



**Consultation on Labour Sponsored Venture Capital
Corporations**

**Department of Finance
Government of Canada**

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1. BACKGROUND

Écotech Québec represents Quebec's cleantech cluster. An independent, non-profit organization with its own decision-making and operational bodies, Écotech Québec helps position Quebec as a centre of excellence for clean technologies in North America.

The first organization of its kind in Canada, Écotech Québec brings together all of Quebec's industry stakeholders from across the province, including innovative companies, R&D and technology transfer centres, major end-user companies, the financial community, education and training institutions, labour confederations and associations working in the clean technology sector. Our members include:

5N Plus	Conseil des entreprises de services environnementaux	Institut de recherche et de développement en agroenvironnement
AirFlow Déфлекteur	Conseil Patronal de l'Environnement du Québec	L2i Solutions financières
Aquarehab	Consortium de recherche et innovations en bioprocédés industriels du Québec	Magog Technopole
Aquatech, Société de gestion de l'eau	Corporation Larvatría	Manufacturiers et exportateurs du Québec
Association pour le développement de la recherche et de l'innovation du Québec	CorpoSana Capital	Mechtronix Environnement
Association québécoise de la production d'énergie renouvelable	Créneau d'excellence des Bio-industries environnementales	Newalta
Association québécoise des technologies	ACCORD	Northex Environnement
Association Québécoise pour la Maîtrise de l'Énergie	CVT Corp	Novothermic Technologies
Banque Laurentienne - dép. cptes majeurs	Cycle Capital Management	OCO Technologies
Berlie Technologies	Développement économique Longueuil	Odotech
BFI Usine de triage Lachenaie	Dunsky Expertise en Énergie	Premier Tech Aqua
BgwTech	E2Metrix	Produits Chimiques Magnus
Bio-Lub Canada	École de technologie supérieure	Prompt
Bio-Terre	École Polytechnique de Montréal	PyroGenesis Canada
Biofour	ÉcoRessources Carbone	Recyc-Québec
Biothermica	Effenco	Recyclage ÉcoSolutions
Bourse de Montréal	EH2Solar	Réseau d'expertise et de valorisation en biomasse forestière
C3E - Centre d'excellence en efficacité énergétique	Enerconcept Technologies	Réseau des ingénieurs du Québec
Carnot Réfrigération	Energie Matrix	Réseau Environnement
CCTT - Optech	Enerkem	Réseau photonique du Québec
Cégep de Victoriaville	EnerTech Capital	SAQ
Celluforce	EnviroCompétences	SCL Elements - Can2Go
Centre de recherche industrielle du Québec	Ethanol GreenField	Second Cycle
Centre de recherche sur les biotechnologies marines	Ferme Lufa	Section du Québec du CBDCa
Centre de transfert technologique en écologie industrielle	Fondaction CSN	Sherbrooke Innopole
Centre des technologies du gaz naturel	Frygy Cube International	Smart CleanTech Partners
CÉPROCQ	Gaz Métro	Solart
Chimie ParaChem	GCM	Solutions Will (Gedden)
CLD Beauharnois-Salaberry	Géothermie Boréale	Sonitec - Vortisand
CLD de l'agglomération de Longueuil	Gestion Valeo	Soteck
CLD Vaudreuil-Soulanges	Golder Associés	Tandem Expansion
CO2 Solution	GRIDbot Canada	Technoparc Montréal
Confédération des syndicats nationaux	Groupe Robert	Technopole Maritime du Québec
	ICOtech	Totem Energy
	Idénergie	Université de Sherbrooke
	Industek	Valbio canada
	Innergex énergie renouvelable	Varitron Technologies
	Innoventé	Vert.com
	INO	Ville de Montréal
	Inovae	Ville de varennes
		Viridis Environnement
		Volts Energies
		YWire Technologies

2. INTRODUCTION

Écotech Québec would like to thank the government for giving it the opportunity to relay the opinion of its members on the phase out of the tax credit granted to labour sponsored venture capital corporations (LSVCC).

It is useful to remember that labour-sponsored funds promote the importance of savings in the workplace, which induces responsible retirement planning and personal finance behaviour.

But primarily, Écotech Québec is of the view that Quebec LSVCCs have played a pioneering role in funding the cleantech sector because:

- They account for a large share of venture capital funding granted to cleantech companies in Quebec;
- They have played an essential role as lead investors to create venture capital funds specialized in this sector in Quebec;
- Whether directly or indirectly, they also play an important role in backing specialized Canadian and foreign funds interested in Canadian companies;
- Their involvement in end-to-end financing of certain fast growing companies now reaching out beyond Quebec's and Canada's borders, such as Enerkem, attests to their importance for the Canadian cleantech ecosystem;

For all these reasons, Écotech Québec would like the government to maintain the federal tax credit granted to LSVCCs so that they can continue to support the cleantech sector here and in the rest of Canada.

3. IMPORTANCE OF CLEAN TECHNOLOGIES

3.1. A diversified, growing sector

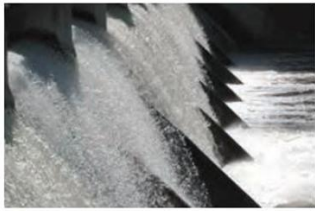
As table 1 shows, cleantech is an important, now widely recognized sector that is made up of a wide variety of subsectors.

It is a dynamic sector that is growing rapidly on a global scale both in supply and demand, as illustrated by the fact that total investments have risen consistently, from \$2.2 billion in 2005 to \$9 billion in 2011, notwithstanding the 2008 recession (graph1).

Among the benefits associated with this dynamic sector are the creation of technology companies and highly skilled jobs, the enhanced competitiveness of all economic sectors, a reduction in GHG emissions, and the fight against climate change. In other words, the cleantech industry is becoming one of the green economy's most strategic sectors, contributing to the prosperity of both Quebec and Canada.

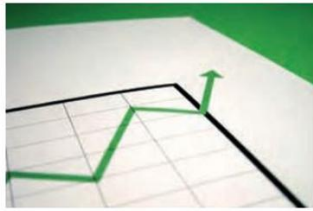
By relying on the emergence of innovative solutions and re-assessing their competitive strengths, many countries are seeking to take advantage of the opportunities offered by the cleantech sector to achieve economically sustainable prosperity.

Table 1 – Cleantech Sectors



RENEWABLE ENERGY

Solar power, wind energy, hydroelectricity, biofuels, etc



ENERGY EFFICIENCY

Managing (energy recovery) and reducing demand at the source



GREEN CHEMISTRY

Biocomposites, bioplastics, ecomaterials (bioproducts and bioprocesses)



TRANSPORTATION

Intelligent transportation, electric vehicles, component manufacturing (power trains)



SOIL

Remediation and groundwater, recycling



WATER

Waste water, drinking water, industrial processes



AIR

Air pollution, GHG and VOC reduction

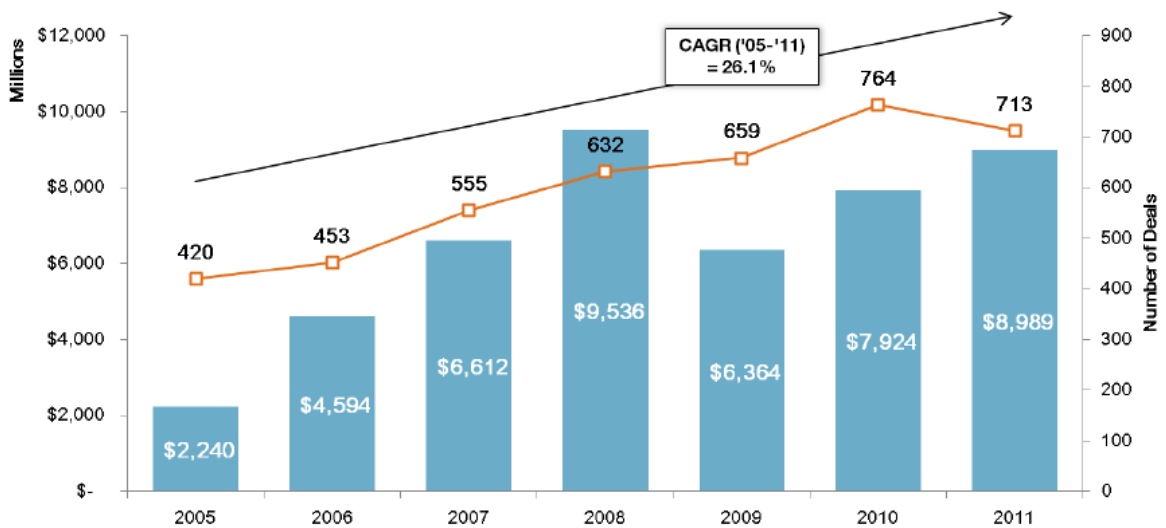


WASTE

Collection, disposal, sorting, recycling, waste-to-energy, waste-to-raw material

Graph 1

Global Cleantech VC Investment



3.2. A federal priority

In light of the foregoing, clean technologies have become a federal priority as confirmed by Prime Minister Stephen Harper's announcements in Quebec City on May 3, 2013 during Natural Resources Canada's ecoENERGY Innovation Initiative.

"The Government of Canada is committed to investing in innovative clean energy technologies that create high-quality jobs, generate new economic opportunities and protect the environment."¹

Sustainable Development Technology Canada (SDTC) and the Business Development Bank of Canada (BDC) are the federal government's main tools to support the financing of start-ups in the cleantech sector and their impact in Quebec is very significant.

4. THE ROLE OF LSVCCs IN THE CLEANTECH FUNDING CHAIN IN QUEBEC AND CANADA

4.1. Pioneers in Quebec

LSVCCs were the first VC funds to invest in clean technologies in Quebec. They began to do so in the 1990s and early 2000s when, unlike the situation south of the border, there were no specialized funds in this sector in Canada. At the time, the LSVCC investments led to fast growing companies, such as Enerkem. Another case worth mentioning: Odotech, who, after securing a first round of financing by Fondation, obtained 50 % of its funding from France although its headquarter, R&D, engineering and manufacturing activities are in Montreal.

In 2003, Fondation CSN (Fondation) and the Fonds de solidarité FTQ ("FSTQ") were behind the first specialized fund in this field in Quebec, i.e. the Fonds d'investissement en développement durable (FIDD), with an envelope of \$18 million in which the LSVCCs invested \$10 million.

They were also the lead investors in setting up Fonds Cycle Capital 1 (2009), an \$80 million fund in which they injected \$30 million (38%), seed fund Fonds Cycle C3E (2011) in which they invested \$12.5 million (30%) out of a total capitalization of \$42 million and lastly, Fonds Cycle Capital III, which was able to complete a first close of \$108 million, thanks to a \$31 million (29%) investment by the LSVCCs, either directly or indirectly through Teralys, a VC fund of funds that obtained 30% of its capital from LSVCCs. Moreover, the LSVCCs have helped set up four funds that invest in clean technologies in Quebec and Canada (see section 4.3).

4.2. Direct funding

From 1996 to 2013, LSVCCs have invested \$154 million in 24 cleantech companies in Quebec, which represents 37% of total amounts invested in this sector and 41% of the companies that received venture capital funding (source Thomson Reuters).

The Thomson Reuters statistics were based on the following sectors: 6500 Energy, Alternative; 6600 Energy, Enhanced Recovery; 6800 Energy, Conservation; 8500 Pollution and Recycling.

Some investments associated with clean technologies are classified by Thomson Reuters in other sectors. This is the case, for example, with Distech Contrôle, which develops solutions for green buildings and which is classified as "Other Measuring and Controlling Device Manufacturing" and in which FSTQ has just invested \$14.3 million in a \$38 million financing round.

¹ <http://pm.gc.ca/fra/media.asp?id=5460>

Based on their data, total direct investments by FSTQ and Fondation in clean technologies amount to \$172.7 million.

Several projects launched with the help of SDTC, such as Écocyte, CVT Corp and Enerkem were later on funded directly or indirectly by Quebec LSVCCs.

In addition, Quebec LSVCCs have directly and indirectly invested on numerous occasions with BDC in companies, such as Cyrium Technologies in Ontario or General Fusion in British Columbia.

4.3. Indirect funding

The LSVCCs directly, or indirectly through Teralys, have not only backed the funds managed by Cycle Capital Management, which are based in Quebec, but also a series of Canadian and foreign managers that have bolstered the cleantech funding chain in Quebec and Canada. These funds are: Chrysalix Energy (Vancouver), Enertech IV (Pennsylvania and Toronto), Rho Ventures (New-York) and Tandem Expansion (Montreal).

The total indirect funding provided by FSTQ and Fondation in clean technologies amounts to \$78 million, without which the funds managed by Cycle Capital Management would never have seen the light of day and the access that Enertech and Rho Ventures have to the Canadian deal flow would not be as good as it is today.

These indirect investments do not only benefit Quebec because all these funds also invest in the rest of Canada, as illustrated by Cycle Capital Management's investment in LED Roadway Lighting (Halifax) or that of Tandem Expansion in Delta-Q (Vancouver).

4.4. The case of Enerkem

The key role LSVCCs have played in Quebec and Canada to create cleantech companies can be clearly illustrated by the case of Enerkem, whose proprietary technology allows it to convert non-recyclable waste into second-generation biofuels and green chemical products.

Montreal-based Enerkem already operates a pilot facility and a demonstration plant in Quebec City. A first standard 38 million-litres-per-year commercial plant is under construction in Edmonton, and a similar project is under development in Varennes , Quebec and Pontotoc, Mississippi. Enerkem also has a pipeline of new commercial projects and growth opportunities in North America.

The history of Enerkem's funding is summarized in graph 2, which clearly shows the essential role LSVCCs have played, whether directly or indirectly, at all stages of its development:

- Direct participation of the FSTQ to fund the pilot project (2002)
- Direct participation of Fondation to fund large scale commercial production (2011) and by Fondation and the FSTQ for the rounds in 2012-2013
- Indirect participation at all stages since 2007 by way of BDR Capital, Rho Ventures US and Cycle Capital

This example illustrates how the presence of strong local investors can help attract foreign investors, notably American venture capital fund Braemar Energy Ventures and Waste Management, in Canadian companies' financing. Enerkem's sustained growth has been made possible by the pioneering role of the LSVCCs and their subsequent direct and indirect funding.

5. CONCLUSION

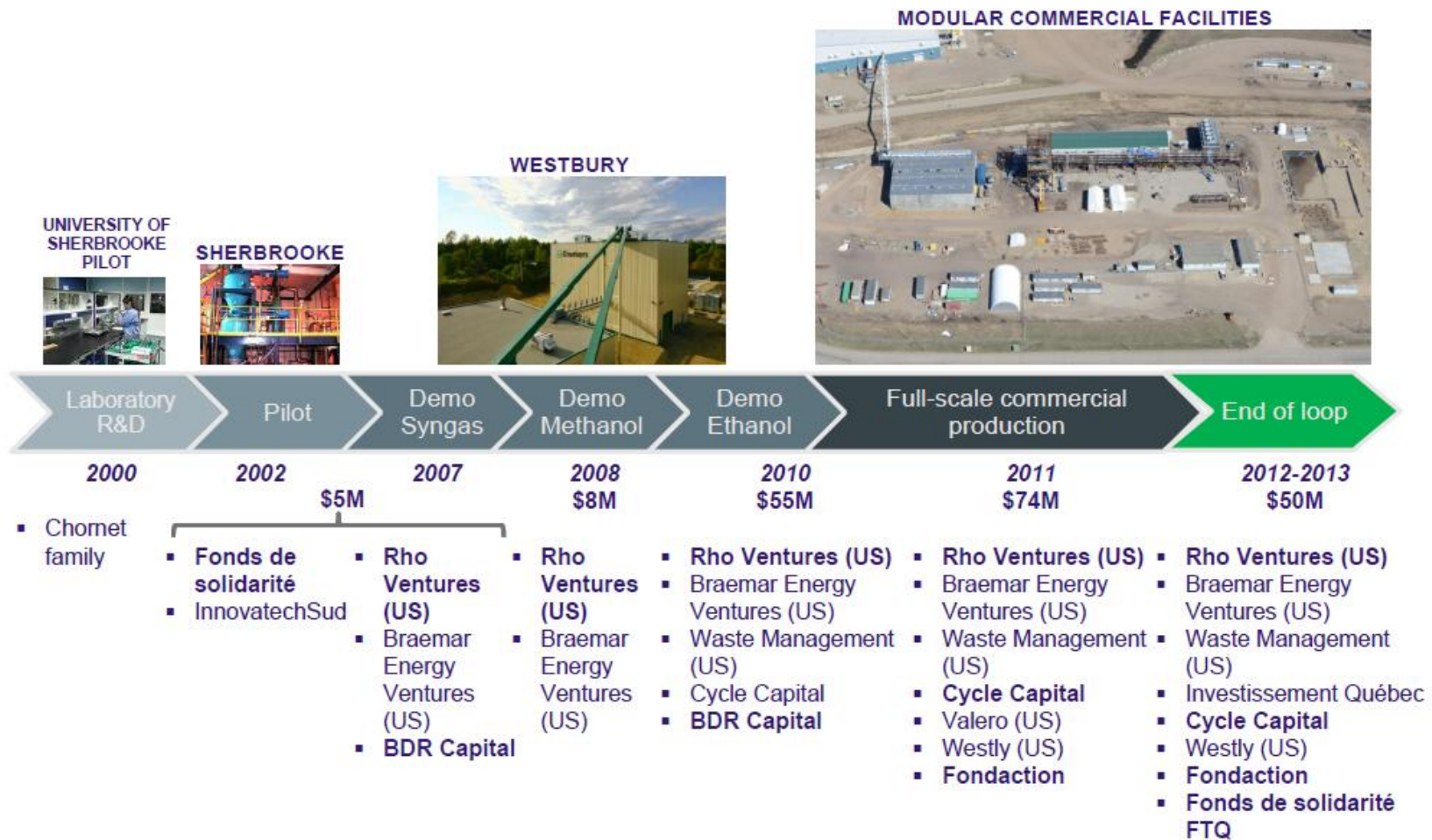
In this brief, we have shown the key role Quebec LSVCCs have played in the growth of a cleantech funding chain in Quebec and Canada.

Since the cleantech sector is booming, its funding chain needs to be developed and bolstered in order to back the growth of this sector.

To this end, the LSVCCs will have to continue doing their share.

For this reason, Écotech Québec is asking the federal government to maintain the federal tax credit granted to LSVCCs so that they can continue supporting clean technologies in Quebec and Canada.

Graph 2: Direct and Indirect Involvement of LSVCCs in Enerkem's Funding



Note: The funds in bold have received LSVCC financing