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CANADIAN VENTURE CAPITAL INVESTMENT UP IN THE THIRD QUARTER OF 2007

TORONTO: In the third quarter of 2007, investment activity in Canada's venture capital industry increased on both a year-over-year and quarter-over-quarter basis according to the industry's quarterly statistical report released today by the CVCA and research partner Thomson Financial. In total, \$512 million was disbursed across the country, up 17% from the total of \$438 million invested in the prior quarter, and up 47% from the \$347 million disbursed in Q3 2006. Year to date, Canadian venture capital investment activity stands at \$1.6 billion, representing an increase of 30% from the \$1.2 billion invested as of the same period in 2006.

The growth in venture capital investment is being driven by an increasing focus on Canadian transactions by U.S. venture firms, noted Rick Nathan, CVCA President and Managing Director of Kensington Capital Partners. U.S. investor interest in Canadian companies has grown dramatically in the past few years and is now at record levels, representing a majority of all venture funding in Ontario.

The total numbers for Q3 were significantly impacted by two large transactions: the \$100 million financing of OANDA Corporation and the \$40 million financing of Enobia Pharma. This continues a trend from recent quarters, with a handful of very large transactions having a growing impact on the total results.

U.S. Fund Investments into Canadian Companies Continue to Grow

The impact of U.S. based venture capital firms on Canadian market activity continues to grow strongly. To date in 2007, U.S. and other foreign funds have invested \$640 million in Canadian companies representing 41% of total capital invested. During Q3, U.S. venture firms invested a total of \$213 million in Canadian companies accounting for 42% of total market activity. Their share of larger transactions is even more significant, representing 71% of the amount invested in the 8 largest transactions. These levels continue to represent a dramatic increase over their historical share of 27% averaged by all foreign investors since 1999.

The impact of foreign investors is being felt most strongly in Ontario. Year to date, U.S. and other foreign funds have invested a total of \$405 million, or more than 55% of all venture capital invested in the Province. Foreign venture firms have invested a total of \$146 million in Quebec for a total share of 32% of all venture capital in the Province through the end of Q3, and a total of \$72 million in British Columbia, for a 29% share in that Province.

VC Exit Environment Improving

VC-backed exits have been particularly strong in 2007: a total of 31 mergers & acquisitions and 7 IPOs have been reported so far this year, already matching the totals for the full year 2006. The average disclosed transaction size for mergers and acquisitions in 2007 is \$127 million, a Canadian record high.

Canadian VC Trends by Region

Venture capital industry activity rose year-over-year in the largest regional markets in Canada in the third quarter. Leading this trend was the Ontario market, which after a very disappointing Q2 2007, saw total investment grow by 116% to \$288 million during the quarter. Ontario captured 56% of all national disbursements during the quarter, bucking the Province's recent declining relative position during recent periods, including its 41% share during the whole of 2006.

Investment activity also increased in Québec, as a total of \$128 million was invested, representing a decline of 17% from the \$155 million invested during the second quarter, but up 21% from the \$106 million invested during the same period of 2006. These levels amounted to a smaller share of total Canadian activity, however, as Québec captured only 25% of all disbursements in Q3 2007, down from its recent levels of 35% through 2006.

The British Columbia venture market also reported greater investment activity during the third quarter, with \$69 million disbursed, representing a decline of 38% from the \$112 million invested during the second quarter, but up 57% from the \$44 million disbursed one year ago. Like Québec, the province took a smaller share of total activity in Canada as a result of the growth in the Ontario market: 14% in Q3 2007 compared to 18% last year.

North American Context

The increase in the Ontario market is most noticeable when measured against activity in other regional North American markets. Ontario finished the quarter in 5th place, surpassing traditionally larger markets such as New Jersey and Washington, and improving on its rank of 14th in Q2. Québec and British Columbia ranked 13th, and 20th place overall this quarter, slipping from their rankings of 11th and 17th place in Q2.

Canadian VC industry activity continued to track trends in the American industry in Q3 2007, as US\$7.1 billion was disbursed to 887 companies in the United States, or 6% more than the US\$6.7 billion disbursed at the same time in 2006. At the end of the first nine months, American VC activity of \$22 billion was also running ahead of the \$20 billion of investment activity of one year ago.

Number of Transactions and Deal Size

In recent periods, Canadian venture investors have been tightening their focus, committing large investment amounts to fewer companies. The presence of large transactions continues to raise the average amount invested per firm, reaching \$3.6 million in the third quarter. This represents a significant increase from the \$2.7 million average of Q3 2006, as well as the \$3.0 million average of Q2 2007.

A total of 141 Canadian companies received venture capital investments during the third quarter, up slightly (10%) from one year ago, and down slightly (3%) from Q2 2007. Year to date, a total of 338 companies have been funded, compared to 313 companies funded during the same period last year.

Investment Levels by Investor Type

Total investment by Canadian private-independent venture funds amounted to \$113 million during the quarter, an increase of 74% over the \$65 million invested in Q2 and 42% more than the \$78 million invested during Q3 2006.

Investments made by LSVCCs and other retail funds trailed private independent funds during the third quarter, with \$93 million invested, a decrease of 24% from the \$123 million invested in Q2, but up 17% from the \$80 million during the same period of 2006.

Canadian VC trends by sector

An investment focus on life sciences and information technology sectors accounted for the year-over-year increase in dollars invested in third quarter. IT-related activity posted gains in real and relative terms, with \$326 million invested in 72 companies, up 61% from the \$203 million invested in Q3 2006. As a result, IT sectors continued to reflect a leading share of total capital invested . 64%.

At the forefront of this trend was activity in internet focused companies, which attracted \$152 million, or four times more than the \$38 million of the year before. With \$82 million invested, activity in communications and networking firms was also up 74% over this period. In contrast, levels of activity in other IT sectors between July and September were below par as compared to the same time in 2006.

Activity in biopharmaceuticals and other life sciences sectors experienced particular momentum in the third quarter, as \$151 million was disbursed to 30 companies, better than double the \$61 million of one year ago. Consequently, life sciences activity obtained an average 29% share of all disbursements, as it did during the whole of 2006 and the first half of 2007.

Non-technology sectors consumed \$21 million in Q3, significantly below the \$53 million of the year before. This gave non-technology activity a 4% share of total capital invested, well below the share of 9% in 2006.

Cleantech investment dropped to \$12 million in the third quarter, tumbling 56% below the same period last year and falling 68% below the second quarter of this year. However, a strong first half still leaves cleantech investment on pace to nearly match the \$120 million invested in 2006.

Canadian VC Fund-Raising Remains Weak

During the third quarter, fund-raising activity by Canadian venture capital firms continued its slow pace of recent periods, with new capital commitments totaling only \$113 million. As of the end of September this year, new commitments totaled \$852 million, down 37% from the \$1.3 billion committed during the same nine-month period in 2006.

LSVCCs and other retail funds accounted for 68% of these new commitments through the end of Q3, with Quebec based LSVCCs capturing a 78% share. Private independent venture funds have raised a total of \$269 million new capital through the end of Q3, with \$7 million of new commitments received during the quarter.

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 1400 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 at 416-362-9000x242, aokeefe@kcpl.ca

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