...helping bridge the gap
2011/12 annual report
NETWORK OF ANGEL ORGANIZATIONS - ONTARIO
a member of the Ontario Network of Excellence

2011/12
The National Angel Network Research and Innovation Program Organization – Ontario (known as the “Network of Angel Organizations – Ontario” or “NAO-Ontario”) was formed in 2007 by principals of the National Angel Capital Organization (NACO) in order to administer the Angel Network Program, established by the Government of Ontario in July 2007.

NAO-Ontario’s mission is to create and grow non-profit Angel investor groups for all the regions of Ontario. Building the membership and best practices of these groups builds a more potent combination of mentorship and capital for innovative start-up companies in the province.

A member of the Ontario Network of Excellence (ONE), NAO-Ontario continues to administer Ontario’s Angel Network Program on behalf of the Government of Ontario.

NAO-Ontario also administers the Investing in Business Innovation Outreach Program, on behalf of the Federal Economic Development Agency for Southern Ontario (FedDev Ontario).

Ontario Network of Excellence

Supported by the Government of Ontario, the Ontario Network of Excellence (ONE) is Ontario’s innovation system. The ONE is a network of regional and sector focused organizations, designed to help Ontario-based entrepreneurs rapidly grow their companies, and create jobs. For more information visit www.innovation.ca.

Investing in Business Innovation

Investing in Business Innovation, FedDev Ontario program, boosts private sector investment in start-up businesses to accelerate the development of new products, processes and practices and bring them to market. It also helps angel investor networks and their associations attract new investment and support the growth of angel investment funds.

Testimonial

The NAO-On has not only been instrumental in the start-up of Angel Groups in Ontario, and providing ongoing operational support, but has also led to the establishment of a provincial network of Angel groups that we now find critical for the ongoing success of the South Western Ontario Angel Group (SWOAG). We rely on the network for deal syndication, access to expertise, review of best practices, and the testing of innovative deal structures. I know our submitting companies also recognize the strength of the network and the support it provides to them in simplifying the investment process.

An Unsung Story

The goals of the Network of Angel Organizations – Ontario (NAO-Ontario) have always been: to ensure access to Angel capital in every region and innovative sector of the economy; to further develop and implement best practice in the organization of Angel investors; to boost Angel investment into Ontario’s most promising companies; and to build the profile of this economically crucial community.

This year was crucial in our development and in the achievement of these goals. To support continued growth, NAO-Ontario has developed a new team, brand, and office location. The Angel Network Program (ANP) we administer, supported by the Government of Ontario, has grown from eight Angel investor groups to ten. And our Investing in Business Innovation Outreach (IBIO) program, funded by the Government of Canada, has made its debut. Ontario’s Angel community is growing as never before.

Consequently, although small, NAO-Ontario’s leveraged impact on Ontario’s economic prospects, as well as its innovation system, has been significant. Since 2007, members of ANP-supported Angel investor groups have invested in deals with a total reported worth of over $100 million. Over $1 million more has been mobilized via other Angel networks listed for the IBIO program. Deserving company founders put this funding to hard work, by constantly “finding a way” through resource and time constraints with true entrepreneurial spirit.

And contrary to some stereotypes, the 1,100-plus jobs created by these companies since 2007 have often been high-value and greatly attractive to skilled employees coming out of larger organizations in order to make their own mark. Their independence, creativity and perseverance find ready application in Ontario’s newest economic challengers, and this alone serves as a strong endorsement of what the Ontario Network of Excellence (ONE) at a whole has set out to do.

We are proud to work alongside fellow members of the Ontario Network of Excellence to build Ontario’s economic future in these ways, and the exciting prospect of further synergies and network potential ensures this story will continue to be compelling for years to come.

Dr. Patricia Lorenz  MBA, CA, CPA, DVM Network of Angel Organizations - Ontario Chair of Board of Directors

Independent, creative and persistent individuals achieve economic and community development, innovation, and economic diversification, while contributing to the success of communities, businesses, educational institutions and not-for-profit organizations. All of these activities contribute to FedDev Ontario’s vision: a prosperous and globally competitive Ontario. And contrary to some stereotypes, the 1,100-plus jobs created by these companies since 2007 have often been high-value and greatly attractive to skilled employees coming out of larger organizations in order to make their own mark. Their independence, creativity and perseverance find ready application in Ontario’s newest economic challengers, and this alone serves as a strong endorsement of what the Ontario Network of Excellence (ONE) at a whole has set out to do.

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Sparks will fly

I am very pleased to deliver this Annual Report, particularly to the supporters and stakeholders who have laboured so long to realize our vision. At every meeting of Angel investors, they see how creative sparks brighten everything when Angel investors and promising entrepreneurs combine, so they surely deserve to know that the sum total of the effort is ultimately as transforming as any one occasion.

Our role is quite different from any other participant in the innovation system. NAO-Ontario doesn’t make investment decisions, or choose the entrepreneurs “most likely to succeed”, or even pool any capital. We simply support and co-ordinate Angel investors’ own efforts to self-organize, region by region, under a set of rules that ensure the work is done by Angels and for Angels.

This we consider to be essential, 21st-century infrastructure development. As with any previous century’s infrastructure, this is ultimately intended to allow the development of a prosperous economy that completely realizes the technological and social potential of the times.

However, as you will see on our Performance Measures page herein, our surveys of Angel investor group’s activities continue to demonstrate that this approach is working. The Angel Network Program has strengthened its results in its fifth year of operations, and at last achieved the goal of providing access to Angel capital in every region of Ontario.

Angel investors are famously independent-minded and inquisitive people. It takes genuine effort and skill to impress them. But contrary to televised depictions, they do not critique for amusement’s sake, but out of a genuine and cheerful passion for entrepreneurship and innovation. Every company founder who has an opportunity to exchange knowledge with an Angel should take it, without hesitation. Angels’ experience, connectivity and talents are even more important than their capital.

Angel investors also appreciate that, by joining a regional, non-profit, membership-based group of their peers, they may connect to Angels and entrepreneurs across Ontario, via the Ontario Network of Excellence and the Angel Network Program. As a result, I have enjoyed seeing the sparks that fly when Angel investors themselves convene to share knowledge. This is truly becoming a community of practice, its members ascending a considerable learning curve to fill a reservoir of understanding that will serve our economy and society well in the years to come.

The Angel Network Program and the Investing in Business Innovation Outreach Program, both administered by NAO-Ontario, have achieved significant results in 2012. This is thanks to the considerable effort, perseverance, and vision of our staff, directors & officers, a close-knit group who nonetheless continue to make every effort to stay in touch and in tune with our growing community. It has been a privilege to serve in their ranks, and I look forward to seeing where next they take our vision and mission.
### Angel investor group model

- **Nonprofit incorporation**, allowing eligibility for government support (i.e., ANP and FedDev Ontario’s IBI program)
- **Decisions by Angels for Angels** - this means that:
  - The group does not act as a broker, simply a forum for which accredited investors meet, collaborate and co-invest with each other
  - The group’s direct role is limited to investor knowledge & network development, and convening investors and entrepreneurs
  - Individuals, not the group, make the assessment of any opportunity and the decision to invest, individually or alongside others
- **Often paid management**, such as 1 executive director and 1-3 administrators
- **Membership count of 30 – 300** accredited investors, depending on the group’s date of inception
- **Regular investment meetings** where pre-screened start-ups present to the group’s members
- **Code of conduct** applied to members and staff
- **Membership fees** are increasingly charged

#### Angel Group Dynamic

**typical characteristics**

- **A group’s volunteer mentorship & due diligence**
- **…attracts more co-investors (like VCs) to join rounds…**
- **A non-profit Angel investor group should therefore focus on organizing effective volunteer mentorship & due diligence…**
- **…and higher quality enterprises attract more members…**
- **…which attracts more high-quality enterprises (following the funding)…**

### Cycle of activity of an Angel group

- **Formal Angel groups increase the efficiency of combining accredited investors with entrepreneurs seeking investment, for mutual benefit.** For this reason, one of the main goals of the Angel Network Program (ANP) is to create new Angel groups in Ontario where none existed, and foster their success with information and educational tools to transfer the best practices of successful Angels.

In addition, NAO-Ontario and its Angel groups look to Ontario Network of Excellence members, such as Ontario’s Regional Innovation Centres, to find new enterprises that Angels may invest in, and to provide companies not yet investment-ready with mentorship and education.

As a result of the ANP, Angel investment has been newly profiled in Ontario and validated as a source of finance and aspiration for early-stage entrepreneurs, by disseminating showcases and tools, as well as through the community outreach efforts and publicly-accessible websites and offices of the Angel groups.

As of March 31, 2012, the ANP had demonstrated that organizing Angel investors generates measurable gains for the innovation economy, with:

- Over 500 members reported by non-profit Angel groups in all major regions of Ontario from Thunder Bay to Toronto, Ottawa to London
- Group members reporting they cumulatively invested over $37 million into 75 Ontario companies since 2007
- Another $67 million reportedly invested into these companies, at the same time as the Angels (not including post-Angel follow-on investment), by non-members, venture funds & governments.
- From the companies receiving investment that reported their job creation, a total of 1078 positions were noted
- Consequent leverage achieved on program spending reaching a 1 to 3 ratio
- Several knowledge-based tools created to share Angel investors’ best practices, including a textbook titled Age of the Angel.

### Government programs

#### Ontario’s Angel Network Program

**Investing in Business Innovation Outreach Program**

With the support of the Federal Economic Development Agency for Southern Ontario (FedDev Ontario)

In order to further encourage the growth of organized Angel investing in southern Ontario, the Federal Economic Development Agency of Southern Ontario approved funding over three years (2011-14) for NAO-Ontario’s Investing in Business Innovation Outreach (IBIO) program.

This program’s primary purpose is to reach out to communities, industrial sectors and others across southern Ontario, and inform them of the benefits of joining Angel investor groups and clubs. Chief among these benefits is FedDev Ontario’s Investing in Business Innovation Program itself, which matches investments made in eligible southern Ontario companies by eligible Angel investor groups and clubs, as well as venture capital funds, on a 1:2 basis via repayable, non-interest-bearing loans.

All members of non-profit Angel groups and clubs in southern Ontario that are listed with NAO-Ontario may apply to the Investing in Business Innovation program.

In addition to communicating Angel organization membership benefits, the IBIO program administers the Angel club listing process and helps increase the capacity of Angel organizations in southern Ontario to serve their members effectively.
Ontario Angel groups

Angel Groups now operate across Ontario

Golden Triangle Angel Network (GTAN) is an experienced group of private investors looking for dynamic entrepreneurs, dynamic products and dynamic companies. GTAN members help accelerate companies in the Kitchener-Waterloo, Guelph and Cambridge region to become market leaders in their industry by bringing together investment, experience and knowledge.

Maple Leaf Angels (MLA) is a group of private investors from a wide variety of backgrounds and careers. They collectively possess deep expertise in information technology, communications, finance, manufacturing, professional services, health care, and technology. MLA is a group of investors who have a track record of successful investments in private companies.

Northern Ontario Angels (NOA) connects Northern Ontario entrepreneurs with the right investors and resources to help them build and grow their businesses. They work to facilitate the flow of investment capital, education and management expertise into high-growth Northern Ontario companies.

PARTEQ Angel Network (PAN) is a group of Angel investors formed by PARTEQ Innovations of Queen’s University, not-for-profit technology transfer office of the University, part of the Research Commercialization Network.

The Angel One Investor Network is a members-only not-for-profit organization for accredited investors who live, work or have strong interests in Oakville, Burlington, Hamilton and surrounding areas. The organization provides Angel investors with opportunities to increase their exposure to quality pre-screened companies seeking capital.

SOUTHERN ANGEL NETWORK
MID-SOUTH GROUP

Southwestern Ontario Angel Group (SWOAG) is a group of accredited investors that support economic development in London and the Southwestern Ontario region. SWOAG provides its members a medium to network and share investor best practices. SWOAG posses a vibrant entrepreneurial spirit that enables its members to effectively identify and act on investment opportunities.

The Niagara Angel Network (NAN) is a prudently driven initiative that brings together individual investors from across the Niagara Region. Members of the Niagara Angel Network, or "Angel investors" combine their wealth of knowledge and experience to collaborate and invest in early stage growth companies.

York Angels Investor (YAI) provides a supportive linkage between local entrepreneurs seeking early and mid-stage capital, and investors with a commitment to the economic development of York Region and its entrepreneurial spirit.

Capital Angel Network (CAN) is a network through which accredited Angel investors can view pitches and collaborate with other Angels. CAN gives Angels in the Ottawa region a forum to hear other perspectives and receive feedback on their own before taking on any risk.

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CURRENT TOTAL INVESTMENTS BY GROUPS’ MEMBERS ($) AND GROWING

57,159,000 NON-MEMBER FUNDS LEVERAGED INTO DEALS (MARCH 2007 - MARCH 2012)

10,425,000 GOVERNMENT FUNDS LEVERAGED INTO DEALS (SEPARATE SINCE APRIL 1, 2011)

3,810,000 NON-TECH OR NON-ONTARIO INVESTMENTS MADE BY GROUPS’ MEMBERS (SINCE MARCH 2007 - MARCH 2012)

[ Angel investor group performance measures since 2007 ]

Ontario Angel groups

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Angel investor group makes going abroad possible for local start-up

Miovision now employs close to eighty individuals, has over $4M in annual revenues, and sixty-plus global customers.

Last year, members of the Golden Triangle Angelnet (GTAN) of Kitchener-Waterloo, Guelph and Cambridge catalyzed a significant round of capital investment totalling $1.1 million in Miovision, an automated traffic data collection systems supplier.

The significant investment provided by GTAN’s members has been invaluable to the company’s performance, increase in staff and payroll, and ability to secure other investment opportunities.

In just 6 years since founding, Miovision opened its first European sales office in Cologne, Germany. Representatives of Miovision state “that without the support of the GTAN, the significant expansion abroad would not have been possible.” The seven employees working at the Cologne site enhance Miovision’s communication with the European market in a much more efficient manner.

“It would have been difficult for us, fresh out of school, to have established Miovision in the way that we have without the investors we met through the GTAN. Not only did the GTAN provide the support we needed financially, but by presenting to a group of investors as opposed to having to seek them out individually, we were able to focus our time on developing our products and our business. This subsequently enabled us to go to market and see profits significantly sooner.” Kurtis McBride, CEO

Miovision is a developer of video and web-based technologies that target the inefficiencies faced by traffic consultants and municipal governments. Their automated count system aims to replace cost-intensive manual processes. The technology is complemented by an online data collection process, where the information can be managed and analyzed quickly. In 2005, Miovision became the first company to join the Accelerator Centre in Waterloo. Having started with only three employees, the company now employs close to eighty individuals, has over $4M in annual revenues, and sixty-plus global customers.

Since 2010, Miovision has been the recipient of three awards, the Ontario Centre of Excellence ‘Mind to Market’ Award (2010), the Golden Triangle Angelnet ‘Company of the Year’ Award (2011) and the Waterloo Region Record ‘Top 40 Under 40’ Award (2011).
Ontario Angels assemble the broadest syndicate yet

Twenty-seven members from four Angel groups invest alongside the Ontario government in Toronto venture, Viafoura.

Members of Golden Triangle Angelnet (GTAN), the Sudbury chapter of Northern Ontario Angels (NOA), York Angel Investors, (YAI), Niagara Angel Network (NAN), and Angel One Investor Network (AngelOne) recently united to make a substantial undisclosed investment in the Toronto-based start-up, Viafoura.

This is the most geographically extensive syndication to date among organized Ontario Angels. Viafoura was brought to the attention of Angel investor and entrepreneur Marc Castel through Community, an innovation hub in Waterloo. “They had made quite a bit of progress and had built an impressive team bootstraping the business with their own money,” said Castel. As a member of GTAN, Marc offered them an opportunity to present to GTAN’s selection committee where they ultimately attracted multiple individual investors from the Waterloo region. Then word spread and the company attracted further interest from NODEG, YAI AngelOne and NAN members, arriwing at the involvement of twenty-seven investors in total.

“The pursuit of start-up capital is quite akin to dating. Many entrepreneurs start raising money when they need money. The probability of meeting someone casually that is willing to write you a suitable cheque to help grow your business is slim. Having known that we were going to raise capital, I engaged potential investors from inception. When it was time for a commitment, they were fully informed of our development process, achievements. Making the time for an extended courtship to ensure a level of trust and intimacy exists between the parties is well worth the effort,” said Castel.

Putting together a syndicate requires a significant organizational and logistical effort. “Castel played a key role in facilitating dialogue and activities between the members of the various groups, which was critical to syndication,” said Nick DiPietro, Executive Director of NAN.

Angel investors also bring a wealth of experience to start-ups and in this case, lead investors Benton Lesley and Steve Gilpin of GTAN made a positional impact on the company’s go-to-market strategy, accelerating the milestones they were able to achieve. Both Angels have a seat on the company’s board of directors, thus making themselves available beyond what is typically afforded to entrepreneurs. “If we needed our business insight or access to their networks, they stepped up right away,” said Moeinifar. “Their passion for the team and entrepreneurship in general is an asset we’ve been very fortunate to have.”

Last year, Viafoura was chosen from 50 companies at Canada Venture Forum. The company has since grown to 17 employees, and has paying customers.

Company exits with satisfying returns for Angels

Southwestern Ontario Angel Group credited with reducing and simplifying the development process that led to a successful merger

Incorporated in 2002, Scisense Inc. is now a leading manufacturer of micro-sensing technologies for medical research applications, including the measurement of blood pressure, volume, and electrocardiogram (ECG). The Scisense team represents decades of engineering design and manufacturing expertise and in-depth knowledge of biomedical research and instrumentation.

Scisense received investment from members of Southwestern Ontario Angel Group (S.W.O.A.G.) during the early stage of the organization, in the first quarter of 2008.

At the time, the opportunity in Scisense represented the catalyst for the founding members of S.W.O.A.G to establish an Angel investor group in London, Ontario.

In 2010, The Mezzanine Group, a growth services firm based out of Toronto, awarded Scisense a $75,000 prize for winning a marketing plan contest. The recognition was commanded by S.W.O.A.G members who applauded management for taking the initiative to apply for the contest. Members also highlighted that the distinction attended to the quality of the company as a whole and management’s business acumen.

On July 1, 2011, Scisense revealed that it had merged with Transonic Systems Inc., a company based out of Ithaca, U.S.A. This constituted an “exit” that yielded a satisfying return for the Angel investors who supported the company from its early days. The members were very pleased with the result of the merger and the company’s decision to stay within London, Ontario. Furthermore, Blair Poetschke, President and CEO of Scisense, Inc., alongside his management team, will retain their positions in the merged company. The merged company is expected to now possess a more complete skillset and expand their product line in the up-coming future.

It is firmly believed that if we were not for Angel Investors, Scisense would have been subjected to a longer and more complicated development process. At the time, the likelihood of management receiving funds from an alternate source was not promising. To add to their contributions, S.W.O.A.G members provided qualitative support through annual investor meetings, mentoring, introducing new networks and marketing.

Going forward, the members of S.W.O.A.G will not be formal shareholders; however they will maintain a working relationship due to the nature of the business community and expertise they continue to offer.

Scisense Systems Inc. is a leading manufacturer of micro-sensing devices for medical research applications, including the measurement of blood pressure, volume, and ECG. The Scisense Team represents decades of engineering design and manufacturing expertise and in-depth knowledge of biomedical research and instrumentation.
Six members of Thunder Bay’s Angel investment group organized by Northern Ontario Angels (NOA) have invested a total of $3.5 million in IGY Life Sciences & Technology Inc., a three-year-old biotechnology company specializing in the extraction, development and commercialization of broad spectrum antibodies, or immunoglobulin (IgY).

The initial investment was $3.5 million with an additional $2 million injected to purchase the technology. The investment was received in four installments of cash, in-kind contributions and warrants. Currently, members of the Venture Alberta Angels are completing due diligence as they prepare to provide an additional round of capital.

The investment mobilized the driving forces behind the venture. “In a pre-cash company, Angel investors are the key to making the first sale. Without the investors this business or the potential for job creation would not have happened,” said founder Terry Dyck.

With a staff count grown to ten, the company is now on the brink of commercialization; markets are secured and intellectual property including patents for the breakthrough technology have been acquired.

NOA members are providing mentorship, seeking additional investors, and serving on the Board of Directors. Thanks to the Angels and this entrepreneur, the company has secured enough funds and bandwidth to continue to move forward well within their projected timelines.

“I am delighted to be able to bring this type of quality opportunity to our members,” says Karen Grant, Angel One’s executive director.

“I do not have access at this stage on our own. The partnership has introduced to new sales opportunities that we would otherwise not have accessed at this stage on our own. The partnership will play a key role in achieving our expected growth.”

Mary Long-Irwin, executive director of NOA, said, “Without Angels, this project would not have enjoyed the success it has to-date. With the number of jobs created and the potential for more, this leading-edge company has the opportunity to move forward and be a part of the North’s new economy.”

“Quant Interpretations has taken our members by storm. The company presented to Angel One members November 2nd and closed its first round with members shortly after, with more investors lined up to participate in the next round. Angel One is delighted to be able to bring this type of quality opportunity to its members,” says Karen Grant, Angel One’s executive director.

Quant founder Brad Ross stated, “The Angel One investors are bringing so much more to us than just funds. We have been introduced to new sales opportunities that we would otherwise not have accessed at this stage on our own. The partnership will play a key role in achieving our expected growth.”

Quant is dedicated to improving the productivity and performance of Canadian companies by improving the speed and accuracy at which they receive market data for use in key business decisions.

Quant is the recipient of 2 regional awards: (1) Grand Prize at Hamilton’s Innovation Night on April 13, 2011 (2) Finalist in the 2011 Lavo’s Prix competition in Hamilton, Ontario, conducted by the Hamilton Chamber of Commerce and the Innovation Factory.

IGY Life Sciences & Technology Inc. is a privately held biotechnology company specializing in the extraction, development and commercialization of broad spectrum antibodies, or immunoglobulin (IgY), for use as a diagnostic reagent for development of “antibodies” for targeted pathogens. The company was formed in 2009 to commercialize a proprietary process for extraction of avian immunoglobulin from chicken egg yolks at the highest purity and lowest cost available in the world. IgY is a natural antibody for which there is an existing global demand.
Eligibility for matching funds via Angel group and network membership

NAO-Ontario has been asked to maintain a listing of active Angel investor networks (including groups and clubs) for the purposes of determining eligibility for FedDev Ontario’s Investing in Business Innovation program. This program provides matching funds to selected southern Ontario businesses that receive investment from eligible Angel investors and venture capital funds.

All members in good standing of incorporated Angel Network Program investor groups are considered eligible to apply for this program.

Also, to assure reasonable access to this program, NAO-Ontario accepts listings from unincorporated Angel networks that apply to us and provide a charter assuring that they:

- Are operated by Angels and for Angels (i.e. by securing Accredited Investor Declaration Forms from each member);
- Will provide quarterly statistics to NAO-Ontario, and
- Will keep their contact information up to date.

The onus is on the network representative and the company receiving investments to ensure that the investors involved are accredited and aware of the risk and returns of Angel investing.

NAO-Ontario has no role in determining which Angel-invested companies receive matching funds from the Government of Canada, and all Angel networks are strongly encouraged to obtain professional advice with respect to regulatory, legal, or fiduciary concerns.

The Investing in Business Innovation program is an exciting opportunity...
Angel networks, focused on operational issues such as membership development, may request the Angel Network Program (ANP) for resources that support additional operational success. The types of resources available include a directory of Angel investor groups, textbooks of best practices, and an Angel Group start-up package.

New resources are developed on an ongoing basis as required. Examples include:

- More group start-up package elements, such as how to grow and manage volunteer resources
- Online resources to assess sector-specific interests and abilities among Angel groups’ members, allowing sector-based referrals of opportunities and technical expertise (i.e. from SICs) among them
- An online form to self-qualify entrepreneurs for investment or other assistance
- Case studies of instructive Angel investments

Provided resources to Angel investor groups

NAO-Ontario’s volunteer board of directors consists of passionate individuals who generously donate their time to the betterment of the organization and the Angel community at large.