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VENTURE CAPITAL INVESTMENT CONTINUED AT SLOW PACE IN Q3 2008

TORONTO: Activity in Canada's venture capital market continued at the slower pace in Q3 2008 that has been apparent since the first half of the year, according to the industry's statistical report released today by Canada's Venture Capital & Private Equity Association (CVCA) and research partner Thomson Reuters.

Nationally, a total of \$372 million was invested between July and September, lagging by 26% the \$501 million invested at the same time in 2007. The number of Canadian-based firms securing venture capital was also reduced on a year-over-year basis. The number of companies financed totaled 123 during the third quarter, or 12% fewer than the 140 companies financed one year ago. Year-to-date numbers confirm the extent of the market downturn currently taking place in Canada. As at September 30th just over \$1.0 billion has been deployed to 296 companies, which is 33% below the \$1.5 billion that went to 336 companies during the same nine-month period in 2007.

However, VC activity in Q3 2008 actually improved on results recorded in the year's two prior quarters. Disbursement streams were up 22% from the \$304 million invested in the second quarter of 2008, and up 6% from the \$352 million invested in the first quarter.

The data also show that VC-backed companies are receiving smaller cash infusions. The average amount invested per firm was \$3.5 million in the first nine months of 2008 compared with an average of \$4.6 million the year before. Consequently, firms in Canada are now obtaining less than 40% of the VC amounts going to firms in the United States, which averaged \$9.0 million per firm in 2008.

"These investment numbers, which ultimately reflect the availability of capital in the venture capital industry, are worrisome in that they further confirm Canada's ongoing weakness in driving innovation," said Gregory Smith, President of the CVCA and President of Macquarie Capital Funds Canada Ltd. "The CVCA has developed a four-point commercialization support program to help address these VC industry trends and to increase the availability of venture capital for high-growth small businesses."

The CVCA commercialization support program calls for the government of Canada to establish a fund of funds structure make improvements to the SR&ED tax credit program, improve the incentives for corporations to invest in venture capital funds and actively promote investment in Canadian venture capital funds as part of the offset agreements that are negotiated with major government contractors.

Trends in the US Venture Market

Canadian VC trends are part of a broad pattern of cyclical slowdown in North American and global markets since the beginning of 2008. This was evidenced in the United States in the third quarter, when US\$7.2 billion was invested in 919 companies, down 8% from the same time last year. Canada lagged further, down 26% from the first nine months of last year.

Canadian VC Trends by Region

Among Canadian regions, Ontario experienced one of the most substantial declines in VC activity between July and September. A total of \$163 million was invested in 36 companies in the province, or 43% less than the \$283 million of Q3 2007. This gave Ontario 44% of all disbursements nationwide, down slightly from its 46% share in the whole of last year.

Québec-based activity was also reduced, with \$110 million invested in 58 companies in the third quarter, or 11% shy of the \$124 million invested one year ago. However, VC activity in Québec was greater in the third quarter than in previous quarters in 2008. Consequently, its share of Canadian disbursements moved from 24% in the first half to 30% in Q3 2008.

Bucking market-wide trends, VC activity in British Columbia experienced year-over-year growth in the third quarter. A total of \$79 million was invested in 17 companies, or 13% more than the \$69 million of the year before. This resulted in the province obtaining a well above average 21% of overall activity.

Canadian VC Trends by Investor Type

For the third consecutive quarter, cross-border activity in the Canadian market fell in Q3 2008. American VC funds and other foreign investors brought \$97 million to domestic deals, which was less than half of their \$209 million in Q3 2007. Indeed, with 26% of all disbursements, foreign activity declined in relative and absolute terms and was at some distance from the 41% share held during the entire last year.

Instead, it was Canadian private-independent funds that led VC trends in the third quarter with \$102 million invested, though this was down 12% from the \$116 million they accounted for in the same period in 2007. In relative terms, private funds also came out in front, with 27% of all disbursements.

Not far behind private funds were LSVCC and other retail funds, which invested \$98 million between July and September, or 26% of the total. In addition, retail fund activity reflected an increase of 11% in real terms, given their \$89 million invested one year ago.

Canadian VC Trends by Sector

Canada's IT sector continued to experience lower levels of VC activity in the third quarter. While IT continued to account for a leading share of all disbursements, or 47%, real activity plunged 46%, from \$323 million in Q3 2007 to \$175 million in Q3 2008. The number of IT companies financed, totaling 55, was also down over this period.

Internet-focused firms registered the largest year-over-year drop, capturing \$50 million in the third quarter versus \$155 million the year before. With \$44 million and \$41 million invested, respectively, communications and software also came up short. Indeed, electronics and semiconductor firms alone gained momentum this time around, with \$41 million invested, up 43%.

Activity in biopharmaceuticals and other life sciences sectors was also reduced, with \$109 million invested in 24 companies between July and September, or 25% less than the \$144 million of one year ago. However, life sciences nonetheless took 29% of total VC activity, which approximates its share in the whole of 2007.

Clean-tech activity continued to counter prevailing VC trends in the third quarter, with \$31 million invested in 8 companies, or almost triple the previous \$11 million. So far this year, clean-tech sectors have garnered 13% of all disbursements in Canada, well exceeding their historical 4% share.

Traditional sectors saw \$48 million invested in 31 companies in Q3 2008, or 13% of the overall amount. This also reflected an appreciable increase over the year before, when non-technology activity stood at \$21 million invested.

Trends in Canadian VC Fundraising

As compared to the first and second quarters of 2008, fundraising activity in the VC market in Canada was fairly quiet between July and September. However, new capital committed to funds, totaling \$114 million, nonetheless approximated the dollar amount committed at the same time last year. For 2008, Canada is on pace to raise just 53% of the \$2.2 billion that was raised just 3 years ago.

The activity of LSVCC and other retail funds accounted for largest share of new resources in the third quarter, or 78% of the total. The balance was assumed by private fundraising activity.

Year-to-date numbers show levels of new commitments going to Canadian based VC funds to be tracking 2007 results. As of September 30th, a total of \$886 million was raised in the market, effectively matching the \$889 million raised during the first nine months of last year. However, it should be noted that fundraising in 2007 was the slowest on record since the mid-1990s.

Trends in US VC Fundraising

VC fundraising activity in the American market decreased slightly in the third quarter. New capital commitments south of the border totaled US\$8.1 billion, down 6% from the year before. Canadian funds raised less than 2% of this amount.

Trends in Exit Opportunities

Exit opportunities for Canadian portfolio companies remained limited in 2008. In the first nine months of the year, 20 M&A exits were recorded, which was down 33% from the 30 recorded in the same period last year. IPO exits were even more limited with only one such exit in the first nine months of the year, compared with seven in the same period last year. Average transaction and offering sizes were also down 54% and 46% respectively in 2008 from 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 Gregory Smith, President of the CVCA and President of Macquarie Capital Funds Canada Ltd., contact Iris Roesler, 416 607-5166.

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