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VENTURE CAPITAL INVESTMENT DOWN IN Q1 2008

TORONTO: In the first quarter of 2008, activity in Canada's venture capital market declined on both a year-over year and quarter-over-quarter basis according to the industry's statistical report released today by the CVCA and research partner Thomson Reuters.

The data indicate that key factors leading to this result were comparatively smaller deal sizes and reduced cross-border activity. In total, \$323 million was invested across the country, down 47% from the \$610 million invested during the same Q1 period of 2007, and down 39% compared to Q4 2007. However, the number of Canadian companies receiving venture capital financing was largely consistent with recent trends. A total of 128 companies received venture funding during the quarter, roughly equal to the 131 companies funded in Q1 2007.

There was a noted absence of very large VC deals during the quarter, with the largest single investment amounting to \$28.8 million. With less capital invested in a similar number of companies, the average financing size declined significantly to \$2.5 million, compared to \$4.7 million in Q1 2007.

"These quarterly investment numbers point to the pressing need to strengthen the Canadian venture capital industry", said Rick Nathan, President of the CVCA and Managing Director of Kensington Capital Partners Ltd., "New sources of risk capital are required if we are to develop a stable supply of venture capital funding for the entrepreneurs and high growth companies that are critical to Canada's future economic prosperity."

North American Context

The sharp decline in Canadian investment activity was not matched in the U.S. market, where a modest decline resulted in a total of US\$7.1 billion invested in 922 companies, no change from one year ago, and 8.5% less than in Q4 2007. The contrast in national market trends led to a significant decline in the ranking of activity levels of major Canadian provinces relative to U.S. states. During the first quarter, Ontario ranked 10th in total venture capital investment activity among the 60 Canadian provinces and US states, and Quebec finished in 15th place. British Columbia dropped out of the top 20 and was replaced by Alberta which finished in 20th place this quarter.

Canadian Venture Capital Trends by Investor Type.

A major variable in slower activity in the first quarter was the sharply reduced presence of American and other foreign venture capital funds. In total, cross-border investment by US firms into Canadian companies amounted to \$76 million or only one-quarter of the \$303 million of the year before, and the lowest level since Q3 2005. Consequently, foreign investors accounted for only 23% of all disbursements in Canada in the first quarter, compared to their 41% share recorded during the whole of 2007.

Canadian private-independent funds led venture capital activity during the first quarter. Private funds invested \$82 million, or one-quarter of the total, an increase from their 17% share in 2007 overall. However, in real terms, private fund activity was 15% less than the \$97 million invested one year ago.

The activity of LSVCC and other retail funds was well below recent historical levels in the first quarter, with \$57 million invested, or roughly half of the \$113 million they invested in Q1 2007. However, with 18% of all disbursements in Canada in Q1 2008, retail fund activity was consistent with its share during the whole of last year.

Canadian Venture Capital Trends by Region

On a year-over-year basis, venture capital activity declined significantly in most regions in Canada in the first quarter. Ontario led all other regions during the quarter, with \$130 million invested in 41 companies, representing a decline of 60% from the \$314 million invested in Q1 2007. This gave Ontario 40% of total activity across the country, which is below its typical market share.

In Québec, a total of \$86 million was invested in 41 companies in the first quarter, which is approximately half of the \$171 million during the same period last year. Québec captured 27% of all disbursements, which is also below its average market share.

British Columbia based activity amounted to \$39 million invested in 15 companies in Q1 2008, or 37% less than the \$63 million invested one year ago. The province's 12% share of total activity was down slightly from its average market share.

Gains in the Canadian market during the first quarter were reported in Alberta, where \$46 million was invested (compared to \$18 million in Q1 2007), and in the Atlantic provinces, which reported an increase of 72% to \$19 million.

Canadian Venture Capital Trends by Sector

Lower levels of venture capital activity in Canada in the first quarter were registered across almost all major sector categories. The one exception proved to be clean tech activity, which experienced year-over-year growth in dollars invested.

In the clean tech sector, a total of \$56 million was invested in 9 companies during the first quarter, an increase of 45% from the \$39 million in Q1 2007. This gave clean tech 17% of the total, up from its 10% share in the whole of 2007.

Activity in IT sectors continued to lead the Canadian market in Q1 2008, with \$164 million invested in 62 companies, or 51% of all disbursements. However, in real terms, IT-related activity was approximately half of the \$314 million invested one year ago. Within IT, electronics and semiconductor were the leading subsector this quarter, attracting \$75 million, or 74% more than in Q1 2007. However, other IT sectors declined. Software investments totaled \$43 million, down 12%, while telecom activity totaled \$31 million, down 31%. With \$8 million invested, internet-related activity saw the largest drop from its \$173 million invested in Q1 2007.

Life sciences activity also declined significantly in the first quarter, with \$54 million invested in 31 companies, compared to \$208 million recorded in Q1 2007. Consequently, life sciences sectors accounted for 17% of all disbursements, well below the 30% share reported last year.

Trends in Canadian Venture Capital Fund-Raising

In the first quarter of 2008, new commitments to Canadian venture capital funds continued the downward trend of recent years. A total of \$334 million in new capital was raised, down 28% from the \$467 million raised during the same period last year.

Most of the year-over-year decline was reflected in new capital committed to 14 LSVCC and other retail funds, which totaled \$164 million during the quarter, down from \$396 million the year before. In contrast, five private-independent funds raised \$170 million, an increase of 143% from the \$70 million raised in Q1 2007.

Québec based activity once again accounted for the majority of VC funds raised across the Canadian market. During Q1 2008, Québec based funds raised a total of \$196 million for a 59% share of all new commitments.

CVCA

The CVCA - Canada's Venture Capital & Private Equity Association, was founded in 1974 and is the association that represents Canada's venture capital and private equity industry. Its over 1500 members are firms and organizations which manage the majority of Canada's pools of capital designated to be committed to venture capital and private equity investments. The CVCA fosters professional development, networking, communication, research and education within the venture capital and private equity sector and represents the industry in public policy matters.

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To arrange an interview with Rick Nathan, President of the CVCA and Managing Director of Kensington Capital Partners, please contact Ally O'Keefe, Media & Investor Relations, Kensington Capital Partners Limited 416.362.7264 or aokeefe@kcpl.ca

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