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FOR IMMEDIATE RELEASE

VENTURE CAPITAL INVESTMENT SLOW IN Q2 2008

TORONTO: Activity in Canada's venture capital market continued to slow in Q2 2008. Trends varied by region, with year-over-year growth in Ontario, but declines in British Columbia and Quebec, according to the industry's statistical report released today by the CVCA and research partner Thomson Reuters.

In all, \$302 million was invested across the country in the second quarter, down 31% from the \$436 million invested at the same time in 2007. Disbursements were also down 10% as compared to Q1 2008. Consequently, Q2 2008 activity was the lowest recorded in almost three years.

Results through the first half of 2008 are also down significantly, with \$636 million invested across Canada, which is 39% below the \$1.0 billion invested during the same period in 2007.

The number of Canadian firms receiving venture funding also fell during Q2 2008, with 105 companies financed, which is 28% fewer than the 145 firms of the year before. This trend contrasts with Q1 2008, when the number of funded companies remained steady on a year-over-year basis.

"The declining levels of investment activity reflects the soft fundraising environment for VC firms seeking to raise their own capital," said Rick Nathan, President of the CVCA and Managing Director of Kensington Capital Partners Ltd., "The quality of underlying investments in emerging Canadian companies remains strong, as evidenced by the growing participation by US investors in our market."

Transaction sizes in the second quarter continued the trend to smaller deals seen in the prior quarter. The average amount invested per firm was \$2.9 million, which only slightly improves on the \$2.6 million averaged in Q1 2008.

Canadian Venture Capital Trends by Region

In contrast with national trends, Ontario based activity rose in the second quarter. Across Ontario, \$155 million went to 42 companies, or 17% more than the \$132 million of Q2 2007. As a result Ontario received 51% of the national total, up from its 46% share during the full year 2007.

Venture activity in Québec was down sharply in the quarter, as a total of \$67 million was invested in 32 companies, or less than half of the \$153 million of Q2 2007. Québec received 22% of all disbursements compared to its 31% share in the full year 2007.

British Columbia based activity also fell, with \$57 million going to 17 companies, or approximately half of the \$112 million recorded in Q2 2007. The Q2 2008 share of total activity reflected by British Columbia was a solid 19%.

North American Context

Results for the second quarter confirm a generally stable North American environment for venture market activity. In the United States, disbursements were largely flat during the second quarter, as US\$7.4 billion was invested in 986 companies, effectively matching the total of one year ago.

Within this broader North American market, total VC investment in Ontario during Q2 2008 led it to 9th place among all Canadian provinces and U.S. states, with Quebec dropping to 18th place and B.C. finishing in 19th place.

Canadian Venture Capital Trends by Investor Type.

As compared to first quarter of 2008, the pace of U.S.-based VC funds' investment in Canadian companies increased in the second quarter, with \$106 million invested in Canadian deals (compared to \$81 million in Q1 2008). However, the data point to a year-over-year decline of 14%, as foreign investors accounted for \$124 million in Q2 2007. Foreign activity nonetheless proved steadier than domestic activity in Q2 2008, which dropped 37% overall as compared to the same period last year. Consequently, the foreign share of all disbursements in Canada remained very significant at 35% of all invested capital.

Lower levels of Canadian fund activity were reflected across the board, beginning with LSVCC and other retail funds, which invested \$72 million during the second quarter, down 41% from \$121 million one year ago. This gave retail funds 24% of all disbursements.

The activity of private-independent funds was also down, with \$56 million invested, or 16% less than the \$67 million invested the year before. As a result, private funds captured approximately one-fifth of total VC activity.

Canadian Venture Capital Trends by Sector

Lower levels of VC activity in Canada in the second quarter were felt in virtually all sectors. While IT sectors continued to account for close to half of all disbursements, real activity declined 32%, from \$219 million invested in Q2 2007 to \$150 million invested in Q2 2008. In the IT space, only communications and electronics posted gains. A total of \$40 million went to 17 telecom firms in the second quarter, up from \$35 million one year ago, while \$29 million went to 6 electronics firms, compared to the previous \$10 million. In contrast, activity involving both software and internet-related sectors, totaling \$44 million and \$27 million, respectively, was roughly half of prior year levels.

While activity in life sciences sectors was also reduced, the fall was not as steep. Activity totaled \$107 million in 26 companies, or 17% short of the \$128 million of Q2 2007. Consequently, life sciences obtained a 35% share of total activity, which is above its historical average.

Cleantech activity was largely sustained in Q2 2008. Six energy and environmental technology firms saw \$32 million invested, which is down from \$37 million one year ago. To date in 2008, these sectors have received 14% of all disbursements, which greatly improves on the 4% share averaged in past.

Trends in Canadian Venture Capital Fund-Raising

In contrast with deal activity, new commitments to Canadian VC funds increased in the second quarter. A total of \$356 million in new funds was raised, up 31% from the \$272 million raised at the same time last year. Activity was also greater on a quarter-over-quarter basis.

Most of the year-over-year growth was reflected in new commitments to private-independent funds, which accounted for \$259 million raised in the second quarter, or 73% of the total. The balance was brought in by LSVCC and other retail funds, which raised \$97 million, or 27%.

Through the first half of 2008, a total of \$690 million in new capital has been committed to domestic VC funds. This is slightly (7%) lower than the \$739 million raised in the Canadian market during the comparable six-month period of 2007.

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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