Standing Committee on the Alberta Heritage Savings Trust Fund Act

10:00 a.m.
[Chairman: Mr. Dunford]

MR. CHAIRMAN: I'd like to call the meeting to order. I see it's a half after 10. Just for the sake of the members, now is the normal time that we will be dealing with this: does anyone have a recommendation they wish to read into the record at this point?

Seeing no hands waving, the next item that I want to mention is our infamous, carved-in-stone schedule. Thursday has been canceled. The Alberta Heritage Foundation for Medical Research will now be appearing before us on January 24, 1994, from 2 p.m. to 4 p.m. We will be proceeding with Friday, and we will be proceeding with next Monday as is on your schedule. Any discussion?

DR. MASSEY: You'll send out a new notice, the hourly report?

MRS. SHUMYLA: Yes.

MR. CHAIRMAN: Diane will be circulating the hourly report to all members, and I'll take the responsibility of phoning Lance at his home. I'll phone him in the middle of the night when I'm getting home.

Now I would like to introduce to the members Mr. Sandy Slator, who is the – is it president, sir, of Vencap?

MR. SLATOR: President and chief executive officer.

MR. CHAIRMAN: President and chief executive, then, of Vencap Equities Alberta Ltd. We're pleased, sir, that you are able to be here before us today. I would ask the members to question thoroughly – that is our purpose – but also to keep in mind that this is a privately held company, with shares, I guess – is it the Toronto Stock Exchange or the Alberta?

MR. SLATOR: It's a publicly traded corporation.

MR. CHAIRMAN: I'm sorry. A publicly traded corporation. We might want to keep that in mind and of course understand that the responses to your questions might have a sensitivity, then, toward that.

Mr. Slator, we would invite you to perhaps provide us with an overview. We look forward to your comments.

MR. SLATOR: Great. Thank you very much, Mr. Chairman. As I say, this is the first time that I have attended a session such as this, so I'm somewhat a little unfamiliar with the process. What I would like to do is perhaps provide a five-to-seven-minute overview of Vencap and then open it to questions from you and provide answers the best I can. As the chairman indicated, we are a publicly traded corporation, and I may have to be somewhat cautious in some of the answers that I do provide, keeping in mind that I can't say anything that will dramatically affect either positively or negatively the share price of our company. We trade on a daily basis, as you're aware.

A brief overview. Vencap was established back on October 12, 1983, primarily as a publicly traded, privately managed venture capital company. On October 12, 1983, we raised $44 million on the public markets, and coincident with that we secured a $200 million loan ostensibly from the heritage trust fund in order to provide us an initial capitalization of approximately $244 million. At that time there were many reasons for building a fund of that size. I think one was that certainly we wanted to establish a large enough fund that could cover a cross section of business activity throughout the province of Alberta. Secondly, we wanted to ensure that we could complete the investment cycle in the venture capital industry – and that investment cycle spans somewhere between seven and 10 years – the idea being that we would invest probably on average $20 million per year. Over a 10-year period, that would be roughly $200 million.

Another concept at that particular time was that we wanted to create a fund large enough that could be considered to be a player in the venture capital industry in North America. We wanted to ensure that we could attract the attention of other venture capital funds that operate throughout North America. The process of venture capital is that venture capital companies work together. Very seldom are you the only investor in a particular company. You try to attract coventures; you try to attract capital from other sources. In order to attract that capital, you had to be seen as a player in the industry. When we were first formed, back in 1983, we were certainly the largest venture capital fund in Canada, and we were one of the five or six largest funds in North America. Now, that has changed somewhat since. We are, I would suggest, the second largest fund in Canada, the largest being the solidarity fund based in Quebec.

I'm sure you are aware, but I'll just discuss very briefly the terms of the loan with the heritage trust fund. It is a loan that does not have a specific interest rate associated with it. The interest rate is basically equivalent to 50 percent of our pretax profits for any given year. There are ostensibly no principal payments for the first number of years of the loan, the first 20 years of the loan as a matter of fact: $1,000 a year until the year 2003. Then in the year 2003 the loan starts to be repaid at the rate of $15 million a year, and there's a balloon payment in 2013 of approximately $50 million.

With that background and overview let me summarize what our venture investing activities have accomplished during the first 10 years, because we are now just slightly more than 10 years old. More than $245 million has been invested in 70 companies, companies at all stages and in a broad range of industries. Contrary to some perceptions, Vencap can invest in more than high-tech start-ups. Our large capitalization at the outset was to enable us to invest in any opportunity that we believed could be built into a successful enterprise. I'll emphasize that aspect: our business is building successful businesses.

In addition to doing start-up investments, we've also done preseed and seed capital investments. I'll mention specifically the seed capital activity for the early stage or start-up activity. Out of the 70 investments that we have made since inception, 33 of those have been pure start-ups or at a very early stage of the investment cycle. What is even more interesting is that 22 out of these 33 companies, or 67 percent, are still in existence as companies. I think that's a very remarkable statistic when you consider that in the start-up activity, the success ratio throughout North America is really in the 5 to 10 percent range. So 67 percent of our start-ups are still in existence. I think perhaps we've been quite lucky. I don't think there's any question about that, but I also know that we have chosen our investments well and we have managed our investments well.

At the other end of the spectrum we have a number of investments that are at the expansion stage, where we've invested in existing companies that have significant opportunity for growth and are seeking capital to finance that growth. Our venture capital portfolio runs the gamut from companies in the industrial manufacturing sectors to consumer products and retail and obviously to technology situations as well. Our portfolio is roughly one-half call it in the industrial manufacturing sector, one-quarter in consumer products and retail, and one-quarter in technology. We cut a wide swath through the economic landscape of Alberta over the past 10 years. Keep in mind that we have disposed of some companies; five companies out of the 70 have gone bankrupt. But our current portfolio of 38 companies and the Alberta segment of that portfolio employs in Alberta in excess of 10,000 people and accounts for somewhere in the neighbourhood of 2 and half to 3 percent of the private-sector labour force in this province. Our Alberta companies alone have combined sales of $2.3 billion, representing approximately 4 percent of the gross provincial product. Put another way, if we consolidated our financial statements – and we don't consolidate our financial statements – Vencap would rank as the 52nd largest publicly traded company in Canada. When you consider that we do not invest and cannot invest in oil and gas exploration, real estate development, and banking and financial institutions, I think that statistic is even more remarkable.

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The geographic makeup of our investment portfolio, as I indicated earlier, is largely reflected by Alberta companies, with approximately one-fifth of our portfolio based in other western provinces or outside of Canada. Vencap does invest outside Alberta when we can bring back some benefit to the province of Alberta. That comes as a surprise, I think, to many people. I think if you take a look at the original prospectus and the articles of association of Vencap, there's no mention of not being able to invest outside of Alberta. As a matter of fact, the prospectus stated that we would invest outside of Alberta. You may want to question some of the examples later on, but in each instance we do bring benefit back to the province of Alberta, and that is the primary intent. That benefit could be direct; it could be indirect. It may be a current benefit to be brought back to the province of Alberta, or it may be a benefit that may come back sometime in the future.

This is a global economy, and there are no boundaries anymore. I think boundaries exist in the minds of perhaps political people, but they do not exist in anybody else's mind. Pollution doesn't know a boundary. The economy, finance, does not know a boundary. Business does not know a boundary; therefore, Vencap and its companies do not know a boundary. We are in a much bigger playing field than was previously the case. The companies Vencap has invested in are doing business in every continent in the world and in most countries in those continents. Vencap has been able to assist them in making this leap to international markets.

How do we rate in the venture capital industry? We're among the leaders in the level of dollars invested. We've invested an average of $24.5 million per year over 10 years. As I say, there's no venture capital company in Canada that has invested at that rate, and there are very few in North America, read the world, that invested at that rate.

From a performance point of view on our venture capital portfolio, we're in the top quartile of all venture funds in North America formed between the years 1982 and 1984. We have those statistics out of Venture Economics in Boston. We have also been a model for other provinces in Canada, other states in the United States, and other countries in the world as to how to create a good, viable, successful major venture capital company.

Ladies and gentlemen, those are my opening remarks. As I say, I did not get into specifics because I do expect the specifics to come forward in the question-and-answer session, Mr. Chairman.

MR. CHAIRMAN: Thank you, Sandy. I might mention that we're on a first-name basis in this committee in terms of trying to keep formality down to a minimum.

The procedure will be now: as we open the floor to questions, we'll start with the opposition members, and then we'll be working on a rotation with them. We'll be going back and forth between both the opposition and government members. I've been provided with a rotation list for the opposition members. We'll start with Mike Percy.

DR. PERCY: Thank you, Mr. Chairman. Mr. Slator, in 1992 the then minister of economic development and trade, Peter Elzinga, had requested to bring forward the Vencap Equities amendment Act. This was a consequence of discussions between Vencap and the government relative to the mandate and repayment schedule. Can you tell me: are there discussions ongoing now with regards to legislation that might be brought forward?

MR. SLATOR: I have not had any direct discussion with the government in power at the present time. Actually, discussions I guess started back in approximately 1988, so I think there have been ongoing discussions, but I have not had any direct communication with the government at present.

DR. PERCY: Are there discussions now under way, though, with regards to the repayment schedule of the $200 million loan?

MR. SLATOR: They have not contacted us. I believe there has been an overture made by a third party to consider something along a repayment schedule.

DR. PERCY: Is it fair to say that Vencap, though, would like to renegotiate the existing set of arrangements?

MR. SLATOR: Let me step back a little bit, and I guess I will bring forward some of the history of the discussions we have had. When Vencap was first formed back in 1983, the structure that was developed at that particular point in time was a structure that was designed to, as I say, attract many investors into the venture capital process. It's a structure that was good at that point, but I really question whether that structure is valid today. There are many restrictions through the articles of association and through the loan agreement with the government. The 1 percent ownership restriction is a classic example of a restriction that really prevents us from raising additional equity capital. If we were to renegotiate that position with the province of Alberta, we would have to raise additional capital, and you can't do it when you have a 1 percent ownership restriction in the company. I guess that's a little bit of the background.

I guess if I were to answer your question more directly, Mr. Percy, I would say, yes, Vencap would consider discussion to renegotiate the provisions of the Vencap loan agreement.

MR. CHAIRMAN: Thank you.

Denis Herard.

MR. HERARD: Thank you, Mr. Chairman. Good morning, Mr. Slator. We've had 10 years of Vencap now since you got the $200 million loan. I understand that there's $169 million invested in marketable securities but only 40 percent of Vencap's assets are actually in venture investments. Now, that seems to be a rather small proportion, and it seems to have come fairly slowly over the 10 years. Why has Vencap been so slow in investing in venture?

MR. SLATOR: Well, to reiterate what I did say in my opening remarks, we have invested at a rate that is much more rapid than virtually any other venture capital company in Canada or the United States, so it hasn't been a slow process. Keep in mind that it hasn't just been 40 percent of the $200 million or the $244 million. We have invested in fact substantially more than the $200 million loan; we have invested $247 million. You have to appreciate that there's a turnover with these companies, and you end up selling the companies for profit hopefully, getting that money and more back. So the process has not been slow.

I think perhaps a subsidiary question or a follow-on question to that could be: why has there not been more investment activity in Alberta? We have averaged seven investments a year. There has not been, I guess, the real ability to invest any more. You have to appreciate that we spend 70 percent of our time after we have made the investments, so the human resources necessary to manage the portfolio we have really does take up about 70 percent of our time. So we only really have about 30 percent of our time available for new investments.

Just a couple of statistics I may point out that may help clarify that. We have viewed over 10 years approximately 5,000 companies; we've invested in 70. That represents about a 1 and a half percent deal completion rate compared to the investments reviewed. That really is quite standard in the industry. You do about 1 to 1 and a half percent of the investments you see. That's not to say that the other 98 percent of the investments are not good companies, but they are not necessarily companies that fit our venture capital profile. You may not be able to strike a deal with the entrepreneur. You may not believe in the entrepreneur's ability to build that business itself. There are many reasons why you do not make an investment, but we invest in approximately 1 and a half percent of the deals that we do see. So the process really hasn't been slow; it's really been quite hectic.

MR. HERARD: What is the Vencap investment profile that you just mentioned?

MR. SLATOR: The investment profile?

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MR. HERARD: You said that there were a lot of companies that didn't fit the Vencap, I suppose, idea of what a profile should be. Can you elaborate on that, please?

MR. SLATOR: Sure. First of all, obviously there are three things that we cannot invest in. We cannot invest in oil and gas exploration. We cannot invest in real estate development or banking and financial institutions. We will invest only in companies where we see or we believe that there can be a significant growth for that company. We ultimately have to exit from an investment. If an investment is not going to achieve a certain growth factor – and it's got to become a fairly significant company – we would not be able to exit from that investment. So exit is of paramount importance down the line. We must find a competent and good management team in which to invest. I don't think there's any question that the management is the key ingredient to any successful venture, and if we do not believe, as I say, in the entrepreneur and that entrepreneur's team, we will not make that investment. So it's the ability to grow, the ability to build a successful business, and a good, strong management capability. That's what we'll invest in.

MR. HERARD: So I guess, then, you could characterize the investments as not so much start-ups in very junior operations but perhaps start-ups in some fairly mature operations.

MR. SLATOR: There will be that as well, but as I said earlier in my presentation, 33 out of the 70 have been start-up companies. So there'll be a cross section. We invest in every stage of investment activity. We will invest in seed capital initiatives. We will invest in early stage. We will invest in expansion. We do invest in turnaround but not by design. That's when we have a company that starts to go into the skids. As I say, we cover the entire broad cross section of venture investing. Part of the reason we have done that is because we have a large fund. You could not invest in 10 lifetimes $200 million in seed venture capital in Alberta. It just does not exist.

MR. CHAIRMAN: Okay. Thank you.
Sine Chadi.

MR. CHADI: Thank you, Mr. Chairman. Mr. Slator, the Vencap company was started back in 1983, and according to your opening comments, you mentioned that there was a $44 million public share issue and the $200 million that was a loan from the heritage savings trust fund. Up until now, say 10 years later, could you give us an indication as to the annual rate of return that the shareholders of the $44 million public share offering received versus the annual rate of return on the funds from the Alberta heritage savings trust fund?

MR. SLATOR: Shareholders have received, if you average out the common shares and the debentures, I would suggest in the neighbourhood of about 12 to 13 percent. There are two components. The $44 million that was raised from the public is $4 million in common shares. Those common shareholders have received a compounded annual return of approximately 18 percent. The debenture holders, on the other hand, those who made the initial purchase have received a compounded annual return of approximately 14 percent. But the debentures were trading at a premium of 30 percent, so if you bought later, the return would be less. The immediate direct return to the province of Alberta, the heritage trust fund, is approximately 2 and a half to 3 percent. They've received $63.1 million in interest on the loan over the past 10 years.

Then you take a look at, I'll call it for want of a better word, the indirect return that the province of Alberta has received; that is, the creation of a number of businesses in this province that employ approximately 10,000 people. Now, I'm not for a moment going to suggest that these 10,000 people would not be employed in any case, but when you consider that 33 of the companies have been start-ups or companies that did not exist, I think a certain portion, a certain number of those people perhaps may not be employed. So let's say that 5,000 employees – cut it in half – are employed in this province because of Vencap initiatives. Five thousand employees at an average salary of $30,000, what is that? A hundred and fifty million dollars of wages. That is very conservative, I might add, because the wages paid by the Alberta-based companies in Vencap's portfolio are significantly higher than that, but let's say $150 million. The average tax rate: 20 percent, $15 million. Alberta's portion of 46 percent of $15 million: roughly $7 million. So they're getting another 3 and a half to 4 percent return out of that, plus the corporate taxes that these successful companies pay, the fuel taxes that these successful companies pay. I think if you really did an economic evaluation and an economic study of the impact that Vencap has had on the province of Alberta, you would find that that $200 million provided at least a market rate of return if not higher.

MR. CHAIRMAN: Can I interrupt for a minute?

I see we have some visitors in the gallery. On behalf of the members of the committee, I would like to welcome you this morning. I want to advise you that the people that you see assembled here before you are the members involved in the standing committee on the heritage savings trust fund. This committee is more informal than what normally would be happening here in the Chamber. We're allowed to remove jackets; we're allowed to sit in seats other than our own. So if you are trying to recognize some of the members today, I would suggest you'll have to look at the pictures rather than at their physical location at the present time.

We have before us today presenting evidence Mr. Sandy Slator, who is the president of Vencap.

We'll now proceed with the first supplemental from Sine Chadi.

MR. CHADI: Thank you, Mr. Chairman. Sandy, I disagree with, you know, not only the benefits for Alberta in terms of income taxes, in terms of jobs. I disagree with, I think – and I'm going to ask you this – the rate of return of 12 to 18 percent that was paid on the $44 million of perhaps Albertans that are out there versus the 2.31 percent that was paid to Albertans. Now, I understand your justifying it by saying that there were jobs created and there are corporate income taxes and this and that. But is it really fair when you sit back and you look at one sector of this company, shareholders, if you will, receiving 12 to 18 percent and another section of the shareholders of this corporation receiving 2.31 percent? I mean, it just doesn't seem fair.

MR. SLATOR: Well, I guess that would be an opinion you could form, Sine. I guess you'd have to go back to 1983 to determine what the initial thought process was of Peter Lougheed and Hugh Planche at that time. They structured the deal with Vencap and did provide us the loan, and we signed a loan agreement under the terms and conditions that we adhere to. They believed that they would look at it from the concept of direct and indirect benefits associated with the creation of Vencap. So, as I say, we can all sit and agree or disagree, but that was the situation at that particular point in time. You know, I guess we live with the design that we have had.

I don't think that one should underestimate the indirect benefits associated with the creation of Vencap. I think we can look across Canada; we could certainly look in this province and see, I guess, that the country is littered with the remnants of investments that were made that in a different fashion were successful. Success, I guess, just has not been achieved in many, many investment sectors because the investments were made for reasons that were not economic. We look at things from an economic basis and have created success, and we have created those successful ventures, Sine. Those successful ventures will pay corporate tax. Their employees will pay income tax into the coffers of Alberta, that otherwise might not have been created. So I don't think you can underestimate that aspect of it.

10:30

MR. CHADI: No, and I really don't underestimate the indirect benefits. Let's face it; when we're talking 4 percent of the gross provincial product, it's certainly worthy of our support.

I'm going to go back. Your earlier comments mentioned that the deal that was structured back in '83 was such that the rate of returns of this concessionary type of loan would be “50 percent of . . . pretax profits.” You used those words. It just seems to me that what ultimately could happen here is – certain shareholders, if you will, are being paid a juicy rate of return and, of course, lowering the amount of money that would be paid. I understand the deal. I mean, the deal is 50 percent of pretax profits. When you start paying a certain portion of that, greater amounts, just so that it would appear as though you're trying to reduce the 50 percent of pretax profits – is that what is happening here?

MR. SLATOR: Well, there certainly isn't any desire to specifically reduce the pretax profits so any group will not get a share. I guess that brings to mind another aspect that we have to keep in mind, and that is the risk/reward approach of both parties. If we lose money on an investment, the province still gets its $200 million. It's the shareholders who pay. So when things do not go well, the province still gets its $200 million.

MR. CHADI: Not if Vencap goes down.

MR. SLATOR: Vencap will not go down. The province still gets its $200 million, so it is a loan for the shareholders. It comes out of the shareholders' equity.

MR. CHAIRMAN: Thank you.

Heather Forsyth.

MRS. FORSYTH: Thank you. My first question is: why are Vencap's investments being made with an increasing frequency in companies located outside of Alberta when I believe the recommendation last year was that you keep the investments within the province of Alberta?

MR. SLATOR: I'm not familiar with the recommendation last year, quite frankly. We do not have a reporting relationship to the heritage trust fund for starters. We have an agreement with the province of Alberta designated to provide information to Treasury and to the department of economic development. So recommendations out of the heritage trust fund: I mean, I'm not even familiar with them, quite frankly.

The best way to discuss, I think, the investments out of the province of Alberta is to perhaps provide some examples. Keep in mind that when Vencap was first formed, it was indicated that there would be investments made outside of the province. The overriding positive process for Vencap is that investments, in the opinion of management, should be of interest to Alberta and Albertans, end of story. Those investments can be inside Alberta; they can be outside of Alberta.

Let me give you some examples. We invested in a company called Great Canadian Railtour. Great Canadian Railtour is based in Vancouver. Great Canadian Railtour over the last three years has brought 65,000 tourists to the province of Alberta: to Banff, Jasper, and Calgary. Now, I don't know, and I haven't taken any specific statistics on this, but I'd suspect that those 65,000 people who have come into the province of Alberta have spent a tremendous amount of money in the province. It's a non-Alberta investment that is bringing benefit to the province of Alberta.

Biosys is a company in San Francisco that we invested in a number of years ago. They manufacture nematodes for nonchemical pest control. Seventy percent of their manufacturing was done at the Alberta Research Council in Edmonton, and for a fee I might add. So it brought benefit to the Alberta Research Council in Edmonton; it brought some international recognition to the Alberta Research Council in Edmonton. As a matter of fact, until a year and a half ago it had two locations designated for their worldwide manufacturing facility. One was in Devon, and the other was in the Edmonton Research Park. That didn't happen because Archer Daniels Midland of Decatur, Iowa, gave them an offer they could not refuse, and they're manufacturing in Iowa at the present time. The worldwide manufacturing facilities in the future still may be built in the province of Alberta.

We invested in a company called Crystalline Materials, Walnut Creek, California, just outside of San Ramón. Crystalline Materials: worldwide manufacturing. The only manufacturing plant they have is now located in Calgary, Alberta, as a result of Vencap investment.

We just closed another investment called Camelot technologies. Camelot is a major investment that we have made: $3 million from us. We attracted an additional $9 million of U.S. equity capital from Cohasset, a very major health-related company, a venture capital arm which I cannot name, and Advent International, the largest venture capital company in the world. We brought that capital to Alberta. Camelot technologies is moving their headquarters from the United States to Calgary and building their plant in the province of Alberta.

So these are the things. OrthoLogic, a Phoenix-based company involved in the electrostimulation of bone healing: we made a $900,000 investment in that company a number of years ago. Five hundred thousand dollars of that $900,000 went to the University of Calgary to further the research of Dr. Cy Frank, who is working in the electrostimulation of muscle and tendon healing. Cy Frank, had he developed that technology, would not have been able to market that technology directly but through our involvement with OrthoLogic in Phoenix could market that product directly through OrthoLogic into the United States.

I could go on and on with all of the investments that we have made. To be quite frank, some of them haven't worked out. Cholestech is an example. We were expecting to bring the manufacturing technology of Cholestech to Alberta. We ended up not doing that. We're in the process of selling the company right now. I'd say that in 75 percent of the cases where we have made investments, we have brought either technology, marketing capability, manufacturing capability, or interchange of ideas with the 27 research institutions and universities that we have in Alberta to the province of Alberta. So there are tremendous benefits that we have brought forward.

In response to your initial question I'll repeat that, as I say, the recommendations of the heritage foundation I'm not even familiar with.

MRS. FORSYTH: Are these outside-based companies then competing with Alberta businesses, such as the $850,000 investment in Pacific Linen of Seattle, opening stores in Edmonton and Calgary?

MR. SLATOR: I think in the retail trade they would be competing with Alberta-based companies. The one thing we've been able to do with Pacific Linen, for example, is bring directly into Canada U.S.-based cost to the consumer. I don't know whether you're familiar with the situation that you have in Canada, particularly in the linen industry but it occurs with other industries. You've got basically a 40 percent markup by eastern-based Canadian distributors in order to get linen into Canada. We can now bring directly through Pacific Linen into the Canadian marketplace a lower cost, higher end linen product. That was the outgrowth of a start-up company called Folkestone, which was strictly Canadian-based. Costs were high, and from the supply point of view they were able to get approximately five out of 40 major linen lines in Canada. That was all Canadians were seeing. It wasn't just Edmonton or it wasn't just Alberta. It was all of Canada, because Canada was such a small part of the North American market. We now get 35 to 40 of the 40 main lines of linen into the Canadian stores because of our involvement with Pacific Linen. So, yes, they do compete, but the consumer is the winner.

MRS. FORSYTH: My last question is: how is the $2.4 million investment in Don Cherry's sports bar franchises compatible with economic diversification of Alberta's economy?

MR. SLATOR: A very good question. I have to go back a little bit on that one. We first invested in a group called Western Sizzlin. Once again, we try to build successful businesses. There's a little bit of misinformation, I think, that occurs in the press, just a tiny bit. I'm sure you all agree with that. This was a Canadian company that we had formed.

MR. MITCHELL: Anything they say about the Tories is usually right.

MR. SLATOR: We had formed a Canadian company that had the Canadian rights for Western Sizzlin. Everybody thought that all this money was going to the United States, which it wasn't. We formed Western Sizzlin. The individual we really backed was a fellow by the name of Frank Carney, who started and developed Pizza Hut. He ultimately sold Pizza Hut to Pepsi-Cola for $350 million. He then went on and established a Mexican chain, Chi-Chi's, in the eastern seaboard and was very successful at that. This was his third try. He was building this Western Sizzlin in the United States. We thought we would piggyback on that, get the Canadian rights, and build a major Canadian Western Sizzlin franchise headquartered in Alberta. It didn't work out. Our work with the Don Cherry's Grapevine has been an attempt to save the investment, to resuscitate a mistake we had made. We're human; we do make mistakes. Quite frankly, it is going reasonably well now. We have stopped the bleeding in the company, and we are profitable. If you ask the questions, “Would I do it again; would I get into the restaurant business again?” – not on your life.

10:40

MR. CHAIRMAN: Thank you, sir.

Danny Dalla-Longa, a Calgary request.

MR. DALLA-LONGA: Thank you, Mr. Chairman. Thanks for coming today, Sandy. You and I have talked about some of these investments in the past. While I think my dealings with Vencap have been very good, I and I know others in the industry that I am still in have concerns about them. The flavour of my question is along the lines of some of the previous questions. As I understand it, Vencap was set up in 1983 to make investments in high-growth, profitable companies whose business operations would significantly benefit Alberta's economic development and lead to diversification. I think that was the thinking of the government back then, and I think it was a good plan. With an investment of $200 million and getting a return of only 3.4 percent, that has to be the plan.

My first question. There are two investments, and I still don't understand the logic of them. They were relatively well established. They had retail outlets in both major cities, and then Vencap proceeds to make rather substantial investments. Forzani and Mark's Work Wearhouse: one was in good shape, and the other one wasn't in good shape. I don't understand how those fit in with the realm of venture capital investments and how they would significantly help Alberta.

MR. SLATOR: Certainly. You do have a good understanding of the venture capital process. I know, Danny, that you do understand that what differentiates venture capital from all other forms of capital is threefold. One, it is risk capital. We don't invest in anything that is secured. The only security we have is the belief we have in the entrepreneur and that entrepreneur's ability to build the company. Secondly, it is long-term capital. Third, it is value-added capital.

You mentioned two specific investments: Forzani and Mark's Work Wearhouse. Does that fit in with the idea to, I guess, enhance or diversify the Alberta economy? Diversification, perhaps not necessarily. Both of those companies were existing in the province of Alberta, and there are others that do exist in that area. Forzani, a classic example. When we invested in their company, they were a $20 million sales company. I can talk about this because we took them public in June. They were a $20 million sales company when we invested two and a half years ago. Without added capital into that company and without the value added that we could bring it, they would probably be a $20 million company today. That company two and a half years later will have sales this year of about $80 million. They are certainly western Canada's largest sporting goods retailer and probably the second largest sporting goods retailer in Canada.

I think what we are also trying to do with the companies is build significant enterprises that are Alberta based. Why should Toronto and Montreal have all the headquarters of major companies in Canada? I as an Alberta businessman want to see major Canadian and national and international companies with Alberta headquarters. If we can play a role in developing that, that's what I would really want to do. That's what I really want to accomplish for Alberta.

Mark's Work Wearhouse is a very similar story. Mark's was in trouble; there is no question. Mark's was a rising star a number of years ago and fell on hard times, but now, as I say, with the added capital that we have brought to the company and the capital that we were able to attract by our investment – we only participated in part of that equity offering, but the fact that we were there enabled Mark's Work Wearhouse to raise a significant amount of capital to enable them to survive and prosper and become once again a major national organization headquartered in the province of Alberta.

MR. CHAIRMAN: Thank you, Sandy.

Danny, before you proceed, I'd like to welcome some guests with us this morning. I see some bright young faces. It looks like probably a school group.

What you're observing is the hearings of the standing committee on the heritage savings trust fund. To my right we have an all-party committee. If you were to try to understand who these various characters were, you would have to look at pictures on a sheet that may have been provided for you. Here on my left is Mr. Sandy Slator, who is the president of Vencap. When we're in committee like this, we are able to be a little more informal, and that's why you might notice two things: one, we don't have our jackets on, and secondly, of course, within certain constraints we're allowed to sit in other seats than what are normally designated to us. I'd like to thank you for coming and wish you a merry Christmas.

We'll proceed. Danny, your first supplementary.

MR. DALLA-LONGA: Yeah. Just to carry on along that line, in your initial response, Sandy, you talked about the expansion and the growth. There's no doubt; Forzani's has been a great investment. I wasn't aware that Mark's had pulled it out yet. That probably is maybe a little different circumstance, but if I can focus in on Forzani's, they were a successful company. There are a lot of other venture capital companies in Canada. If I go to Ontario to try to get an investment out of one of their groups for a company in Alberta, they'll say no. Okay. The situation with Vencap as I see it is that it has to invest in profitable companies, but I believe it should be Alberta companies that sustain Alberta. Forzani's, with the money that they've taken, have gone outside of the province. That's the concern that I was re-emphasizing. I guess just an additional clarification on that, because I see Vencap moving more to that type of investment.

MR. SLATOR: You will continue to do so, Danny. I disagree with you completely. If the only purpose of a company is to build in Alberta, those companies are dead in the water. It's a new era out there, and companies must attack national and international markets, for if they don't, they're dead. They will die, and we will just have a wasteland in this province. We'll be part of that encouragement to develop national and international markets for our companies. We have a responsibility, we believe, to build major enterprises, and the only way you're going to build major enterprises is by developing these companies to attack national and international markets.

Just to speak of the venture capital industry itself, the primary reason why you wouldn't get anybody out of Ontario to invest in Alberta is that there's nobody there. The venture capital industry in the last five years has changed so dramatically. I'm also the president of the Association of Canadian Venture Capital Companies, as you're aware. I have to go down tonight for a meeting tomorrow. The face of venture capital has changed significantly. There really is no private-sector managed venture capital company any longer. I know you've been attending the conferences for a long time, but four years ago we had a hundred members in the association, and we have 38 today.

Venture capital is primarily managed now by tax-driven funds, these labour-sponsored funds, primarily the solidarity fund out of Quebec, which now has $800 million under management; Working Ventures in Ontario, which now has $140 million and I'll bet they'll be at $400 million by the end of this coming RRSP season; Working Opportunity Fund in Vancouver, which will probably raise in the neighbourhood of $50 million to $60 million in British Columbia; the Crocus fund in Manitoba, the same thing. There has been zero new money from the traditional institutions going into venture capital over the last four years. Primarily in Ontario you're looking at two or three funds left, and that's it. It has changed dramatically and will continue to change over the coming years. It's what they call the hybrid fund. Vencap is classified as a hybrid fund because of its loan with the heritage trust fund. The industry in Canada is made up primarily now of hybrid funds. All of these funds have provincial jurisdictions. Well, I guess the Working Opportunity Fund doesn't, because they can invest in Saskatchewan, Prince Edward Island, and Ontario.

10:50

MR. DALLA-LONGA: Well, I guess you have to appreciate the role that this committee has to take in sort of representing the interests of the province. So we have $200 million out earning 3.4 percent, a $3.7 billion deficit, $25 billion in the tank, and our cost of borrowing is higher than 3.4 percent. I can appreciate your role, but what are your comments with regards to this investment that this province has made when you're having to go outside of the province and benefit not necessarily as directly as was initially intended the province of Alberta?

MR. SLATOR: I'm not sure what, I guess, the fathers of this fund intended. I can't comment on their behalf. Certainly in discussions with the people of the day – and I'm going back 10 years – it was anticipated that the rate of return would not be market rates of return, because if it was going to be market rates of return, then they would have assigned a market rate of interest to the deal. They understood that part of the process was to develop success within the province of Alberta so that they could indirectly benefit through the tax revenues, et cetera, et cetera. To be frank, Danny – I mean, you asked me for my comment – my major thrust is to build successful businesses. My major thrust is not to get involved in the argument of whether or not it was the right thing to do at the time.

MR. CHAIRMAN: Thank you very much.

MS HALEY: Mr. Slator, could you tell me what the qualifications and expertise of Vencap's investment personnel are and how their remuneration is tied to the performance of their venture investments?

MR. SLATOR: Okay. The answer to the first part of your question: we've got a very eclectic mix of talent within the organization.

Certainly we're very demanding of our people and look for very, very high-quality people. The mix ranges. I've got MBAs, but they're not all MBAs. I've got engineers. I've got a PhD in immunology, Dr. Tom Rice. That individual does concentrate certainly in the medical technologies and the medical area. There's an incredible mix. I've got one individual, an investment professional, that does not have any degree whatsoever but good, sound business experience: operated a business, built a business, and ultimately sold the business. So there's a tremendous mix of talent within the organization.

With regard to the second part of the question, how the remuneration is tied to the success of Vencap, that currently is under discussion with the board of directors of the company. The standard in the venture capital industry is to have what you call a carried interest. A carried interest allows the management team or the investment professionals to participate with the shareholder, so to speak, in the success of the company. The standard figure is 20 percent of the net gains and losses. We don't have a carried interest program within Vencap, and it has caused us difficulty in recruiting out of the venture capital industry. We have not really been able to hire experienced venture capital players; we hire nonexperienced people and then train them to be venture capitalists. We do have, however, what we call the class B share option program, but it's not really that good of a program for the staff as an incentive device. We're looking at that incentive area right now. When the shareholders and the province gain, then the employees will gain as well.

MS HALEY: Your tie with the Alberta government because of that $200 million loan: does it impact your ability to do the things that Vencap needs to do?

MR. SLATOR: It does to a certain extent. From a capital raising point of view it really does tie our hands; there's no question. Dr. Percy asked early on would we want to renegotiate or would we want to do something with that loan, and the answer is yes. We would really want to consider it, because some of the restrictions imposed with that loan which may have been right in 1983 are not right today. So, yeah, we'd look at that. You know, we have some restrictions on what investments we can make. I'll flippantly or jokingly say – but I'm serious when I say it – that if in 1983 we had been able to invest in oil and gas exploration, real estate development, and banking and financial institutions, we'd probably be broke today. I mean, you take a look at what happened in Alberta in 1983 and the next few years with a couple of banks and real estate and the oil and gas industry. We would have been blown out of the water. So actually from that point of view, for those restrictions I was really quite thankful.

MS HALEY: Having said that, is Vencap involved in the agriculture industry in Alberta?

MR. SLATOR: Yes, we are. Certainly not directly in farms, but as a matter of fact the largest sale company we have is Lakeside farm industries. Lakeside is the largest and most modern meat packing facility in Canada, a slaughterhouse, feedlot, and has sales of approximately $600 million: a very, very large integrated agricultural complex. We have had other ventures in the agriculture sector, but that's the only one we have at the present time.

MR. CHAIRMAN: Okay. Thank you.

Lance White.

MR. WHITE: Yes. Mr. President, Sandy, Vencap's recent investments have been primarily in the consumer product retail ventures and in technology and not in industrial and manufacturing. As I understand the original concept and the diversification at the time in '83, the reason for the fund was to get more into those ends. Why have you steered away from that?

MR. SLATOR: That's a good question. It's not really a steering away, but you have to respond to the opportunities that are there. I think if we take a look at North America as a whole, you know, you see the industrial manufacturing component of the nation and in the United States declining whereas the service – retail, whatever – segment is increasing. So it really pertains to the opportunities that are presented more than anything else, Lance. I mean, we can't invest in something that isn't there really. That's not to say that we haven't been involved in industrial manufacturing. We've seen some of the more controversial manufacturing, things that have been developed within the province of Alberta, and we have chosen not to be a player in those.

MR. WHITE: Lucky you.

The second question really deals with the magnitude of your involvements. Now, you have, as I understand it, an excellent staff. If you'd hypothetically given them each a pool of investment funds to invest in much smaller ventures – by your nature you're restricted to substantive deals. I'm wondering if you could head in that direction, recognizing that they can't all be winners. In the venture capital area you know that the expansion and the potential is substantially greater than those that you're investing in now. Is that a possibility, or is it restricted because of the loss record that you might incur and therefore anger us?

MR. SLATOR: That's also a good question. You're getting into, you know, if you could design the ideal situation. I mean, I'm a very strong proponent of seeing four or five, let's say, $35 million to $50 million funds that may concentrate on a couple of technologies as opposed to being a broad-based venture capital company. We are a broad-based venture capital company in large part because of size. If we were smaller, we would have to concentrate on fewer areas of activity, but for Vencap to do that itself is extremely difficult. To be frank, we have a primary legal responsibility to our shareholders, and that would not be something that would be done in the shareholders' interest.

11:00

You say the order of magnitude of success is vastly superior, but the magnitude of risk is also superior in technology companies. In the technology industry the track record usually is very, very small. However, when you do make a hit, you really make a hit. That would be difficult for Vencap to do itself, but through this Toward 2000 process, through my involvement in the Premier's Council on Science and Technology as well, I've made that specific recommendation to the government: that they encourage the formation of four or five call it industry-specific technology funds that are smaller in nature. We have tried to do it to a certain extent. We were a 10 percent shareholder of a technology related, seed capital fund called SPURT. We had a number of industry partners associated with us on that, and SPURT did not succeed. Its assets have been sold, as a matter of fact, to eastern interests right now.

We also incurred the cost of trying to put together – and I don't know whether anybody had heard about it – something called the Rosewood Fund. This was going to be a $25 million venture capital initiative that I was hoping to solicit support for from major corporations in Alberta. We actually had as the co-general manager a group out of the Stanford Research Institute at the University of California. They were going to co-manage with Vencap this

Alberta-based fund dealing specifically in high technology start-ups with the technologies that were coming out of the 27 research institutes in Alberta, the hospitals, and the universities. We could not, however, interest other major Alberta companies to participate with us in this. We were going to devote between $3 million and $5 million to this $25 million fund, but that did not proceed.

MR. WHITE: I have a second supplementary here. There is an area in this province that I'm aware of – I'm sure you are too – in the service area that by reason of the downturn in the development of our infrastructure in this province has now turned to the international market and been wildly successful. Is there a possibility of taking some of the talent that we have here under your wing and putting together an international marketing venture that combines not just the four major engineering firms – I'm speaking of engineering firms here – that are based here in the province but the some 200 other smaller organizations that simply cannot market internationally and really bring a lot of export of talent from this base? Is it possible that you could do that?

MR. SLATOR: I think you're absolutely correct. The service sector in Alberta is something that in my view really does present an opportunity. As a matter of fact, we're looking very seriously at a company right now in that particular area.

We have looked at extending it even beyond the engineering services or the engineering companies. We looked at forming a consortium of oil and gas service related companies that could work on an international marketing basis. We really don't market internationally that well out of Alberta. I've traveled to the Far East and I've traveled to the Middle East, which could be prime users. The comments out of both the Far East and the Middle East just say: "Yes, we see an Alberta company, but we'll see them once. Seldom do we see them a second time." We were going to start with our own oil and gas service related companies and manufacturing companies and market them and then try to draw others into this call it consortium for want of a better word. We just have not proceeded with it to any great extent, although we have done it in a minor way. We're helping to market some of our products and services from our companies in the Far East and the Middle East, but once again it's a time constraint. We've got a total staff of 18 people; seven professionals to manage 38 companies plus all the new investment activity. We've had a difficulty in attracting and recruiting the appropriate staff, and until we do, we have to just put some of those things on the sidelines.

No. It's a concept that we have thought about. I think it's a good concept, and it's something that, when we have the time, we're going to delve into a little more seriously.

MR. CHAIRMAN: Thank you.
Jon Havelock.

MR. HAVELOCK: Thank you, Mr. Chairman. Briefly, Sandy, I found your comments on economic development and marketing of Alberta in the international sphere to be interesting. We don't do that effectively. I hope you've passed those comments on to the Premier and Mr. Kowalski.

I'd like to go back to some of the points you raised earlier. That is that your membership has gone from 100 to 38 and that there aren't any private venture capital companies out there, or if there are, we can't seem to find them. I guess I have a couple of comments. Perhaps what has happened is that some private companies couldn't compete with Vencap's favourable loan terms, for example, and therefore they couldn't generate sufficient profit from the ventures they entered into in order to basically compete directly with Vencap's product and perhaps other government-subsidized products that are available. The question I have for you, and I want your opinion: has the government undermined the private sector in this area by basically getting involved in the way it has with Vencap and with other ventures of this nature?

MR. SLATOR: Perhaps to correct a misimpression, Vencap does not offer better deals than any other. We consider ourselves to be private-sector venture capital. Yes, we've got a $200 million loan there, but we do not bring that into the cost equation of our capital. We go on the same terms and conditions as you would find standard in the venture capital industry. That is because of the philosophy we hold, number one.

Number two, we co-venture virtually every single one of our deals; i.e., we will bring in other venture capitalists from wherever. It could be from the rest of Canada, it could be private corporate investors, or it could be venture capital people out of the United States. Therefore, we cannot cut a deal that is on less than market terms. So from a competitive point of view, we don't have a problem.

But is the government undermining the venture capital industry in Canada? Now, I will not attribute this to any of the provincial governments, perhaps with the exception of Quebec, but more so to the federal government, who has offered in effect 95 cents on every dollar to people who want to invest in the venture capital industry. You know, people say, "Well, why should a taxpayer-driven company like Vencap compete for all other companies in Canada?" Well, virtually every single new venture capital investor is a tax-driven vehicle on terms much more favourable than what Vencap did receive. I mean, as the president of the association, a colleague of mine who was a former president of the Canadian venture capital association has put his maximum investment in the Working Opportunity Fund of Ontario. I said: "How could you do that? That's sacrilege." He said, "Even if I get 50 percent of my money back, it's a good investment, because the taxpayer has paid me 95 cents out of every dollar that I put into the thing." So it's the federal government who has been the main perpetrator of this disincentive in the venture capital issue.

MR. MITCHELL: Would that be a Tory government?

MR. SLATOR: It was a Tory government. As a matter of fact, through the association I talked to Don Mazankowski about that, about the need to encourage private-sector venture capital. I was at a dinner down in Calgary a year and a half ago, and he saw me in the audience and said: "We even did something for Sandy and this industry. We increased the amount that you could put into this tax-driven vehicle from $3,000 to $10,000." Well, thanks, Don. That's not going to help our industry.

MR. HAVELOCK: Sandy, don't feel obligated to respond to interruptions from the front row.

Sandy, what I would like to see us do – and I'm very much a supporter of letting the market decide and as little government intervention as possible. Whether we should continue to be involved in Vencap or not is a much larger question. Whether you should repay the loan early is a much larger question. I'd like to somehow fix this industry or encourage this industry to once again serve Albertans, serve Canadians, and get out into the marketplace. From your perspective, leaving aside your Vencap hat, what do you think government has to do to make that happen? Because obviously we've skewed the playing field to the extent that the private sector won't participate.

11:10

MR. SLATOR: Two things, in my view. Actually, there are probably more than two things, but if I can talk about two things specifically.

It gets back to the encouragement of private or institutional investment in risk capital. One of the problems you have now in this nation is that you have an incredible debt that has to be financed. Approximately $300 billion of this incredible debt is financed offshore, and that demands interest rates that are higher than what you see in our major trading partner, the United States. It varies between – what? – 200 and 400 basis points higher. The institutions in this country, primarily the pension funds, don't have to invest in equity anymore, although they've done well over the last year. They can put the bulk of their money in government bonds and get a risk-free rate of return that exceeds what they'd probably make in the early stages of equity investments. Number one.

Number two: from a private capital point of view – and I'm a very, very strong believer in this – the elimination of capital gains tax. That hampers so much, not just from the private equity investor point of view but also from the entrepreneur's point of view, if the entrepreneur, he or she, has to give back a significant amount of what their blood, sweat, and tears have earned over the period of time.

You want to talk about the raising of venture capital. In 1978, when there was a high capital gains tax rate in the United States, there was $3 billion of venture capital under management in the United States. When they eliminated the capital gains tax with special capital gains tax considerations and made capital gains tax free in the United States, in a five- or six-year period they went from $3 billion venture capital under management to $33 billion venture capital under management. If you want to create venture capital pools – you'll get private money because there's all kinds of money available – do something with the capital gains tax.

Now, I understand that certainly it's primarily a federal matter, but it's also a provincial matter. I think the province could take a lead role in that in their own provincial tax structure, and I believe they could also encourage the federal government, because there's not that much raised through the capital gains tax in Canada. But, boy, the activity you could create if you went the other way and eliminated it would be in my view remarkable.

MR. HAVELOCK: Do I have one more?

MR. CHAIRMAN: One more.

MR. HAVELOCK: Thank you.

There's been some discussion earlier of perhaps restricting your investments to the Alberta market, concentrating in Alberta solely. I mean, I look at the amount of money that you have available, $250 million. You're doing approximately seven deals a year, although I think you slowed down a bit in '92-93.

MR. SLATOR: I did in '92-93; that's year ended March 31, '93. By March 31, '94, we'll probably be double what we were last year.

MR. HAVELOCK: I guess the question I have is: if you were to be restricted to Alberta, quite frankly aren't you significantly overcapitalized for the market?

MR. SLATOR: Frankly, it would take us 10 years of Sundays to prudently invest that capital in the province of Alberta.

Once again, take a look at what we were initially capitalized with. We actually have invested in excess of all of that capitalization. The reason we have this $168 million or $170 million in secure portfolio is because we have been successful in our investment process and have generated returns for the company. When I took over as chief executive officer of this company five years ago, I said our biggest challenge was to take the $170 million – because we had $170 million at that time – and get it earning venture rates of return as opposed to money market rates of return. We doubled the investment activity of the company over the past five years, and I've still got $170 million, so it is a challenge. It is a challenge. We're not going to be driven to invest foolishly. We will not do that, so it can tend to be difficult to find the attractive opportunities in which to invest that amount of capital.

MR. CHAIRMAN: Thank you.

Don Massey.

DR. MASSEY: Thanks, Mr. Chairman. Before I ask Sandy a question, can you clarify for me the status of the recommendations of this committee? I was rather astounded to hear Sandy say he hadn't even heard of them and didn't know that the committee made them. So exactly what is the status of the recommendations that we make?

MR. CHAIRMAN: Thanks, sir, for that question.

MR. HAVELOCK: I find, Mr. Chairman, if you roll the reports tightly, they're quite handy as logs during Christmastime.

MR. CHAIRMAN: Oh, I see.

Don, to try and give you the process as I would understand it, what we will do this year, as I assume happened last year, is that the recommendations will be made, they'll be voted on, and they'll form part of the report. We are here with a mandate under the Act, as I understand it, to send those recommendations through to the Provincial Treasurer. Now, the Provincial Treasurer will be here Friday afternoon, and it might be an excellent question for him at that particular point. As a committee, of course, we don't have any sort of mandate to ensure that our recommendations are followed.

DR. MASSEY: No. Following them is one thing, and making sure they were received is another.

MR. CHAIRMAN: All I can do is refer you to the last report of the Standing Committee on the Alberta Heritage Savings Trust Fund Act, April 1993, that is part of your packet. On page 21, recommendation 9 deals with the issue that Heather raised.

DR. MASSEY: Thanks.

MR. CHAIRMAN: That's one question.

DR. MASSEY: If I can then, Sandy, can you explain the reasons behind the declaration of the $1.5 million permanent impairment in Ubitrex Corporation during the second quarter?

MR. SLATOR: Don, we have actually taken the full impairment of that company in the third quarter as well. It's a company that will not be continuing in business. It's gone.

DR. MASSEY: Thanks, Mr. Chairman.

MR. CHAIRMAN: I thank you.

Denis Herard.

MR. HERARD: Thank you. It seems like the Vencap shares are trading at about a 20 percent discount from the net book value on a fully diluted basis. Can you comment on that and indicate what perhaps can be done to get those shares trading a little closer to the real value?

MR. SLATOR: A very good question. Actually, we are trading at a discount to book value. I guess traditionally we are a closed-end investment fund, and closed-end investment funds usually do trade at a discount to value. We were trading for a period of time at 60 percent discount to net book value. Actually, for quite a long period of time we have drawn that discount up to the 20 percent range, but there are a number of things that could enhance our ability, I think, to narrow that gap even more. I'd like to see us trading, assuming that we're going to trade at a discount, in the neighbourhood of 10 percent as opposed to 20 percent.

We have a very small share float. We've only got 3.2 million shares outstanding. There's about 17,000 shareholders. About 14,000 to 15,000 of those 17,000 shareholders are Albertans. Most of them participated in the initial offering, and they have 50 shares or 100 shares. As a matter of fact, out of the 17,000 shareholders, 13,500 own 100 shares or less, 6,300 own 50 shares, and another 6,800, I guess it is, own 100 shares. These are people who are not wanting to trade their shares. We put forward last year what we call the small shareholder selling program to get some of these people with 50 shares to either sell or to buy more. Three hundred out of the 13,000 participated. They were phoned, and they said, "No, we just don't want to sell our shares." So you've got such a very large block of those shares that they just don't want to trade. There's really no trade whatsoever.

The fact that we have a 1 percent limitation on the share holding of our company also causes a problem. One percent of our float represents about a $100,000 investment. There's not an institution in Canada who would put $100,000 into a company, because they've got so much capital. I mean, the Ontario teachers' fund: that represents about two minutes of their daily income. They are not interested. Since institutions are not interested in buying shares of Vencap, therefore there are no institutional or brokerage companies that actually follow Vencap and recommend Vencap. So there's very, very little trading.

11:20

Some of the things that we have been doing to narrow the gap over the last four years. We've had what is called a normal course issuer bid, whereby Vencap itself will buy shares on the market. We cannot bid up the price, but we'll pay market price for those shares because we believe it's a good investment for Vencap. If we're trading at a 40 percent discount to net book value, it's a marvelous investment for Vencap itself. So we have been in the market ourselves buying shares.

You know, it gets back to the structure of Vencap. I don't want this to be misinterpreted, because the structure that was designed for Vencap was right at the time, back in 1983. But we were structured more for failure rather than success, and when we're achieving success, the structure does not necessarily serve us all that well.

MR. HERARD: Well, then comment on what you see as an appropriate structure for, you know, the new century we're in.

MR. SLATOR: I'm not sure I could really answer that in a group session today. Difficult for me to answer that because once again I don't want to impact any public markets, but I would also offer to get together with the committee in camera to discuss that if you so wished.

MR. CHAIRMAN: Thank you.

Grant Mitchell.

MR. MITCHELL: Sandy, I'm interested in this issue of the loan. It seems to me that on the one hand there's some advantage to Alberta in getting out of it, and from what you've said, it seems that there's some advantage to Vencap in them getting out of it. Could you tell me, if that's the case, why it is that Vencap hasn't pursued the government to let them out of the loan?

MR. SLATOR: We have held discussions on and off since 1988 with the government and have not met with success.

MR. MITCHELL: Could you tell me what the government's reluctance to let you out might be? Is it that despite the fact that if they took the $127 million now and they could pay off debt which certainly they're paying much higher rates on, they'd actually get an equivalent value of the face value? Is it because they don't want to take the write-down at this time, or what sense do you get from them as to why they wouldn't let you?

MR. SLATOR: My understanding – and correct me if I'm wrong – is that they've already taken that write-down as at March 31 of last year. I just can't comment on the status at present at all. I would hope that we would have the opportunity to discuss that specific issue.

MR. MITCHELL: What could we do to help you get that opportunity? Is it that the government, despite the fact that Mr. Havelock's really interested in getting government out of business, hasn't aggressively pursued you?

MR. SLATOR: You might want to make recommendations.

MR. MITCHELL: Great.

MR. SLATOR: That's what we're working towards.

MR. MITCHELL: We'll do that. Thanks.

MR. SLATOR: I believe this group does have that ability.

MR. CHAIRMAN: Yes, we can make recommendations. Thank you.

Harry Sohal.

MR. SOHAL: My understanding is that the idea behind the concept of Vencap was to develop and diversify the economy of Alberta. You mentioned the Great Canadian Railtour's 65,000 tourists coming to Alberta, and I see a company in demand, a market, and you helping them with the capital. My question is: is there any evidence that Vencap's investments have resulted in any viable businesses that would not have developed otherwise?

MR. SLATOR: Well, when you consider that 33 of the companies in which we invested have been start-up companies, I think it is fair to say that there's a good chance those companies would not have been in existence. Some of them may have been; I don't know. I mean, our job is foretelling the future, and as Confucius said, prophecy is very difficult, especially as it pertains to the future.

Whether those companies would exist or not, I can't really tell. We have invested in companies, I know, where co-investors have told us that if it had not been for us, those companies would not be here. I have to take that on faith. Compelling evidence as to whether those companies would or would not exist: I can't say. I just don't know, but I believe there's a case that can be made that some of those companies would not be here.

If I could just add to that point. Crystalline Materials, which is now located in Calgary, would not be here. Synerlogic, which is a company that we built in Calgary and brought from Ottawa, would not have been here. Westronic, which is a very highly successful major company, where 95 percent of its sales go around the world, headquartered in Alberta, would not be here, because we brought it in from Vancouver. So there certainly are definitive cases where companies are located in Alberta because of us. Out of the 33 start-ups, 50 percent, 70 percent would not be here without us.

MR. SOHAL: So those would be considered the success stories.

MR. SLATOR: Tremendous success stories, and the fact that 67 percent of them are still in existence in one form or another. We may not even be an investor in some of these anymore because we may have sold our position, but they're still here.

MR. SOHAL: Thank you.

DR. PERCY: Sandy, in your annual report you've broken down the investments by sector: consumer products/retail and industrial/manufacturing technology. Can you tell me what the rates of return are by those categories?

MR. SLATOR: The rates of return? Now, are you talking about the running yield on these companies? Because the companies that are in industrial/manufacturing and the consumer products are more apt to have a running yield. With technology companies you don't get a running yield right off the bat because they need all of their capital to finance technology and research, et cetera, et cetera. So the running yield on technology ventures is probably somewhat lower. It also depends on the timing of the investment. You're more apt to have a better yield on companies that you invested in seven years ago, eight years ago than you would on the more current investments. I'm getting around to the answer on this, Mike. We have had a greater return, certainly, overall on the industrial/manufacturing sector; second, in the technology sector; thirdly, in the consumer products and the retail sector. The reason the consumer and retail is lower than the other two is because that is a more recent activity in which Vencap has been involved. We expect that actually the consumer products and retail sector will be one of our highest return sectors.

DR. PERCY: Your position at Lakeside farms has given you a window on the meat packing business in the province of Alberta. [interjections] Where is this question going? There was an opportunity out there and still is perhaps: Gainers. Did Vencap assess it and review it? Were they a party to – did they have the financial records that were kept?

MR. SLATOR: Vencap was not. Lakeside: I believe about a year ago we looked at the situation and chose not to pursue it.

11:30

DR. PERCY: Did Lakeside in its review of this investment opportunity then look at integrating the operation with their current operations and on those grounds chose not to proceed?

MR. SLATOR: That would certainly be a large part of it. You have to appreciate that Lakeside, which is located in Brooks, Alberta, is I guess the most modern, up-to-date facility you will find in Canada. I mean, people talk about Cargill. Lakeside is even more up to date and advanced than Cargill in their industry. Gainers, as you are aware, is not quite as up to date and modern in their facilities as Lakeside would be, and it would not necessarily be directly a good fit. Lakeside is primarily in the beef industry; Gainers, primarily in the pork.

MR. CHAIRMAN: Sine Chadi.

MR. CHADI: Thank you, Mr. Chairman. Sandy, in the annual report there appears to be over the past five years, particularly since 1989 as shown in the annual report, permanent impairments totaling some, say, $34 million, and last year alone, the year ending I would imagine 1993, that figure was $9 million. Can you give us an indication as to how these impairments of $34 million over the past five years have come about?

MR. SLATOR: Primarily because the companies themselves have not met with success. There's a good saying. I heard an individual say that when the company is not successful, it costs that person 100 percent of their investment, and when they are successful, governments through their taxation methods take about 80 percent of his gains. We have had companies that have not succeeded, Sine. When we recognize the fact that these companies are not going to be able to make it, the best thing we can do is cut our losses and run and get on with other things that can be productive. The first five years of our organization we recognized the bulk of the losses in what we call the allowance for doubtful investments. I guess when I took over in 1989, I felt, you know, let's formally recognize these ones that aren't going to make it, get them out of the books so we do not have to waste our time on them. So we have been culling the portfolio over a period of time.

I think another point is that, you know, about the sixth or seventh year you certainly do get a much better understanding of those companies that are going to make it and those companies that aren't going to make it. So that's when it started cropping up, at about that time.

MR. CHADI: Okay. Out of the 70 companies that Vencap has invested in, then, this $34 million of permanent impairment has taken place. Can you give us an idea as to how many companies we're talking about that either we pulled out of or that we've taken hits on or write-downs, if you will?

MR. SLATOR: I can give you approximate figures, Sine. I don't have the exact figures. I do know exactly that in five investments out of the 70 we lost 100 percent of our money, and I believe there's a further nine in which we have lost part of our money and have recognized the permanent impairment. So it's about 14; it's roughly 14 companies.

MR. CHADI: Out of those 14 companies that it would appear either we're going to lose on or have lost on, is there any room to try to recover any of these impairments? Sometimes these bad debts can be recovered to a certain degree. Are we taking any steps to recover?

MR. SLATOR: Absolutely. For example, a company based in Spruce Grove that was involved in not a greenhouse but a new, modern technology for growing lettuce and spinach is a company in which we had taken full impairment. We are in the process right now of attempting to sell the remnants of that company, which hopefully – hopefully – will generate us a further return of about $1 million of the investment, between $800,000 and $1 million of the $2.3 million investment.

MR. CHAIRMAN: Okay. Thank you.
Heather Forsyth.

MRS. FORSYTH: Thank you. I wanted to ask you: why shouldn't Vencap prepay most of the provincial loan now, ahead of its scheduled maturity in 2013?

MR. SLATOR: Why?

MRS. FORSYTH: Why?

MR. SLATOR: That's my question of you: why?

MR. CHAIRMAN: Well, just for some clarification, the member has a question.

MR. SLATOR: I guess to perhaps elaborate, we have an agreement with the province of Alberta in which we pay our interest and pay our principal, small as it may be, between now and the year 2003. In 2003 we start paying at $15 million a year. So there's really no call for us to prepay that loan, essentially, with the province of Alberta, number one. Number two, in the loan agreement itself we are specifically prohibited from prepaying that loan. So any prepayment would have to be negotiated between the province of Alberta and Vencap.

MRS. FORSYTH: My other question is: after 10 years why have Vencap's investment write-offs and realized losses been $43 million and the realized gains only $32.5 million?

MR. SLATOR: I'm not sure of those exact statistics, but it's probably close. There's a saying in the venture capital industry, however, that lemons ripen early and pearls take time to culture. You will find that the bad investments come to the fore much quicker than the good investments. As a matter of fact, in the normal venture capital industry you will probably have negative returns. Now, we're talking about the province's shortage of return of 2 and a half percent. The province of Alberta has probably got a much higher return than the normal venture capital industry investor because there will be negative returns in the first number of years of a venture capital operation.

MRS. FORSYTH: That's it.

MR. CHAIRMAN: You don't have a second supplemental?

MRS. FORSYTH: No.

MR. CHAIRMAN: Okay.
Danny Dalla-Longa.

MR. DALLA-LONGA: Thank you, Mr. Chairman. The first question I have is to jog your memory, because I don't remember what happened here. As I look at the financial statements, we've got convertible debentures and share capital. I'm trying to come up with the $44 million, Sandy. Were they issued as units?

MR. SLATOR: Yes, they were. The units were $550 per unit, and it consisted of $4 million in common shares at $1 apiece and $40 million in convertible debentures. I might add that those convertible debentures are guaranteed by the province of Alberta as to principal and interest.

MR. WHITE: No.

MR. SLATOR: Yes. So the province actually has a higher stake. They were units issued at $550 per unit.

MR. DALLA-LONGA: My second question. In your opinion, if the province came to you and said, “Well, we think this loan is worth only $127 million; pay us $127 million,” or something thereabouts, do you think you could go back to your board and say, “We have a chance to make $72 million”? Do you think you could convince your board to do that to extinguish your loan, to somehow go out and raise the money? Do you think you could do that, in your opinion?

MR. SLATOR: In my opinion?

MR. DALLA-LONGA: Yes.

MR. SLATOR: I think there could be a case made to approach my board with that sort of discussion, yes.

MR. DALLA-LONGA: I guess my last question is: do you think that if you could extinguish that loan, if everything went for $127 million, you could go out and alternately finance that or replace the financing of $199 million for $127 million with maybe a share issue or maybe even a venture capital company or who knows?

MR. SLATOR: I believe it would be possible.

MR. DALLA-LONGA: Thank you.

MR. CHAIRMAN: Denis Herard.

MR. HERARD: Thank you, Mr. Chairman. I just want to revisit your answer to the early prepayment of the loan. You indicated that there's been no call by the province to prepay the loan early. Assuming that such a call could take place, how much of this loan, in your opinion, could you do without? In other words, could you still continue to be a viable operation but prepay a portion of the loan early?

11:40

MR. SLATOR: I guess we're speaking of a hypothetical situation here. If, as Mr. Dalla-Longa had indicated, we were to pay off at the value of that loan now, call it roughly $127 million, we would raise the capital in order to accomplish that, to maintain ourselves as a $300 million venture capital company. We would do that primarily because we have developed the skills, the reputation, the network that enable us to operate effectively, efficiently, and successfully as a major venture capital firm. I would want to protect the integrity by virtue of size of this organization to accomplish that which we have been accomplishing.

MR. HERARD: Are there any impairments in the structure with respect to shares and so on that would have to change before something like this could be undertaken?

MR. SLATOR: I don't believe so. Now, if we were to repay the loan, then the terms and conditions of the loan agreement would go by the boards, because there would be no loan. Most of the restrictions that would impair us from doing those things are in the loan agreement. Therefore, we would be a corporation and would have the ability to structure it as we so needed.

MR. HERARD: Thank you.

MR. WHITE: Sandy, there is a perception that long ago, not so much recently, the fund was almost managed politically. I think it was just before your time. How can you ensure that in your tenure and in subsequent tenures the arm's length will be maintained?

MR. MITCHELL: Pay the loan off.

MR. SLATOR: Yeah. Well, that certainly would be part of it. You use the word carefully and well, Lance. It has been a perception, and I think it's a perception that certainly is understandable. I guess the terms I use, however, on that is that – and I have been there through the period of time as well – although the appearances may dictate otherwise, we have never made an investment because of a person's political affiliation. The converse is that we have never not made an investment because of a person's political affiliation. As I say, there are ample reasons for people to believe otherwise, but all I can do is in good faith state that that has been the case. We have not had – and I commend the government of Alberta for this – political interference in any of the investment decisions we have made. Now, some of these that are more politically charged than others quite frankly we wish we hadn't made. It was still because of internal decisions, Lance, and not any directive or influence at all by any politician of any stripe.

MR. WHITE: Are there structural changes in the relationship, in your arrangement with the provincial government, which could be designed that could in fact alleviate even the possibility of the perception, recognizing that there may be a movement afoot to restructure the arrangement?

MR. SLATOR: I think the structure is such that that perception should not exist. For example, the province does not have any representative on the Vencap board, not one. There had been calls by previous government people to change that, and we have fought that because we did not believe it appropriate to have a government representative on the board. But not one director of our company is elected by the province of Alberta, not one.

MR. WHITE: Not specifically, but there was a Minister of Energy, actually an old classmate of mine way back when. John Zaozirny certainly has a long-standing connection from the '85 era, not directly appointed but certainly it's easier for him to walk up the front steps and find his way into the particular offices and get admitted to the offices than most other boards of directors of XYZ corporation. Surely there's some soft association there.

MR. CHAIRMAN: Lance . . .

MR. WHITE: Well, it's supplementally in answer to a question.

MR. SLATOR: Well, I guess the only thing I can say is that we certainly do not get influenced even through the back door in that respect. The board of directors of the company: I mean, they're nonexecutive people. They ultimately do say yea or nay to the investments that we do come forward with, but at the same time, whether it's John Zaozirny or any other board members, they have never urged or encouraged us to look favourably or disfavourably on any investment process. We operate this company, as I say, with the integrity of the management, and the board is I guess a check to make sure that management is doing what is right. But there really has not been any direct or indirect political influence over what it is we have done. As I say, I've been there throughout the history, and I can assuredly say that. I really do commend – and I don't mind going on record for that – the governments past and present for that approach.

MR. CHAIRMAN: Okay. Thank you.
Mike Percy.

DR. PERCY: Two quick questions. The first. In terms of the discussion of a potential arrangement to retire the loan, there are the restrictions in place on ownership that preclude, then, significant equity investment by pensions or other institutional owners. Is that part of the agreement? That is part of the agreement itself?

MR. SLATOR: That is part of the whole agreement. That would go away, specifically the 1 percent limitation, with any restructuring.

DR. PERCY: In one sense, the fact that that is in the agreement precludes you from in fact raising the equity that you would need to retire the loan, doesn't it? That makes it very difficult.

MR. SLATOR: Mike, it would be a two-stage process. First of all, if we would have the opportunity to restructure the loan, the first thing we would do is restructure the loan. The second phase would be to go to the equity markets. As you're aware, you don't necessarily go to the equity markets when you're ready; you go to the equity markets when they're ready.

DR. PERCY: My final question. Since this was an entity set up to promote the economic interests of Alberta, it would be realistic and only reasonable to ensure some constraint on location of the head office, for example, in Alberta. I mean, that would obviously be part and parcel of any agreement.

MR. SLATOR: Well, if we were able to restructure the loan agreement with the province of Alberta, I guess there are two points. One is that for the time and effort and call it opportunity cost, for want of a better word, that the government, the province of Alberta, has experienced over the past 10 years, I think it would be a reasonable request to ensure that the headquarters of this company be located in the province of Alberta.

I guess the second point that I would make – and I guess you never know whoever is going to be leading the company in the future, but I am in Alberta by choice, and I don't want to be anywhere else but in Alberta.

Alberta is also a very good place to spearhead our type of activity from as well. You know, I talked earlier on about the international scope of the things that we are doing in our company and for our companies. We find it very attractive to deal internationally as a Canadian as opposed to an American, and as a Canadian this is the place I'd want to be.

11:50

MR. CHAIRMAN: Thank you.
Victor Doerksen.

MR. DOERKSEN: Just talking about the loan agreement, Sandy, can you tell us: does the province have the ability to call the loan?

MR. SLATOR: No.

MR. DOERKSEN: So it has to be renegotiated?

MR. SLATOR: Yes.

MR. CHAIRMAN: Okay. Sine.

MR. CHADI: Thank you, Mr. Chairman. Just to piggyback on what my colleague Mike Percy referred to in terms of perhaps placing a caveat, if you will, I wonder if – and I guess maybe before I ask a question, I just want you to know that I do support and I am supportive of the idea that the province make a deal. I'm not going to suggest $127 million – that's what they wrote it down to – but perhaps $175 million or maybe something like that might be in line. If we could somehow come to some agreement, would it not be possible, do you think, that we could also include not only things like perhaps a head office but some of the original mandate, particularly until maybe the year 2003? If we were to take a discounted figure now, maybe we could negotiate something so it would end in the year 2003, like it was originally designed to do. Do you see that as being something that can be worked out?

MR. SLATOR: That, I think, formalized would be very difficult, because, number one, that probably would have an impact on our ability to raise capital and equity in order to pay off the loan. Number two – and this is why when Dr. Percy mentions the headquarters, I say it would be a reasonable approach – the reality is that if you are headquartered in the province of Alberta, the likelihood is that you're going to be doing certainly a very large portion if not the greater portion of your investment activity close to home. We're like anybody else; we don't like spending our lives on airplanes and in airports. I mean, we do too much of that as it is. So you're going to do the bulk of your activity close to your home base; that's the reality of the situation. When we talk about investing in the U.S., even when it does bring strategic benefit, we restrict it to west of the Mississippi because we don't want to be traveling to Boston or Toronto all the time.

MR. CHADI: You know, that's a very interesting response, and I'm going to lead from that response. As you know, Edmonton is having its fair share of air traffic wars, the Municipal Airport versus the International. In your opinion, as head of the venture capital group of Canada and also the chairman and CEO of Vencap, do you think investments in Edmonton or northern Alberta have been impacted by the fact that we're having some difficulties with respect to these airports?

MR. CHAIRMAN: Before you answer that, in chairing this group I've allowed a fair amount of latitude. I've pretty well left it up to the person being interviewed whether or not they wished – I'll leave that to your discretion, but it's clearly beyond the parameters of what you were asked to do here today. If he wishes to use up a question in that manner, then that's his prerogative. I'll allow you to answer or not to answer at your discretion.

MR. SLATOR: When asked for opinions in questions, I very seldom hesitate to respond. If my response in some way could enhance the city of Edmonton's ability to rectify the air traffic situation, I will give a response.

We have currently two specific situations where we brought companies from the United States into the province of Alberta. There was very good and valid reason for at least one of those companies, if not both, to be located in the city of Edmonton. They are both located in the city of Calgary primarily because of air transportation capability. One case, Crystalline Materials – I'll mention their name and speak of them directly. A good reason, as I say, to be in Edmonton: because of the power connection. Thirty-five percent of their cost is in power, and they could have had a better and more attractive power situation in Edmonton versus the city of Calgary. They're headquartered in California in the San Francisco area. Their only plant is in Calgary. They have approximately 30 trips a month between Calgary and San Francisco, and air transportation between Alberta and San Francisco was their determining factor. Camelot is another situation. Their primary market is in the United States, and access to that market by air traffic was their primary reason for locating in Calgary.

So with an answer like that to be on record stating what the problem is, we have got to rectify our air transportation situation in the city of Edmonton.

MR. CHADI: Yes. Thank you. I appreciate your comments, and I did digress from the original question. I know that, but you touched on it in your response, so it led me into it.

But going back to the mandate, Vencap's original, I suspect, mandate back in 1983 when it was established was to diversify the Alberta economy. I note from the annual report it says, I imagine on page 12, Sources of Investment, Deal Flow and Deal Flow by Geographic Area, that in the United States up until 1993 you're up at 28 percent. My question, I guess, is: could you explain whether or not the 28 percent that would appear is the investment in the United States, et cetera, is within the mandate of Vencap?

MR. SLATOR: Oh, yes, because once again, Sine, in everything that we do, we intend to bring benefit back to the province of Alberta, even with those 28 percent. I gave a few examples. I could, you know, go into each specific company and provide examples of things that have brought benefit back to the province of Alberta. I would anticipate – I mean, you can see the trend. In 10 years we've quadrupled the deal flow out of the U.S. The rest of Canada has doubled. Alberta itself has gone down. Actually, I guess if you take a look at 1985 to 1993, it hasn't gone down really all that much, but there has been a significant change in the deal flow by geographic source.

MR. CHAIRMAN: Okay. Thank you.

Before I recognize the next questioner, I see that we have some visitors in the gallery, and you're welcome. What you're observing is the hearings of the standing committee on the heritage savings trust fund. To my right are seated the members of the committee. It's an all-party committee. If you're interested in them as individuals, you might be able to see their pictures. I already see some waves, so obviously some recognition is taking place. Then to my left is Mr. Sandy Slator, the president of Vencap, who is here today with us. Again, thank you for coming, and Merry Christmas to you all.

Now, we have a minute to go, and I have a speakers list yet. Danny Dalla-Longa.

MR. DALLA-LONGA: Is it my turn? Thank you. Time as a tour guide doesn't get to count. You add that on to the 12 o'clock.

From our previous discussions, from the answers that you gave before, would I be correct in summarizing by saying that with NAFTA and free trade it's getting more difficult for Vencap to fulfill its mandate of being an Alberta-only type of investor, as it apparently was originally set up to be?

MR. SLATOR: Once again, we are not an Alberta-only type of investor. The investments we make do bring benefit back to the province of Alberta, but I think because of the NAFTA and the Canada-U.S. free trade agreement and the building of trading blocs throughout the world – the whole change in the economic structure of the world indicates to me very strongly that Vencap and its portfolio of companies are going to have to react to this changing world environment in a different fashion than may have been envisioned back in 1983. I must point out as well, Danny, that the original mandate as such did not specify that we invest only in Alberta, in Alberta companies.

12:00

Just one other point on this. We don't refer to it as a mandate as such. I'd just like to read from the company's prospectus that was issued in 1983. When we talk about this mandate, the principal objectives, the first one is:

> to operate profitably and to promote the growth of the Company's assets particularly in the longer term, in the best interests of all shareholders.

There are four points there.

The next paragraph:

> Vencap intends to achieve its objectives by investing in businesses within or outside of Alberta, which in the opinion of the Company are likely to be profitable and beneficial to economic development within Alberta.

I mean, we specified back in 1983 that, you know, it's not just an Alberta-only type of thing but we can invest outside of the province and at the same time derive and bring benefit back to the province. As I say, we're not successful all of the time in that objective, but going into the investment, that is the intent.

MR. DALLA-LONGA: Yeah. You know, you sort of tapered off in the last part of that second point, but I think some of those other points, as I recall in that prospectus, were that the intent was that there would be benefit to Alberta. Otherwise, what's the point?

MR. SLATOR: Yes, benefit to the province of Alberta.

MR. DALLA-LONGA: Okay. And it's getting harder to do that with world trade.

MR. SLATOR: Probably a little bit more challenging, yes.

MR. DALLA-LONGA: My last question. I look at the balance sheet once again. If I keep in the back of my mind the $127 million, and Vencap has made approximately $58 million cumulative profit in the last 10 years – i.e., the retained earnings – if it repaid its loan of $199 million for $127 million, it would have made another $72 million profit, and it does have those funds . . .

MR. SLATOR: Pretax.

MR. DALLA-LONGA: Pretax. Well, let's ignore tax for the moment; okay? My point, if I can repeat it: it will have made $72 million on the repayment of this loan, if we assume that it can be repaid for $127 million. Could Vencap not use the $144 million or part of the $144 million that it has in investments to repay the government?

MR. SLATOR: It theoretically could, Danny, but once again – and I responded to another questioner in the same vein – I would want to replace that capital. I believe it would be important for Vencap to replace that capital once again to be a significant player. Theoretically, it could, but we would be a much different company at that point because of the fact that we would have approximately $35 million left.

There are axioms in the venture capital industry. One of the axioms is that to build a company, it always takes twice as much money as you think and twice as much time. We require a certain amount of money for what we anticipate to be follow-on investment activity with the companies in which we invest. So we would not want to shortchange ourselves, to restrict ourselves, to inhibit ourselves from making follow-on investments in the companies in which we have already invested to create success. Once again, it certainly is a preference of myself and the management of the company and, I believe, the board. We have – and I've said this before – built that international reputation as the Canadian investor of choice with the venture capital community outside of Canada. In that way we've been able to draw capital back into Alberta. Part of that has been because of the critical mass that we have developed as an organization, and I would want to maintain that critical mass if we possibly could.

MR. CHAIRMAN: Thank you very much.

I feel like a soccer referee, having allowed invitation time to extend it.

I'd recognize Lance White.

MR. WHITE: A motion to adjourn, sir.

MR. CHAIRMAN: All in favour? A show of hands. Carried.

Thank you, sir.

[The committee adjourned at 12:05 p.m.]