

Investing in the Future of British Columbia

J. Basil Peters, CEO
The BC Advantage Funds VCC



Congratulations

- I would like to start by congratulating and thanking on behalf of everyone in British Columbia:
- Todd Tessier and Dale Sketchley
- Minister Thorpe and Premier Campbell
- And everyone in our government
- For the outstanding improvements to the Small Business Venture Capital Act
- passed this April.

We are fortunate

- We are all fortunate to live in British Columbia.
- I've received a world class education, and
- The best health care in the world
- At very little cost to me
- Because BC has been one of the richest places in the world.

Our Previous Economy

- In grade school, I learned that the BC economy was based on forestry, mining and fishing.
- Those are the industries that have historically paid for our outstanding quality of life.
- Unfortunately, all of those industries are now in decline and
- Will never again be the driver of economic growth in our beautiful province.

Our children's quality of life

- Will be determined primarily by how well we can harness what is now our most important natural resource
 - The intellect,
 - Skills,
 - Knowledge and
 - Entrepreneurial Ambition
- of the people in British Columbia.

To continue to prosper

- To continue to prosper in the 21st century,
- I believe our province has to focus on two important goals:
- Educating our young people, and
- Encouraging entrepreneurial innovation

The Role of Government

- Government has a critically important role
- To encourage and facilitate the establishment and growth of
- Vibrant, early-stage, high value added companies.
- We have all seen the successes created
 - in Quebec,
 - the Research Triangle in North Carolina,
 - areas around Houston, and
 - in Ireland.

Why This is Important Now

- This a unique time in the financial history of our province.
- There has never been a bigger need to diversify and stimulate our provincial economy.
- At the same time, there has never been such an acute shortage of early stage capital.

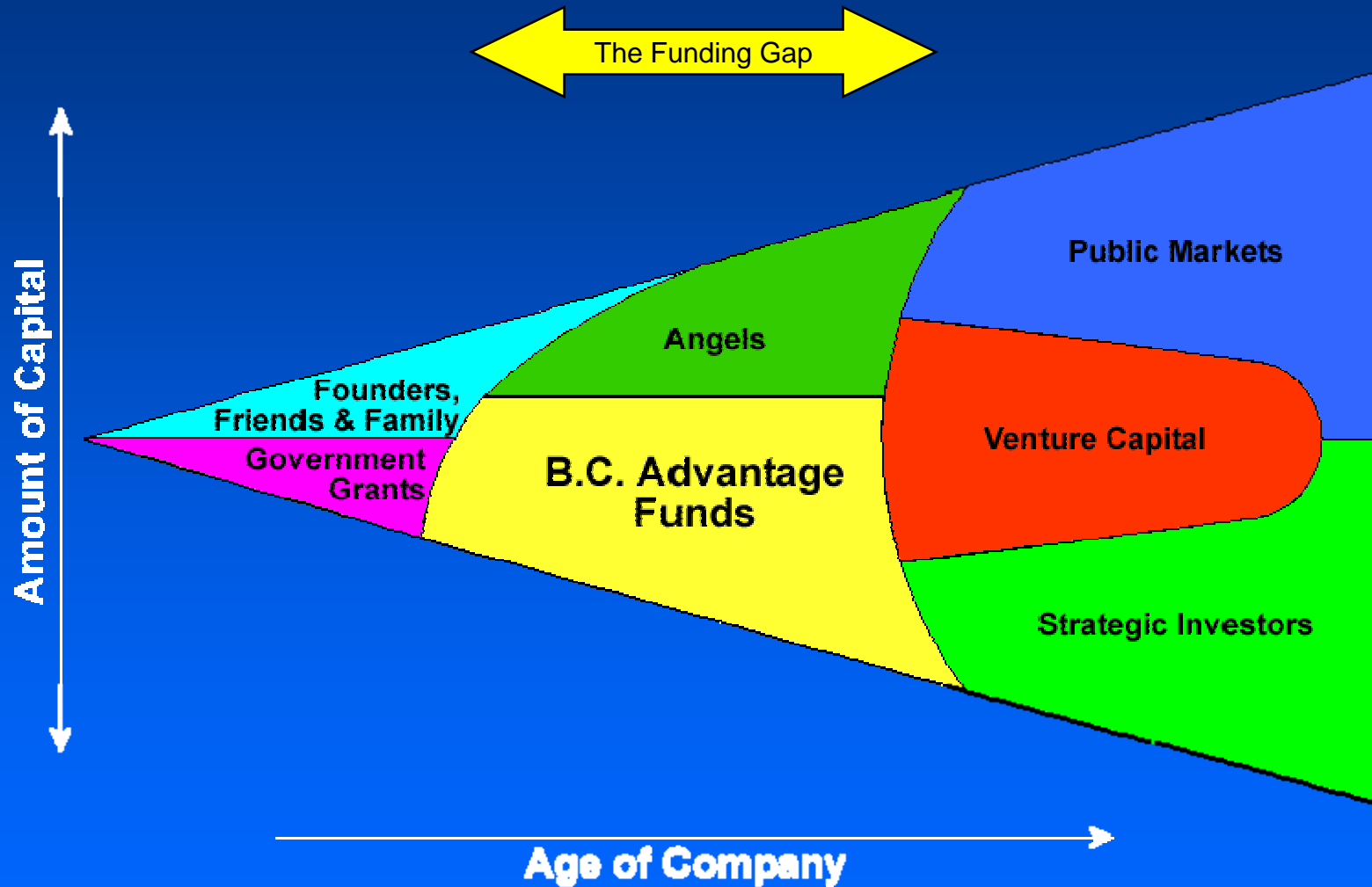
The BCTIA Capital & Investment Committee

- Chaired by David Raffa with over 40 industry participants including representatives from all of the major VCs.
- Summary Report released Sept 30, 2003
- BCTIA's "Access to Capital" survey, with over 100 respondents, identified a number of concerns including:
 - a shortage of early stage venture capital money,
 - shortage of local venture capital firms, and
 - lack of competition amongst VCs in BC

The Shortage of Early Stage Capital

- According to a report for the US Small Business Administration in 1996,
- In normal times, Angel investors invest twice as many dollars as professional venture capital firms.
- During the recent downturn in the capital markets, Angel investment almost stopped entirely.
- Angels are not professional investors. They have no obligation to invest.
- The downturn also painfully showed Angels the dangers of inadequate portfolio diversification.

The Funding Gap - A Critical Problem



Secular Change in Capital Formation

- When I was a young entrepreneur, almost all of the venture capital money came from institutions.
- In the 21st century most people no longer consider life insurance an investment and
- Are no longer counting on their employers' pension fund to fully provide for their retirement.
- People are now managing their own financial futures.
- And are now the fastest growing source of new Venture Capital.

Venture Investing is healthy

- This is healthy for the economy and the individual's portfolio.
- Unlike the angel investors, the typical investor makes a very small portfolio allocation to venture capital.
- From a recent article in Advisor.ca:
 - private equity and VC investments have low correlation to other traditional asset classes
 - that these investments ...”actually reduce the standard deviation, or risk, in an investment portfolio”.

Is a tax credit necessary?

- Some may ask, why it is necessary to encourage investment in early stage venture capital funds with a tax credit.
- I do not know why ...but I know that it is.
- I have personally, over the past few months, made about one hundred presentations for our new VCC, the BC Advantage Funds.
- I have no doubt that the 30% tax credit is the single biggest reason we are being successful in assembling this critically important new source of early stage venture capital in our province.

Our Government Working With Us

- Our provincial government listened to our industry associations.
- Took the time to understand how critical it was to stimulate new sources of capital for early stage, knowledge based companies in BC.
- I believe the Small Business Venture Capital Act of 2003
- will create new pools of Venture Capital and significantly improve the future of our Province.

The 1950 and 60s Analogy

- I believe this situation is analogous
- to the road building and infrastructure initiatives of
- The WAC Bennett government in the 50s and 60s.
- Opened up the northern parts of our province and
- stimulated business in the primary industries
- that were then critically important to BC.
- We re-elected that government for twenty years.

Our Industry's Responsibility

- The VCC Fund community is still very young
- Our fledgling industry has an exciting opportunity
- and an important responsibility
- to maximize the benefit of this outstanding program for everyone in British Columbia.

An Industry Association

- To both assist our partners in government and
- To increase the probability that there are good results
- I am proposing that the VCC Fund managers form
- An association to collaborate on areas of common interest.
- We have received a positive initial response.
- Some of the written submissions to this conference have already received the benefit of us working together.
- I am here today asking for your input, and hopefully, encouragement.

Thank you.