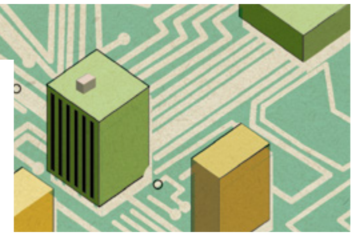


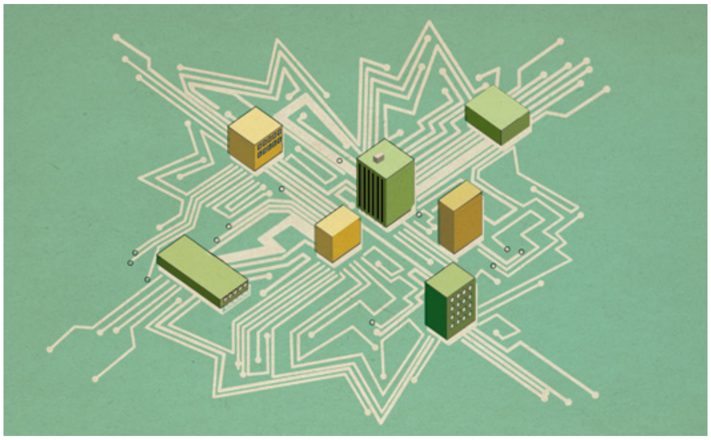
Canada's Technology Renaissance

by Chad Bayne, Geoff Taber & Craig Wright

Once upon a time, Canada had a vibrant technology sector anchored by household names like ATI, Creo, Cognos, Corel, JDS Fitel, Newbridge, Nortel and PMC. The bursting of the "dot.com" bubble signalled, in part, the end of an era for that sector of the Canadian business economy. Over time, these Canadian technology industry titans were acquired by foreign companies or were otherwise diminished.

Fortunately, the undeniable impact of Apple's incredible rebirth, Salesforce.com's meteoric rise, Google's continued success, recent IPOs (and strong commercial results) of social media heavyweights Facebook, Twitter and LinkedIn in the United States, together with the emergence of the next generation of U.S. technology upstarts such as Box, Uber, Palantir and Square and the general appetite of the U.S. capital markets for more technology company IPOs, have helped to create a renewed interest in this sector in Canada. Even in a world that features the demise of Nortel and the ongoing BlackBerry saga, the Canadian technology landscape has witnessed a significant transformation over the last three years and, with the emergence of a new generation of exciting companies, we are ready for a new "golden age."

For many in the industry, October 2011 marked an inflection point. OMERS, one of Canada's largest pension plans, launched its own venture capital arm – OMERS Ventures – to address one of the largest issues plaguing Canada's venture capital industry – a shortage of steady and patient capital, especially for companies requiring larger amounts of growth capital. Prior to OMERS Ventures, Canadian growth-stage technology companies typically had to seek expansion round/growth funding from foreign investors (predominantly in the United States, which often led to the company moving south) or consider a sale as the only other viable alternative. Since its inception, OMERS Ventures has completed almost one investment per month and has been involved in some of the largest venture capital investments made in software companies in Canadian history, including the $80-million investment (teaming with NEA) in Kitchener-Waterloo's Desire2Learn and the $165-million investment (teaming with Insight and Accel) in Vancouver's HootSuite.



The path to prosperity in Canada involves building a long-term, sustainable knowledge economy. Our innovators and entrepreneurs can hold their own globally, our real challenge is to give them the support they need to create the world-class companies of tomorrow. We were delighted to recently partner with Ontario Centres of Excellence as co-founders and Ryerson University as founding academic partner of OneEleven, a community of promising data-driven entrepreneurs in what we hope will become the home to Toronto's best technology startups. OneEleven's culture of collaboration, combining academic-based research and entrepreneurship, will help bridge the commercialization gap and create scalable entrepreneurial opportunities using highly complex, data driven, high power computing. It is a very exciting and important step in nurturing great companies and entrepreneurs, and we are pleased that Osler has joined us in support of this project.

John Ruffolo,
CEO, OMERS Ventures

Trying to emulate the success of U.S.-based technology accelerators such as Y Combinator and Techstars, Canada has seen a proliferation of accelerators from coast to coast – most notably Extreme Startups in Toronto, GrowLab in Vancouver, FounderFuel in Montreal and Hyperdrive in Kitchener-Waterloo. In each case, the accelerator provides office space, mentorship and a small amount of seed capital. In addition, the Business Development Bank of Canada provides further funding to each successful accelerator graduate in the form a $150,000 convertible note.

The federal government has demonstrated its strong commitment to the sector by announcing (as part of the 2012 budget) that it would set aside $400 million for investment in Canadian venture capital funds. The Ontario government demonstrated a similar commitment by announcing in March 2013 that it would set aside $50 million for a new Ontario venture capital fund. In addition, the Ontario government continues to be an active direct investor through initiatives such as the Ontario Capital Growth Corporation (which matches investments made by qualified investors) and MaRS Innovation Accelerator Fund (which provides seed investments of up to $500,000 to promising Ontario-based start-ups).

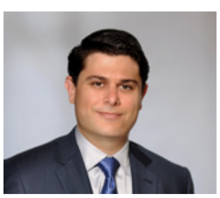
Canadian universities have also been active contributors to Canada's technology renaissance. The Next 36, which was developed in conjunction with the University of Toronto's School of Continuing Studies, has built a program that is designed to nurture and foster the next generation of Canadian entrepreneurs. The program is currently working with its fourth cohort and companies such as Kira Talent, Seamless Mobile + Health and Bridgit have emerged as viable businesses that are winning customers and have completed seed investment rounds. Professor Ajay Agrawal, at the Rotman School of Business, led the Rotman efforts to create the Creative Destruction Lab to facilitate the growth and creation of massively-scalable technology-based companies that are based on technology developed within the Canadian university community, many of which (including Thalmic Labs, Bionym and Weston Expressions) have closed seed finance rounds since (or in some cases during) participation in the program. Similarly, the University of Waterloo established VeloCity to foster entrepreneurship with its students by providing seed funding, free workspace, workshops, networking opportunities and access to mentors. Kik Interactive, one of the world's largest electronic messaging services with approximately 100 million users, and BufferBox, which was sold to Google in late 2012 after being in business for only 18 months, are both "graduates" of that program.

All of this activity is starting to show up in Canadian venture capital data; the Canadian Venture Capital & Private Equity Association reported that Q3'13 was the strongest quarter in six years for the amount of money invested.

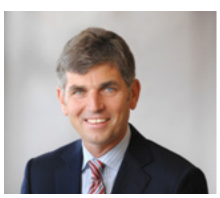
In addition, the Canadian capital markets, which for many years had largely ignored the technology sector in favour of resource issuers or yield investments, have followed the U.S. lead and are now more receptive to technology company public offerings. Ottawa-based Halogen, a SaaS-based talent management solutions provider, completed a $63-million IPO in May 2013 and followed it up with a $24-million bought deal secondary offering only four months later. ViXS Systems, a Toronto-based semiconductor company, raised $50 million in connection with its "going public" transaction by way of a reverse take-over of a capital pool company directly onto the TSX (rather than the TSX-V). And in November, Baylin Technologies, a provider of innovative antenna solutions, completed a $50-million IPO on the TSX. A number of additional technology companies have been watching closely and we expect that 2014 will be a banner year for Canadian tech IPOs.

The sector's prospects have never been better. With the next generation of household names, such as HootSuite, Bionym, Builddirect, Desire2Learn, FreshBooks, Real Matters, Shopify, Thalmic, Verifyn, Vision Critical, Wattpad and Wishabi, among others, rapidly gaining prominence, the Canadian technology sector is once again well-positioned to succeed on the global stage.

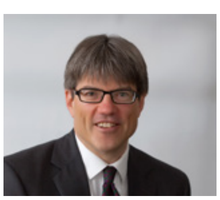
CONTRIBUTORS



Chad Bayne
Partner, Corporate
cbayne@osler.com
416.862.4708



Geoff Taber
Partner, Corporate
gtaber@osler.com
416.862.6614



Craig Wright
Partner, Corporate
cwright@osler.com
613.787.1035