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CANADIAN VENTURE CAPITAL INDUSTRY STRONG FIRST QUARTER

Canada held its own in Q1 year-over-year while U.S. dropped 56%

TORONTO - Despite a softening economy and dramatic decrease in value for publicly traded technology companies, Canada's venture capital industry had a surprisingly strong first quarter, according to the Canadian Venture Capital Association ("CVCA") and Macdonald & Associates, with total investments at \$1.1 billion, unchanged from the amount invested in Q1, 2000.

"The Canadian venture industry has shown remarkable strength, particularly when compared with the U.S. industry which saw an incredible 56% decrease in capital invested compared to Q1, 2000. Our strong results are a validation of the maturity of the Canadian venture market and the fact that Canadian investors did not aggressively pour money into dot.com companies" said John Eckert, President of the CVCA and Managing Partner of McLean Watson Capital, a technology venture firm.

The industry reported a total of 294 venture financing transactions compared with 369 deals in the first quarter last year. This mix of steady disbursements and fewer deals indicates the continuing influence of larger financings, particularly for information technology companies.

New deal activity fared well in Q1, capturing \$441 million or 41% of disbursements, compared with the 29% going to new deals in the US, suggesting investors are still willing to fund attractive prospects in a range of early stage and expanding technology firms.

Foreign investors were key to first quarter trends, bringing \$332 million to Canadian technology deals versus \$232 million last year. This accounted for 30% of total capital invested, up from approximately 25% for all of 2000.

Communications and networking companies received \$296 million (26%); Internet companies \$226 million (20%); computer products \$163 million (15%) and biotechnology and other life sciences attracted \$157 million (14%) of disbursement dollars.

"Despite the dot-com meltdown, the internet and the technologies underlying it are here to stay" says Mary Macdonald, President of Macdonald & Associates Limited "and Canadian VCs are continuing to finance the IT companies that are part of this transition. While they are obviously going to be careful with their cash in this environment, we expect they will continue to invest actively".

234 Eglinton Avenue East, Suite 301, Toronto, Ontario Canada M4P 1K5

Telephone: (416) 487-.519 Fax: (416) 487-5899 Website: www.cvca.ca

"Although we expect the industry will pause before assuming the aggressive growth rates we saw in 2000, venture investors understand that now is the best time to back entrepreneurial activities. " said Mr. Eckert. "Valuations are much lower today, which will pave the way for stellar returns two to four years down the road. The smart money players understand this and are increasing their exposure to the venture sector".

Ontario's share of Canadian venture investment activity grew even further in the first three months, with the province absorbing close to \$563 million of the \$1.1 billion disbursed by the industry, or 50%. This level is up from the 47% of capital invested in Ontario in all of 2000. Once again, the strong presence of foreign investors helps to explain this trend, given their attraction to technology centers in Ontario – above all, the Ottawa Valley and Greater Toronto, where most large IT financings were located.

Canadian Venture Capital Association (CVCA)

The CVCA represents the venture capital industry in Canada and promotes the development and advancement of Canadian businesses through the use of venture capital. The CVCA fosters professional development, networking, communication, research and education within and outside the venture capital industry and represents the industry in tax and regulatory matters.

Macdonald & Associates Limited

Macdonald & Associates Limited is an information company tracking the fundraising and investment activities of more than 200 venture capital and private equity investors across the country. Their proprietary database is now available online through VCReporter™. Twice a year Macdonald & Associates co-hosts the Canadian IT Financing Forum, which brings together many of Canada's leading fast growing IT companies with most of the country's IT focused venture investors.

For further information, please contact:

Lauren Linton, Director of Marketing, CVCA, 416 487-4299

John Eckert, President, CVCA; and Managing Partner, McLean Watson Capital Inc., 416-307-3272

Mary Macdonald, President, Macdonald & Associates, 416 964-1265

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