



**Capital  
Financière agricole inc.**

**INVESTMENT POLICY  
OF CAPITAL FINANCIÈRE AGRICOLE INC.**

**A BRANCH OF LA FINANCIÈRE AGRICOLE DU QUÉBEC**

**July 28, 2009**

---

## **MISSION**

*La Financière agricole du Québec has formed an investment branch, Capital Financière agricole inc. (CFAI), to support, with venture capital, profit-making projects with a developmental dimension for the agricultural and agri-food sector, thereby contributing to prosperous economic development in Québec.*

## **TARGET CLIENTELE**

Target companies are in the agri-food sector. They have projects that are beneficial to the agricultural sector and feature one or more of the following characteristics:

- Companies with farm operators as associates, whether as partners, suppliers or clients;
- Companies whose projects in agricultural production (including upstream and downstream agricultural production projects), processing or commercialization involve the agricultural sector or regional development.

## **PROFIT-MAKING PROJECTS WITH A DEVELOPMENTAL DIMENSION**

CFAI will favour profit-making projects that have a significant impact on agricultural production and meet one or more of the following criteria:

- Focuses on group involvement (projects that benefit a group of producers);
- Fosters an increase in agricultural output or provides the consolidation deemed necessary to maintain a specific production;
- Ensures the market prospects of an agricultural production;
- Offers added value.

➤ **AGRICULTURAL PRODUCTION**

Projects providing direct support to agricultural production will remain the responsibility of La Financière agricole du Québec and only exceptionally will CFAI support such projects, which will need to be innovative or have a developmental dimension.

➤ **PROCESSING**

- ✓ Projects involving processing must lead to the creation of market outlets for agricultural projects or be geared toward innovation and increased productivity.
- ✓ In compliance with the recommendations of the “Chantier sur les produits de niche et du terroir,” CFAI will not only consider projects that involve the processing of niche products and traditional Quebec foods, but also initiatives aimed at market development for these products (including regional products with a distinctive nature), while at the same time respecting existing networks.

➤ **PRODUCTS AND SERVICES UPSTREAM AND DOWNSTREAM IN AGRICULTURAL SECTOR**

More emphasis will be put on products and services downstream from the agricultural sector (e.g. marketing associations) than upstream. For upstream projects, they must be innovative and have a developmental dimension that would provide a competitive edge over what already exists on the market.

➤ **NUTRACEUTICALS AND FUNCTIONAL FOODS**

The nutraceutical and functional food sectors appear to be very promising niches for the future. CFAI intends to support projects in these niches when the products are ready to be marketed. This marketing requires a licence issued by Health Canada. It goes without saying that only agriculture-based products will be considered.

➤ **AGRO-TOURISM**

Agro-tourism has enjoyed remarkable success in several countries. CFAI proposes to examine, with regional partners, certain projects that will benefit the regional agricultural sector. Projects only comprising activities related to accommodations and the restaurant business will not be considered.

➤ **BIOTECHNOLOGIES**

The development in this sector is both a lengthy and costly process requiring several rounds of financing before a product can be commercialized. The Centre québécois de la valorisation des biotechnologies (CQVB), via its Bio-Innovation fund, is the leader in this sector. Exceptionally, CFAI will consider these projects at the commercialization stage when subsequent research efforts become limited to maintaining existing products. This type of project will be analyzed in partnership with other funding bodies, particularly the CQVB.

## **TERMS AND CONDITIONS**

The following terms and conditions will serve as guidelines. In exceptional cases, some flexibility could be considered.

### **1. Size of investment projects**

- ✓ Minimum: \$500,000
- ✓ There will be no minimum when CFAI is already the company's partner.
- ✓ Maximum per project: \$10,000,000

### **2. Financial participation**

The financial participation of CFAI, in conjunction with that of other Québec government partners, in the form of venture capital, if any, must remain minor unless there is a need to protect its investment, and only then for a limited period of time.

### **3. Investment by the company**

The minimum investment will be \$200,000. However, a lower amount may be considered depending on subsequent investment potential. The maximum investment will be, as a general rule, \$2,000,000. Exceptionally, CFAI will be able to reinvest up to \$3,000,000 over the life of her portfolio companies. Considering this limit, the initial investment will be under \$1,000,000 and limited to \$600,000 for startup companies<sup>1</sup> leaving a leeway for subsequent funding rounds.

The investment will be made through one or a combination of the following means:

- capital stock or limited partnership shares;
- convertible debentures;
- debentures.

---

<sup>1</sup> Enterprises with little or no sales.

**4. Partnership**

CFAI will consider sharing the risk with other investors, depending on the sector of activity and initial investment limit (\$600,000).

**5. Capital outlay of promoters**

The capital outlay of promoters should at least match that of CFAI. This capital outlay will include amounts paid for capital stock, shareholder advances and accrued earnings.

**6. Buyout of existing partners**

Since CFAI is a development fund, it will not buy out the existing partners' shares, unless as an exceptional measure. Should this be considered, the buyout would have to be justified by the company's development prospects, its importance in supporting the agricultural production or with a view to transferring the business.

**7. Competing companies**

CFAI could invest in competing companies to the extent that it ensures, if possible, the new investment would not adversely affect an existing partner and the market is not saturated.

**8. Business recovery**

Business recovery is the main role of CFAI. However, it could invest if the company has a developmental effect on agricultural production, if its profit-making prospects are good and if management appears ready to meet the challenge. Considering the effort that is required for overseeing this type of investment, CFAI will only accept to enter into a partnership with one or more investors who are ready to be seriously involved.

**9. Environment and food safety**

La Financière agricole du Québec has a coherent and progressive policy for all its programs in view of environmental concerns. Its branch, CFAI, abides by such a policy. CFAI will require that those applying for financial assistance comply with existing environmental standards.

---

In terms of food safety, CFAI will require that applicants have obtained the proper operating licences, including any food-handling permits. In addition, when duly verifying an investment, CFAI will ensure that the company meets the food safety standards of the Centre québécois de l'inspection des aliments et de la santé animale (CQIASA) of the MAPAQ and/or the Canadian Food Inspection Agency (CFIA), if need be.

## 10. Legal form of clients

Future clients must be incorporated under one of the following legal forms:

- joint-stock company
- limited partnership
- general partnership
- cooperative

## 11. Capital stock

### 11.1 Terms and conditions

- ✓ The compound annual return aimed for during project analysis will be the 5-year mortgage rate, plus 4 to 9%, depending on project risk.
- ✓ As a general rule, shares will be voting (10 to 30%, maximum 49%).
- ✓ Shares will be participating, and only exceptionally preferred.

### 11.2 Disinvestment

- ✓ Withdrawal of CFAI's participation, at market value, could be according to the following time horizon:
  - Companies that are starting up  
Progressive withdrawal from the seventh to the tenth year after the investment.
  - Companies that are operational  
Progressive withdrawal from the fifth to the eighth year after the investment.

## 12. **Debenture (loan)**

- ✓ Not guaranteed, as a general rule (example of an exception: guarantee on a patent).
- ✓ Convertible or not into shares. If not convertible, possibility of an option to purchase shares.
- ✓ Interest rate, general rule:
  - With fees
    - if convertible : 5-year mortgage rate + 1 to 3%;
    - if not convertible : 5-year mortgage rate + 2 to 6%;and additional interest related to company results and performance objective.
  - Without fees
    - if convertible: 5-year mortgage rate + 3 to 6%;
    - if not convertible: 5-year mortgage rate + 4 to 8%.
- ✓ The reimbursement could occur as follows:
  - Companies that are starting up  
Progressive reimbursement from the third to the eight year after the investment.
  - Companies that are operational  
Progressive reimbursement from the second to the seventh year after the investment.
- ✓ Interest payment: monthly

## 13. **Life insurance policy**

Since the leading success factor is the quality of the partners, CFAI will protect its investment, to the extent possible, through an insurance policy on the life of key partners.

## 14. **Fees**

As a general rule, the branch will charge fees of 1 to 3 % of the value of its investment, considering the enterprise's expenses in the investment. Half of the fees will be payable upon acceptance of a letter of intent and the other half upon acceptance of a letter of offer. Any legal fees related to contractual documents, for example shareholder agreements, will be covered by the promoters when such documents are prepared by advisors from outside La Financière agricole du Québec.

---

**15. Follow-up of projects**

Regardless of the measures initiated, support will be offered to help companies develop. This support will be through the active participation in the activities of either the board of directors (as a director or observer) or their management committee (as a member of such a committee).

**16. Access to CFAI services**

CFAI's services are available without an intermediary. CFAI favours direct contact with those who will become its future partners and can guide them in their business endeavour. The company must however ensure that the funds allocated by CFAI are not used to pay intermediaries who, against payment, could claim to have an influence over the decisions of the agency to grant an investment.

**INVESTMENT APPLICATION**

Investment applications must be sent to:

- Capital Financière agricole inc., 1400, boul. de la Rive-Sud, RC, Saint-Romuald, Québec G6W 8K7; Telephone: (418) 834-6857, Extension 6438; Fax: (418) 834-3083; E-mail: [cfai@cfai.qc.ca](mailto:cfai@cfai.qc.ca)

or

- To the service centre of La Financière agricole in your community, whose address you can find at the following website: [www.financiereagricole.qc.ca](http://www.financiereagricole.qc.ca) or by phoning: 1 800 749-3646.

The application must include a business plan, financial statements for the three last fiscal periods and financial forecasts for the next three periods.