



August 12, 2003
TORONTO –

FOR IMMEDIATE RELEASE

Canadian Venture Capital Activity Slows in Q2 2003

Dollars invested by the venture capital industry in Canada fell between April and June, totaling \$212 million, down by 33% from the \$314 million recorded in the first three months of the year, according to the latest industry statistics released today by Macdonald & Associates and the Canadian Venture Capital Association (CVCA).

Q2's level of disbursements was also less than half of the \$458 million of the same second-quarter period in 2002. Reduced flows of capital also went to fewer deals, though the decline was not as steep. A total of 179 Canadian companies were financed this time around, which is 18% less than 218 firms in the first quarter.

However, more stable numbers in the US may indicate that the North American market is finally beginning a slow rebound. For the first time in three years, dollars invested by the American industry grew in Q2, to US \$4.3 billion, up from \$4.0 billion in the first quarter. For most of the current downturn, the Canadian industry has fared better than its US counterpart, at least until the telecom bubble burst in mid-2002.

"The Canadian VC industry resisted the downdraft for several quarters after activity started to decline in the US," according to Mary Macdonald, President of Macdonald & Associates, the venture industry experts. "However, Canadian investors couldn't avoid it forever, particularly given the extent to which the telecom sector has been hit over the past two years. With activity in the US turning up in Q2 for the first time in three years, we will hopefully quickly follow suit."

Once again, a key factor in softer activity was the lack of IT "mega-deals" of between \$20-100 million-plus. In fact, there were only 7 financings completed in Q2 that were sized \$10 million-plus, while there were nearly twice as many the year before. Consequently, while the largest 10 deals of Q2 2002 absorbed one-third of all dollars invested at that time, the top 10 deals in Q2 2003 took only 23% of the aggregate. For this and other reasons, the second quarter of 2003 reflects the slowest pace of venture activity in Canada since 1996.

However, many industry professionals are taking heart in the recent spate of acquisitions of Canadian venture-backed firms in IT sectors – including the May purchase of THINK Dynamics by IBM, and the July sale of Wavemakers to Harman International Industries, among others, which may portend further exit events critical to any improvement in market fortunes.

"Q2 was a very tough quarter for our industry primarily due to the transaction inertia generated by SARS and a sluggish North American economy," said Brad Ashley, President of the CVCA and Managing Partner of PRIVEQ Capital Funds. "With SARS behind us, we are already experiencing a greater number of transactions in Q3 albeit we expect the recovery will be a gradual one."

Canadian Venture Capital Association (CVCA)

The CVCA represents the venture capital and private equity 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. The CVCA currently has over 900 members across Canada.

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. Its 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

Brad Ashley, President, CVCA; Managing Partner, PRIVEQ Capital Funds, 416-447-3330

Mary Macdonald, President, Macdonald & Associates, 416-964-1265 www.canadavc.com

End