



Ag-West Bio Commercialization Fund

Description & Guidelines

Ag-West Bio (AWB) provides early stage capital and helps secure matching funds for early stage companies in the agricultural biotechnology, bioproducts, bioprocesses, natural health products and functional foods sectors. Our funding is repayable and allocated to promising technologies at the early stages of development, often considered too risky for traditional private capital sources, and at a stage too early for venture capital attraction. Companies can be start-ups but must be beyond the research stage and must have attained initial start-up capital – usually in the form of private investment from company founders, friends, and family. Companies should be in the proof of commercial concept, or product and market development stages and have some form of formal ownership or control of the technology being utilized. Funded companies can be based outside of Saskatchewan but must have a substantial project presence in Saskatchewan, typically defined as a number of employees residing in Saskatchewan. Companies must become AWB members.

Early stage capital allocation ranges from \$20,000 to \$300,000 and is targeted to initiatives where a clear pathway to commercialization can be demonstrated. We work with companies to help establish this pathway, and link them to other stakeholders in the industry. Our early stage capital is repayable and can take the form of debt or equity, with flexible terms. We help companies establish near term milestones; funding is tied to successful execution of these milestones and advanced in tranches.

Funding Process

Meeting with the company to discuss its stage of development is the first step. A simple Pre-application Template is filled out, summarizing the company, the market opportunity, the plan and the risks involved. Once we determine the company is beyond the early research stage, with a promising technology and capable management, we execute a confidentiality agreement, invite the company to submit a business plan or other form of presentation outlining its commercialization plan, and complete an Investment Proposal. At this point we perform a business plan gap analysis and point the company toward industry stakeholders and additional funding sources capable of augmenting the plan. This stage is the most time-intensive and often involves AWB staff providing path finding assistance.

Next is a formal due-diligence process to determine the likelihood of commercialization, and clearly establishing a pathway for success. We ask the company more questions, aimed at outlining important investment details on key aspects of the technology, the company, and the commercialization plan. The questions are tailored to the company's particular industry and technology and focus on critical items involved in the investment decision. At this point we may also ask the company to authorize a confidential third party technical review of the company's technology, if needed.

If significant gaps are identified during this process, we do not advance early stage capital, but highlight the deficiencies, pointing the company toward resources and partners able to help remedy the deficiencies, if possible. If a feasible commercialization pathway is identified, we move to the next stage: where the company formally presents its plan to the AWB Technology Commercialization Committee comprised of AWB board of director members. Prior to this point, the company works with AWB management in preparation to make this investment 'pitch'. This process not only prepares the company for presentation to the AWB board, but also to subsequent investors and strategic market partners.

Once the company successfully moves through this presentation stage the next steps are: the identification of commercialization milestones, tranche advancement requirements, a term sheet, and eventually an investment agreement. Tranches are heavily tied to the company attaining advisory input (mentoring), and we assist the company in this regard.

Funding Decisions

We are governed by a dedicated board of directors comprising bio-industry leaders. The board makes the final investment decision and provides valuable commercialization input before, during and after the presentation ('pitch') stage. Board meetings and investment decisions take place quarterly.

Reporting Requirements

If an investment is made, we closely monitor the company through quarterly reporting and ongoing correspondence aimed at identifying risks and opportunities to offer the company in-kind assistance.

Repayment

The goal is successful commercialization, industry growth, jobs, and the generation of increased wealth in the province of Saskatchewan. When the company achieves commercialization, generally defined as gaining significant revenue from the sale of product resulting from the technology (or from licensing of the technology), the investment enters repayment, which varies, depending on the type of investment.

Equity investment: We look for a mutually beneficial point to exit the investment.

Loan investment: There are often two components to repayment of an investment in the form of a loan. The principal and accrued interest repayment is usually in monthly installments, and royalty payments based on revenue from the commercialized technology in annual installments.

Typical loan terms are as follows:

Interest rate:	RBC prime plus 2%
Interest accrues:	from the time money (principal) is advanced
Money is advanced:	in stages (tranches) that correspond to pre-commercialization milestones
Repayment trigger:	is usually upon significant revenue or market traction, or set date
Repayment:	usually monthly blended payments of principal and accrued interest, amortized over 3 – 5 years
Royalty payment:	paid annually based on a percentage of revenue

Royalty agreement: A royalty repayment obligation is added to AWB loan investments. The royalty agreement is structured so that AWB receives a royalty payment if the technology financed results in significant commercialization revenue success. The royalty is usually 1X the amount of loan principal advanced.

Mentorship

The process ends when the company has fully repaid its obligation. At this point we encourage the company to maintain membership and an open dialogue with Ag-West. We may invite the company principal to become a mentor in our Mentorship Program. Through this program we encourage new clients to become protégés and work with experienced mentors identified through our close contact to private industry. The Mentorship program is a valuable component of our Commercialization Fund.

Ag-West Bio Commercialization Fund -- Process Summary

The funding decision process can be summarized in the following steps. If the company openly provides information in a timely fashion, the decision process usually takes 3-4 months.

1. Meeting with AWB to discuss company, opportunity, technology, plan and risks
2. Completion of the Pre-application Template
3. Execution of confidentiality agreement
4. Company completes the Investment Proposal and submits a business plan
5. AWB performs a business plan gap analysis and directs company to resources and industry stakeholders to help fill gaps in plan. However, if the gaps identified at this point are too significant, or the risk identified is too great, the process stops here. If gaps are small enough, or if gaps are sufficiently filled, the company moves on to the next step.
6. If appropriate, company principal is encouraged to become a protégé in the Mentorship Program
7. Company answers detailed commercialization questions tailored to the company, the technology, the industry, and the plan
8. AWB completes formal investment due diligence. If a promising technology and an economically feasible commercialization pathway are identified, then move to step 10.
9. If the gaps identified during due diligence are too significant, AWB highlights the deficiencies and directs the company to resources and partners able to help remedy the deficiencies – if possible.
10. Company presents its plan (pitches its investment opportunity) to the AWB Board of Directors, and receives valuable input and guidance. If, during this step, significant gaps are identified, then the company moves to step 9. If the plan is feasible and a solid commercialization path way is presented, move to step 11.
11. AWB Board investment decision

Final steps

After a funding decision is made, the steps involved in closing a funding contract and advancing the funds may take an additional 1-2 months.

12. Designation of commercialization milestones and corresponding investment tranche advancement requirements
13. Execution of a Letter of Offer and Term Sheet
14. Execution of an Investment & Security Agreement.
15. Advancement of funds based on tranche requirements
16. Company reporting and ongoing communication
17. Commercialization repayment trigger
18. Repayment period begins
19. Obligation fully repaid. Company principal may be asked to become a Mentor to new entrepreneurs

For more information about Ag-West Bio's Commercialization Fund, please contact:

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