless there's deal flow and there's an opportunity to make money. So in all of the other ecosystem work we're doing, it is to create value and create visibility, in fact, for all of the opportunities that are here. You know, the system is working. The numbers are here. The accountabilities are obvious.

The Chair: Okay. Well, I thought it was meant specifically to grow venture capital here in Alberta. That's what I thought it was meant to do.

Mr. Haggis: That's exactly what's happening. Am I not saying that?

The Chair: Well, it appears that we're investing in other provinces and not in Alberta, and that's what the fund was for. We can always, you know, put money into . . .

Mr. Haggis: You're investing in a fund that is a free flow of capital across the country, in fact, across the world. Some of these funds are in a U.S. dollar base. Our ability to compete for that money is based on, one, public policies. You've got to have people here. As a result of that the system works – and I go back to the numbers I just gave you – because of the \$90 million that's committed. Of the \$45 million that's advanced today, \$80 million, twice the amount, has ended up back in the province.

The Chair: I guess I'll take the last minute here. We only have one minute left for Wildrose questions. I would like to refer to note 4 of the financial statements. The Alberta Enterprise Corporation realized losses totalling \$1 million on all of its limited partnerships in 2012. Losses in fiscal 2011 were \$657,000. A portion of these losses are fees paid to general partners in the fund. What return is the corporation expecting on its investments, and how much in fees are being paid to general partners?

Mr. Haggis: Sorry. Would you just say that again? You're talking about the fees, right?

The Chair: I'm talking about fees. This is from the committee research document that we were given by the Auditor General, so I think it's a very good question.

The corporation realized losses totalling \$1 million on all its limited partnership investments in 2012 (losses in fiscal 2011 – \$657,000). A portion of these losses are fees paid to the general partners of the fund. What return is the corporation expecting on its investments? How much in fees are [being] paid to the general partners?

Mr. Haggis: Right. Well, I think also in there are unrealized gains so that, in fact, the assets are worth more than they were at the end of the year. You know, you've got to take both sides of that story, right?

The Chair: I'll just read that one into the record, and you can answer it in writing because my time is done.

Mr. Haggis: Yeah. I think it says net loss from investments. Then following on: "However, the Corporation concurrently had unrealized remeasurement gains on investment of \$1.896 million."

The Chair: Thank you, Mr. Haggis.

Mr. Haggis: So you've got to take both sides.

The Chair: Yeah.

Mr. Haggis: But when it comes to fees . . .

The Chair: Mr. Haggis, we have to move on to the next person, the Liberal caucus.

Mr. Hehr, would you like your nine minutes?

Mr. Hehr: Yes. Well, thank you very much. I appreciate everyone being here this morning to discuss this important file. I guess my question is concerning what I see as a gutting of university capacity not only to educate our young Albertans – we

see that in the budget cuts this year – but also their capacity to deliver research.

I apologize, but my question is going to take about three minutes to get out because I believe it needs some background to it. I know that if I don't quite get it all right, you guys are smart enough to pick up what I'm laying down, so we'll try from there. The genesis of this question is from the May 6, 2013, issues of the *Calgary Herald* and the *Edmonton Journal*, with a story entitled Making Research Pay Off. In that it outlined the new direction of the ministry. It also noted that Alberta Innovates: Health Solutions, one of the four Alberta Innovates agencies controlled by EAE, with a \$79 million annual research budget, was moved within Alberta Health Services, as a result of the recent Alberta budget, "to help fund research to deliver more efficient health care."

Now, traditionally in Canada basic research has mainly been conducted at universities. It was funded on the national level by three national granting councils, which were arm's length from the government of Canada. Basically, it was peer-reviewed competition at universities, and the best ideas would come forward. This kind of peer-reviewed adjudication for the disbursement of research funds existed in Alberta until four years ago. The genesis of that system in Alberta began over 30 years ago.

The government of Alberta under Peter Lougheed created the Alberta Heritage Foundation for Medical Research. Some years later the Alberta Heritage Foundation for Science and Engineering Research was also formed along similar operational lines and principles. The former foundation is well known to Albertans. It was arm's length from the government of Alberta, a peer-review-based research body with its own independent board of trustees. At the peak of its fiscal year of operation in 2008-2009 this program distributed \$85 million in research funding to support basic medical research in Alberta.

Moving on. Within this system a salary-support program was cancelled, and the salary support was to colleges and universities to reward researchers who were doing good work, who were creating innovative new products here. The program and the supports to the universities were cut in the 2009-2010 budget, but they were provided with transitional funds in weaning themselves off this former funding. At this point I believe there is \$42.6 million in funding for salary support costs to universities for this research, and it's my understanding that this support from the government enables 250 scientists and researchers from all over the world to come here and do good work and create capacity at universities.

Given that this funding under the new model is supposed to run out in two years, I was wondering what, if anything, your body is looking at to support universities who have traditionally done this research, to keep the capacity that is built up at our university system over the last 30 years under the program envisioned by former Premier Lougheed, one that has had, in my view, good results for both universities and colleges as well as research in general. Are any of these supports envisioned? Is this no longer going to be contemplated within the Alberta context? I think you understand where I'm going with this. It's along the lines of: are we simply gutting the capacity of universities to do our traditional research?

9:30

The Chair: Mr. Hehr, there's a lot to that set of questions. It seems to be asking what the policy is moving forward. Can you reference for me, just for the sake of the committee, something in

the report or the research documents that the AG or the committee researchers have prepared that you are referring to?

Mr. Hehr: Well, I can refer to the current funding model and the supports to universities of roughly \$42 million a year. Is that money working? Are you finding that it supports the research coming out of the universities, allowing researchers from all over the world to come here to build capacity at universities? Are you finding that this funding is providing results in our traditional peer-reviewed competition model at universities?

The Chair: Okay. That's a fair question. Go ahead.

Mr. Morhart: Thank you very much for the question. Some of this, of course, bridges a few fiscal years, so let me just answer in general. Just to clarify, Alberta Innovates: Health Solutions as of April 1 this year moved over to directly report to Alberta Health, not Alberta Health Services. Just a point of clarification there.

For the purposes of our portfolio advisory committee, that we talked about previously, on setting research priorities the intention was to align Alberta Innovates: Health Solutions more closely with our living laboratory agenda that we have within Alberta Health. What we're trying to do there is to make sure that those priorities work more closely, where you can align research both on the Innovates side but also on the university side with the objectives that Health is trying to promote.

What hasn't changed, though, is that we're still treating the whole Alberta Innovates ecosystem as one unified system. They're still part of the overall mix. Specifically to your question: are we gutting research at universities? No, we're not. What we're trying to do is create more capacity to lever what various aspects of our system do today and how we can actually bring in industry and international partners to further enhance what we do.

Just for a point of comparison, in the report you'll note that \$213 million was put out to the Alberta Innovates corporations primarily for research and other activities. If you look at the combined research capacity within our universities, that are funded by industry, by government, and by others, including our Innovates partners, it's almost \$800 million. There's a lot of money that's out there, and we're looking at the best opportunities to lever that. We are working through setting priorities and how we're managing and shifting some of those priorities over time. So there are some changes happening, but that's something that we believe will add to capacity overall.

Mr. Hehr: Well, I guess a follow-up question, then: of the endeavours that your organization is currently funding, can you give me a basis of what percentage would be coming from our colleges and universities, what percentage would be coming from private industry, and what percentage would be a combination of both? Or is that question just totally irrelevant?

Mr. Morhart: No, I think it's a relevant question. What I'll have to do, Mr. Chair, is just take that on advisement, and we'll come back in writing because I don't have those numbers at my fingertips.

The Chair: Excellent. Thank you for doing that.

Mr. Hehr, you have 30 seconds, so if there are any you can read into the record, go ahead.

Mr. Hehr: I'm fine for passing it on.

Thank you, Mr. Chair.

The Chair: Excellent.

All right. Mr. Bilous for the NDP.

Mr. Bilous: Thank you, Mr. Chair. I'll thank the department for all the staff that you brought this morning. Questions I'm going to ask are surrounding the Alberta Enterprise Corporation. Page 12 of the AEC annual report states that "although Alberta Enterprise will not place a requirement on its investee funds that they invest only in Alberta, we do expect funds to locate a partner and make a meaningful commitment to the province." I'm wondering if you can elaborate on what meaningful commitment actually means. Specifically, the government has provided \$10 million to iNovia Capital and \$15 million U.S. to EnerTech Capital. I'm wondering what the terms of those deals are with respect to the benefits to the province. What specifically does the province get in return for that investment?

Mr. Haggis: Okay. Both of those companies, especially EnerTech, are focused on clean technologies. You look at where they're going to generate the opportunity to invest money, nurture companies, and make money, ultimately, that they took our money and opened an office here in order to have access to opportunity in the province of Alberta. We pick the funds that build on the strengths of the province. I used the example of pharma. We haven't focused big time on pharma because while there are a lot of things happening, from a venture capital realization point of view there's not a lot of opportunity and deal flow that's in the province.

Where we have focused funds is on those that have a good likelihood of making money in Alberta, and that's proven by the fact that they're willing to invest in opening an office and putting feet on the streets here, you know, not low-end people but people that are investment officers of their partnerships, that have the authority to actually originate and make investments here.

What do we get for the money? We get the fact that EnerTech is opening an office in the province, that they have people on the street here, that they come here all the time, and that they have every likelihood, because they wouldn't make that investment if they didn't, of investing here and of starting companies or nurturing companies and having a positive return, which we all benefit from.

Mr. Bilous: Just to clarify, a meaningful commitment, then, according to your department's definition is opening an office in Alberta?

Mr. Haggis: Yeah. With a qualified investment officer.

Mr. Bilous: Okay. Is there a minimum requirement for how many staff have to be at this office, or is it just a matter of opening the doors, throwing up a sign, and suddenly they're entitled to one-third of their investment dollars being put up by the Alberta taxpayer?

Mr. Haggis: Right. Up to one-third, but the one-third is the maximum amount. Let's talk about \$20 million. EnerTech is a hundred million. In every case it's a maximum number. In terms of Chrysalix, for example, it's \$200 million, of which we have \$10 million or \$15 million, something like that. Who that person is: it's not just a name plate on the door, as I said earlier. It has to be an officer, an individual that is in a partnership level with the general partnership. We're not going to have somebody with a part-time address. We've had a lot of people say: "Oh, we're committed to the province. We'll come there every week and so on, but we don't want to actually spend the money to move

somebody here, support them here, open an office here." You know, it's a million dollars a year kind of a thing. So we said: "No. We're not going to take that. We have to have people here."

Mr. Bilous: Okay. I'm going to move on with my questions, but I still fail to see how this is benefiting Albertans when you have companies that have their head offices located in other provinces, other states, other countries.

Mr. Haggis: Right. Let's just go back to that number I used before. Of the \$45 million we've advanced to date . . .

The Chair: Mr. Haggis.

Mr. Haggis: . . . we know that \$80 million has been invested here.

The Chair: Mr. Haggis.

Mr. Haggis: I'm answering the question, okay?

The Chair: Mr. Haggis, I am the chair of this committee. This member did not finish his question. He will finish his question, and then you will answer. Thank you.

Mr. Bilous, go ahead.

Mr. Bilous: Thank you. Moving on, what was the cost of sponsoring C100 and C100 clean tech in Silicon Valley last year, which is page 10 of the AEC annual report?

Mr. Haggis: I don't know.

Barry?

Mr. Heck: Approximately \$10,000.

Mr. Bilous: Okay. Moving on, I'm looking at schedule 2 of the annual report, and I see compensation for the CEO, who I understand unfortunately passed away at the end of last fiscal year. I'm sorry to hear that. Now, compensation for him increased by 29 per cent due to an \$80,000 bonus. This means that the total compensation for the CEO has increased from \$163,000 in 2010 to \$360,000 in 2012, an increase of 220 per cent in just two years. I'm wondering what exactly accounts for the \$60,000 in nonbonus cash benefits in each of 2011 and 2012.

Secondly, I'm wondering what explains this large bonus in 2012, considering, again, that when we look at the percentage of venture capital invested in Alberta, it went from 7 per cent in 2010 down to 3.8 per cent in 2012. Was that bonus paid in whole or in part to the late Mr. Rod Charko or to his estate, or was it paid to Mr. Barry Heck, who took over as the interim CEO?

Mr. Haggis: Okay. It was paid to Rod Charko. This was paid before he died. No bonuses have been paid to Barry Heck, who is an interim CEO. Barry has done a wonderful job stepping in and filling the breach after Rod's death. Barry is working at considerably less than Rod and with no bonus or anything like that. We're enormously thankful for his efforts and work to do this.

9:40

Mr. Bilous: If you could just comment on the 220 per cent increase, please.

Mr. Haggis: Yeah. I think we're probably talking about half a year or if not a whole year and the previous year, then a full year. That would account for the base number.

The question of bonuses. We had written into the agreement with Rod that there would be deferred compensation. We had an

expectation that he's going to make X, so we hold back some of it until we see how he does.

At the end of the '11 period the difficulty we had in fulfilling that was that there was an edict that came down from the government to say: no bonuses. We had a contractual obligation with Rod to pay him if he did what he said he was going to do, which he did. So we did an agreement with him to say: "Listen. Let's defer that. We're not going to pay it to you this year. We're going to let it ride. We're going to build in further conditions. If you satisfy those at the end of the next period, we'll give you the bonus then." So we had two periods, one deferred, that was paid later, and then the second one. That's why the number looks relatively bigger.

I would say that these bonus amounts in the term – and I hate to use the word "bonus." It's really called deferred compensation. The dollars that we were paying for Rod and the amount in that bonus: there is no carry in this business for government people. In order to get people to work in venture capital, a big part is the equity participation and the gains in the fund down the road. You know, it's expected that people are going make a lot of money; otherwise, they wouldn't take a lot of risk. There's no factor of that in this business at all, in Alberta Enterprise Corporation, because of the government component. There are very, very modest amounts of money paid out here.

Mr. Bilous: Okay. I'm going to try to read in a couple of quick questions. I do want to get back to the risk factor and, you know, the risk assessment that you folks are doing, considering that Albertans are putting up one-third of much of the capital. Just to read this in quickly, page 7 of the Alberta Research and Innovation Plan 2012 indicates the government of Alberta strategies and initiatives that underpin Alberta's research and innovation system. It includes things like water for life, which is a program that was cut by 60 per cent in the 2013 budget, which means that it may have been a research priority, but it ultimately wasn't a funding priority. I'm wondering if the social policy framework has been included in the list of government strategies and frameworks that inform research priorities. In other words, is the SPF included in the research and innovation plan for 2013?

As well, what is the relationship between any of the various institutes or the Research and Innovation Authority within Enterprise and Advanced Ed and the Alberta Centre for Child, Family and Community Research? Is there any connection between any of the bodies in enterprise and the Alberta Centre for Child, Family and Community Research? Are there any plans in the works, in light of Bill 25, to create or enhance that relationship? If so, how?

Lastly, because my time is up, if you could submit these in writing. What risk management, risk assessment do you perform, and what guarantees can you give to Albertans when they put up one-third of the costs if a company puts up the other two-thirds and decides shortly down the road to pull out a significant chunk of their dollars? You know, where are the assurances to Albertans that we are actually going to get a return investment for our dollars and not lose them?

Mr. Morhart: All right. Thanks.

The Chair: Thank you. If you could provide that in writing, that would be great.

Let's move on. The remainder of our time is for the government members. Go ahead.

Mrs. Sarich: Thank you, Mr. Chair. I'm going to ask Mr. Khan to lead this portion of the government questions.

Mr. Khan: Thank you, Deputy Chair. I would be remiss if I didn't start my line of questioning by just acknowledging the fact that the Ministry of Enterprise and Advanced Education is a young ministry, formed just a little over a year ago. I do want to certainly take a moment to acknowledge the work of everybody in this room, particularly Deputy Minister Morhart, in being able to coalesce disparate parts of what once upon a time were two-and-a-half, almost three ministries and for bringing together a really strong and cohesive team that's doing fantastic work for Albertans and for the province. So, Mr. Morhart, thank you. For everybody else here who's demonstrating remarkable leadership in everything that you do, I also want to thank you.

I'd like to start just really quickly, if I may, by coming around and asking, perhaps, for some clarity to some other questions that have been asked by some of my colleagues here today as it pertains to the Alberta Enterprise Corporation. I'll direct the question to Mr. Haggis. There's been some consternation, perhaps, about the level of venture capital investment in organizations or corporations that are centred outside of Alberta. You spoke very briefly about one of the cornerstones of a venture capital deal flow. Perhaps it would be helpful, Mr. Haggis, if you could elaborate on the concept of deal flow, the significance that it plays to world venture capital, and perhaps how that line of investment, looking outside of Alberta, addresses deal flow and what the benefits perhaps could be.

Mr. Haggis: Sure. I'm always reminded of, you know, traits of successful people: you've got to give more than you get, you have a sense of humour, and you play to your strengths. You don't try to fix your weaknesses.

So in looking at deal flow and opportunity, the strengths in Alberta are agriculture, forestry – and I just think of that as big plants with a longer crop cycle – and energy. Energy and all of these things are where a lot of brain power and capital are deployed, so how to do it smarter and faster. How can we help those people (a) identify them and then match them up with venture funds, which is what you need to get an idea out of the garage and ultimately to run the world?

When we're looking at deal flow, we're primarily focused on the strengths of the province, which are ag and energy, our natural resources, generally. We're not thinking about tourism or all the other things. We're not thinking about medical stuff. As I've already said, there's a greater focus of that elsewhere. So with that, all the efforts and all the entrepreneurial energy around those functions give rise to the need for capital, and we put them together. That's where you're spending money on the A100, Startup Edmonton, Startup Calgary, those kinds of organizations, which we sponsor because it gives visibility to the entrepreneurs. That will attract venture capital because the venture capital guys will come here and will open an office if they have a prospect to make money.

I go back to that again and again. We're not going to be successful unless two-thirds more money comes in that is private and that has no concept of investing in Alberta. What they want to do is make money, and they're going to go where the deals are and where the smarts are and where the opportunity is to build on the strengths. So that's how it works, and it has worked. I go back to that number: 80 over 45.

Mr. Khan: Okay. Thank you for the affirmation that what you're doing is working. We very much appreciate your efforts and also want to acknowledge the efforts of Barry Heck, who stepped in in a little bit of a dire circumstance and did amazing work.

Mr. Haggis: Thank you very much for that. It's a very difficult time when you have a sudden loss like Rod. Barry and his staff have rallied forward and completed a lot of the work that Rod began and that we've all put together. So it's a positive, positive outcome.

Mr. Khan: If I may, Deputy Chair, I'd like to continue along the line of questioning that some of my colleagues have spoken to previously. I know we're focusing on the enterprise component of the ministry today. A number of my colleagues have spoken to the postsecondaries and the purposeful interrelationship between the two ministries, which formerly were disparate ministries and now are very much aligned.

I come to goal 3 in the business plan, which states: "Alberta demonstrates excellence in research, innovation and commercialization." I'd like to focus primarily on the commercialization aspect because I think we can all agree that we have outstanding research in Alberta and remarkable innovation, and we're leading the globe in many ways in those areas. If there is an area where I think we could possibly do a little bit better, it's that commercialization of said research and innovation.

9:50

My question would be to Deputy Minister Morhart, and perhaps he can pass along the question to whomever he sees fit. If we look at the 2013-14 estimates, we see under line item 5, innovation and technology commercialization, over \$185 million in terms of estimates of expense in that area. I'm just looking for some insight in terms of what may be the co-ordination or a bit of strategic direction in terms of that allocation of expense for bridging – I don't want to suggest there's a gap – strengthening the bridge between our postsecondaries, our PSE, and the AI corporations.

Mr. Morhart: Okay. Thank you for the question. You're referencing the current year document, but just in general the co-ordination happens in the way that we structure our research innovation priorities. That's the place where it starts. We talked previously in this committee about our portfolio advisory committee, you know, the one that sets the agenda for research priorities. What we do then is look at what we're working on within each of our entities, our Alberta Innovates corporations within our research institutions, and look to map dollars and resources to where we can achieve those priorities.

Perhaps I'll ask Stephen to make some general comments about the specific commercialization aspects that we look at. There are some examples that I think he could highlight. I'm going to ask my colleague Alice to comment as well on some items on the environment/energy side that I think are pretty forward leaning from a commercialization perspective.

Mr. Lougheed: Okay. I'll start and hand off. Thank you very much. What I would say is that we're looking at the results from 2011-12, and that, of course, was the second year of operations of the new innovation system. I'd have to use the analogy that it's starting to play as a team, which we've started to do. I think that's really important when it gets to the whole continuum of postsecondary investment through to research and development, with a heavy emphasis on development to commercialization, and then the financing side. Very much when we're thinking longer

term about deal flow in areas in the forest industry and in environmental monitoring, a number of the areas where, as Paul was saying, we're building on our strengths, we're spending significant money in the areas of environmental monitoring, environmental reclamation, and a number of areas which we fund at the university level. Alberta Innovates: Tech Futures is about \$30 million of our funding. Over \$30 million is going into the postsecondary institutions in those targeted areas, looking at graduate students and chairs, that ultimately are working on issues and problems related to our key industries. Those graduate students will end up in the industries and the companies that Paul ends up playing.

Right now it's working the pieces together in a much more seamless way. We work closely with Productivity Alberta as well on productivity issues. I could go on with a hundred stories, as you well know, but it's really getting that team approach working, and it has been working better and better each year since the creation of the Alberta Innovates system.

Ms Barr: Thank you. At Energy and Environment Solutions we certainly put a lot of money into a variety of research programs going from the university and building capacity there. We work very closely with Technology Futures in building capacity there and working with what we refer to as the old ARC and the wonderful people that do the work there.

We also look at industry as being the major partner that does the commercialization in the province, especially in the energy industry. It's that industry that needs to put in the big dollars, but we have over the years commercialized some things or brought things closer to commercialization. It is a 20- to 30-year time cycle, so it takes time to get things to commercialization.

A couple of examples. We've been working very closely with NOVA Chemicals and UOP on some upgrading technologies that are building new catalysts and making our bitumen more marketable and more easily – I think they use the word "pipelineable." It's removing the amount of diluent that has to go down the pipeline and eventually get shipped back to Alberta. It's creating that value and that extra market for our bitumen products. It's looking at field upgrading so that you don't need the big plants; you're doing partial upgrading and field upgrading right on-site. We're working with a couple of companies that are doing some great things in that area, MEG Energy and ETX, both Alberta companies, born here, made here, and really raising the bar for Alberta and for our energy sector.

The Chair: Ms Barr, I've just been instructed by my deputy chair that we're going to now go to the reading-into-the-record portion for questions. If you have more to add to that answer, if you could put it in writing and circulate it to the committee.

Ms Barr: Will do. Thank you.

The Chair: You're welcome.

Is there anybody else that has questions they would like to read into the record?

Mr. Jeneroux: Just one. Thank you, guys. Very simply, on page 76 of the advanced ed and technology 2011-2012 report it shows net assets of \$43.26 million and cash and cash equivalents of \$35.1 million. Again, simply, why should Technology Futures continue to receive its current level of funding if those funds aren't being spent?

The Chair: Mr. Khan.

Mr. Khan: Yes. Thank you. My question pertains to some of the discussion we had earlier in regard to ARIA and their recommendations to AEAE that we consider investments aligning with Alberta Health and the living laboratory concept. I'm just curious to know more about any initiative moving forward in that regard.

The Chair: Mr. Allen, followed by Mrs. Sarich.

Mr. Allen: Thank you, Mr. Chair. Just one question if I could read this in. I know we're aware that under ESRD there's the Climate Change and Emissions Management Corporation, and that exists outside of the research innovation system. I was just wondering if there was any consideration of perhaps bringing that in under Enterprise, or are there organizational efficiencies to keep them separate? Are other ministries doing the same thing for research and development?

The Chair: Mrs. Sarich.

Mrs. Sarich: Thank you, Mr. Chair. This is for Alberta Innovates: Bio Solutions. If you refer to schedule 1 of the financial statements, the corporation had budgeted for grant expenditures of \$16.8 million and new investments, other, on the schedule of \$3 million. Actual grant expenditures were \$13.4 million, and no new investments were made; therefore, actual expenditures were about \$5.7 million lower than budgeted, which is about 23.5 per cent of the corporation's budget. An explanation for these changes would be appreciated. Thank you.

I believe Mr. Amery may have a question.

The Chair: Okay. Mr. Amery.

Mr. Amery: Oh. I thought we were done. Thank you very much. My understanding is that for many years your department has been funding international medical graduates. We reached a number of about 65, and then it had been reduced to about 50 or 55 this year. I find that very strange. When I look at Alberta Innovates: Bio Solutions and Technology Futures, these corporations showed net assets of large sums of money. We all know that we have doctor shortages, that we cut in that department, and we have this money sitting there.

The Chair: There is so much. Thank you. Anybody else?

There are a lot of questions. You know, time is always short at these things, so I'm actually going to table two documents to our guests today. One is the briefing on the Ministry of Enterprise and Advanced Education by the office of the Auditor General, and the second is the suggested discussion points and questions for the Standing Committee on Public Accounts. These had many, many excellent questions, some of which were discussed today very

well and in very good detail. I'm going to table these, and I'm going to ask that the questions in here be responded to in writing for the committee members' benefit. There just simply wasn't enough time to get to most of them today. I think you'll be able to supply the answers, and if you can't for some reason, just make a note of why you can't, and that will be fine.

10:00

With that, we just have a couple of pieces. I'd like to thank our guests today for coming and answering the questions of the committee. For the committee's information, since our last meeting we have received written responses from Olds College, NorQuest College, and Northern Lakes College to follow-up questions put on the record by committee members, and those are on the internal and external websites for the committee.

As a reminder we have a delegation from the Yamalo-Nenets region of Russia coming to visit Alberta. It's a seven-person delegation. They're part of the Yamalo-Nenets audit chamber and are coming to learn more about our Public Accounts practices here in the province. Would there be any members interested in meeting with them somewhere between the dates of August 20 and 23, possibly at lunch here at the Legislature, to exchange ideas and discuss a little bit about how Public Accounts works? Why don't we just do it this way: if you look at your schedules and you're here and interested between August 20 and 23, please contact Chris, our committee clerk, and CC me, and we'll make sure that you're involved in that.

Is there any other business committee members would like to raise at this time?

Seeing none, the next meeting will be on September 12, 2013 – so enjoy your summer – when the Canadian Comprehensive Auditing Foundation will be coming in to meet with the committee and run a workshop on improving reporting practices. That will be held from 9 a.m. till noon, so it'll be a three-hour session for us, some more training. We'll then break for lunch and then come back for a full Standing Committee on Public Accounts meeting to discuss the information gained from the presentation and set a meeting schedule for the fall. The September meeting will last most of the day, so please try to book it off in your calendars now so that you're able to attend. Again, that's September 12, 2013.

Do we have a member who would like to move adjournment? Nobody wants to go home? Okay. We'll stay here.

Mr. Goudreau: So moved.

The Chair: Mr. Goudreau. All those in favour? Any opposed? Carried.

Thank you very much.

[The committee adjourned at 10:02 a.m.]

