



Enterprise

Overview:

VC Industry Disbursements Up in Q3

Overall Capital Flows

Activity in Canada's venture capital (VC) industry grew in the third quarter of 2004, with a total of \$498 million invested, or 21% more than the \$411 million invested over the same period in 2003. Compared to the second quarter of 2004, when \$381 million was invested, Q3 saw an increase of 31%.

However, investment capital flowed to fewer Canadian companies this time around. In total, 166 companies were financed with VC between July and September, down by 19% from the 205 firms of the year before, and by 23% from the 216 firms of three months earlier.

As in the two prior quarters, these results attest to the pivotal role of large-sized transactions in VC activity. In fact, the 10 largest deals in Q3 2004, including the US\$40.0 million financing of Silicon Optix and the \$US33.0 million financing of Tropic Networks, consumed nearly half (47%) of total capital invested. This compares against the 18% share obtained by the 10 largest

deals in 2003 overall.

Consequently, the average amount invested per company was \$3.0 million in the third quarter, which stands well above the \$2.0 million average of Q3 2003, as well as the \$1.8 million average of Q2 2004.

Growth in Canadian industry disbursements contrasted with the situation in the United States, where activity was somewhat softer in the third quarter. According to Thomson Venture Economics, while the current US\$4.3 billion invested in 601 companies approximates American industry activity of Q3 2003, it is well below the US\$5.9 billion attained in the second quarter of 2004.

Sector Flows

Activity in existing portfolio firms continued to be a key marker of Canadian industry trends in July-September, as \$355 million flowed to follow-on transactions, or 71% of the aggregate amount. This share matches the one registered in the second quarter of this year, and just exceeds the 68% share obtained by follow-ons in the whole of 2003.

(continued on page 3)

From the President

Welcome to the first fully online edition of the CVCA Enterprise Newsletter. We decided to send the quarterly newsletter by email in order to deliver it to you more quickly and also to save on printing and distribution costs. We hope you enjoy it.



Q3-2004 venture capital industry statistics were released on November 16th and the Q3 investment data showed the third consecutive quarter where amounts invested increased on a year over year basis. This follows twelve consecutive quarters of decline during 2001, 2002 and 2003. Information technology companies received the bulk of the funding in Q3 and attracted the most investment dollars since the fourth quarter of 2002. I am encouraged by the trend in investment activity and I am optimistic that this will continue into 2005.

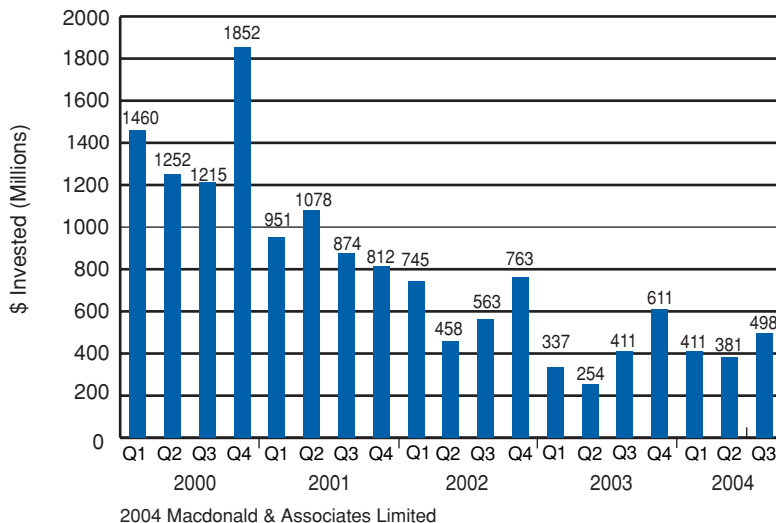
2004 has been a very successful year at the CVCA in terms of member recruitment. We are proud to report that 170 new individual members joined the CVCA in the past year. We welcomed many of them at our Toronto New Members' Reception in November, and at the recent Ottawa and Montreal Receptions. CVCA membership is now at an all time high with over 1,000 members, representing about 200 companies. The CVCA now has in its membership essentially all of the major Canadian companies which are active in the private equity and venture capital industry.

I would like to highlight recent activities of some of our Board committees which have been working on our behalf.

- The Institutional Investment Committee, chaired by Natalie Townsend, has developed a comprehensive presentation on the attractions of VC and private equity fund investments, for pension funds. This presentation will now be used to increase the awareness of VC and private equity amongst the many institutions in Canada which are not currently active investors in

(continued on page 2)

Quarterly Investment Activity
By the Canadian Venture Capital Industry



New AdVENTURES

■ **Charles Bougie** has recently joined the Equity Team at **Export Development Canada** as a Financial Services Manager where he will be responsible for deal sourcing, structuring and investing. Charles spent three years at Novacap as a Financial Analyst working on Technology and Buyout transactions. He has an MBA from the Richard Ivey School of Business and has a BComm from Concordia. Charles can be reached at (613) 598-6696 or cbougie@edc.ca.

■ **MMV Financial** is pleased to announce the appointment of **Ashwin Amladi** to the position of VP Finance. Ashwin has a broad depth of experience having worked in the financial industries in Canada, the U.S., and India. Previously, Ashwin was a Director at Manulife Financial and prior to that worked at Arthur Andersen. Ashwin has a Masters Degree in Accounting from the University of Rhode Island, an MBA from Kellogg

School of Management, and is a U.S. Certified Public Accountant. Ashwin can be reached at (416) 977-9718 or aamladi@mmvf.com.

■ **MMV Financial** is pleased to announce the appointment of **Brian Hendry** as Senior Vice President. Brian will be responsible for identifying investment opportunities in the technology and life sciences sectors and working with existing portfolio companies. Brian has over 20 years of operating and technology finance experience. This includes being CFO for Autoskill International and most recently spent five years at Brant Securities, a boutique investment bank specializing in the technology sector. Brian has an MBA from the University of British Columbia and is a Certified Financial Analyst. Brian can be reached at bhendry@mmvf.com.

■ **ONCAP Management Partners** announced **Ed Rieckelman** joining as Partner, focusing on US acquisitions. Ed previously held the position as Managing Director at Marquette Capital Partners. Ed can be reached at (416) 214-4307 or erieckelman@oncap.com.

■ After 7 years as a partner with Jefferson Partners, **David Harris Kolada** has set up his own firm to assist companies in the areas of strategy/strategic investing, partnering, M&A and fundraising. David has recently begun a contract with the Corporate Development group at **Cognos** in Ottawa, and remains as a Venture Partner at Jefferson. David may be reached at (416) 561-3375 or dhk@dhkventures.com.

■ **Ralph Goldsilver** has joined **Horwath Orenstein** as Director, Transaction Advisory Services effective January 1st 2005. Ralph may be reached at (416) 596-6767 X 385 or rgoldsilver@HTO.com

From the President

(continued from page 1)

these asset classes. The committee which developed this includes several representatives from pension funds, both in the U.S. and Canada and so we are hopeful that it will be well received by the pension fund audience.

- The Professional Development Committee, chaired by Sunil Selby, has developed a proposal for a Venture Capital Institute which would provide in-depth training to individuals in the industry, or who are interested in entering the industry. This would be a major addition to our professional development activities and the committee is very active defining the concept and organizing funding. In addition, we have the usual full schedule of networking and educational events planned for 2005. I encourage all of you to attend these events to learn about the latest industry trends and to network with fellow CVCA members and industry players.
- The Public Policy Committee, chaired by Rick Nathan, has continued to work on the improvement of the Qualified Limited partnership rules and other tax related issues. In addition, Rick has chaired a special committee which has developed a proposal for growing the size of the venture capital industry in Canada. The

objective is to grow the industry so that it becomes comparable to the U.S. industry on a per capita or per GDP basis and this implies approximately doubling the size of the industry.

- The 2004 conference was a great success under the chairmanship of Brian Elder who has now passed the job to the 2005 Conference Committee, chaired by Bernard Hamel. They have busy defining the conference program, recruiting speakers and obtaining sponsors. The conference will take place June 1-3 in Quebec City at the world famous Chateau Frontenac. Our sponsor packages are selling fast and registrations will open in February. I suggest that you register early as the event sold out last year.
- The Reporting and Statistics Committee, chaired by John Bradlow, continues to be active. Valuation standards in the industry are evolving, with recent announcements on that topic by the European Venture Capital Association and the Institutional Limited Partners Association. Also, in 2004, the frequency of collection and publication of industry performance data was increased from one to two times per year.

Our Annual General Meeting was held on September 22. At the event the 'Deal of the Year Award' was presented to Teachers'

Private Capital for its investment in Yellow Pages Group. Congratulations to Dean Metcalf, who accepted the award, and his team at Teachers'. See page 6 for more details.

We are very pleased to announce that we will be launching the CVCA's new web site very soon. A few of the new features include a search engine for members, updated news and event information, and the ability for members to revise their own listing and a members' only section. Watch for the official announcement.

I would like to take this opportunity on behalf of my colleagues on the Board to thank all the CVCA staff and the volunteers from within our membership—who have given selflessly of their time and energy to help make the CVCA what it is today—a growing, vibrant, exciting and relevant organization that serves as a magnet for industry players because of the results it can deliver.

I wish you all the best for a safe and happy holiday season, and a successful 2005.



Robin Louis

NEW Funds

■ Teacher's Private Capital, the private equity arm of the Ontario Teachers' Pension Plan and Bioscience Managers Limited (BML), announced the closing of an innovative new partnership for investment in Canadian life science companies. **BML INTERNATIONAL MAPLE LEAF FUND I** will focus on private equity investments in mid-stage Canadian life science companies. Teachers' is the sole investor in the vehicle. The Maple Leaf Fund intends to be a lead investor in syndicated investment rounds of approximately \$20 to \$30 million. BML will play an active role in these companies including board participation. For additional information please contact Lee Fullerton at (416) 730-5347 X 5347 or lee_fullerton@otpp.com.

■ EdgeStone Capital Partners announced that it has successfully completed a first closing for **EDGESTONE CAPITAL VENTURE FUND II, L.P.**, with commitments in excess of \$102 MM. The fund will focus on early stage

enterprise software and related service companies. For additional information please contact Samuel Duboc at (416) 860-3760 or sduboc@edgestone.com.

■ Canadian investor MM Venture Partners announced the creation of a new specialty technology finance company, **MMV FINANCIAL INC.** The company's opening capitalization will drive a \$300 MM investment program providing debt financing to technology and life sciences companies in the emerging and mid-market sectors. Financing for this innovative company was provided by leading private equity firms including CDP Capital, Conning Capital Partners and Wells Fargo Foothill. For additional information please contact Minhas Mohamed at (416) 977-9718 or mmohamed@mmvf.com.

■ Pender Financial Group Corporation and NDI Investment Management Inc. have closed the transaction to launch a new life sciences fund that was previously announced on June 29th. Pender has assumed management of NDI Life Sciences Fund (VCC) Ltd., which has been renamed **PENDER NDI LIFE SCIENCES FUND (VCC) INC.** As part of the transaction Pender has appointed NDI as the Funds' invest-

ment manager. For more information please contact Kelly Edmison at (604) 688-1511 or kedmison@penderfinancial.com.

■ VenGrowth Capital Partners launched **VENGROWTH III INVESTMENT FUND INC.**, one of its most diversified labour-sponsored funds to date. The fund will invest across key Canadian private business sectors including technology, traditional industries and life sciences. For more information please contact Angus Fisher at (416) 967-2271 or afisher@vengrowth.com.

■ Ventures West Management Inc., announced the final closing of its new fund, **VENTURES WEST 8** at \$250 MM. Investors included British Columbia Investment Management Corporation, BDC, CDP, CPP Investment Board, EdgeStone Capital Partners, OMERS, University of Toronto Asset Management Corp., Teachers' Private Capital and several other large institutional investors. The fund will invest in early stage technology companies within the biotechnology, communications, energy technology and information technology sectors. For more information please contact Christine Ramsay at (416) 861-2280 or cramsay@ventureswest.com.

Overview *(continued from page 1)*

Activity in IT sectors dominated Q3 2004, as 72 firms captured \$332 million, or two-thirds of disbursements, and up by 57% from the \$211 million that flowed in this direction between April and June. Indeed, capital invested in IT this time around represents the most substantial injection of industry cash into such companies since Q4 2002.

Telecom led this trend, with \$139 million invested in 18 firms, several of which were backed by especially large financings, including Tropic Networks, Airborne Entertainment, Redline Communications, Taral Networks and Natural Convergence.

Computer software and internet-related sectors followed with \$107 million in 39 companies, such as the high profile OZ Communications and Tantalus Systems. This past quarter's largest deal, involving Silicon Optix, helped ensure that semiconductors were not far behind, with \$70 million in 5 companies.

By contrast, there was a decline in life sciences activity for a second consecutive quarter, with only \$41 million going to 28 companies in Q3 2004, or a mere 8% of capital invested. This occurred despite some major transactions, including those involving Novadaq Technologies and Inimex Pharmaceuticals. In the full of 2003,

the life sciences sector led all others, accounting for one-quarter of capital invested.

VC activity in non-technology sectors between July and September reflected \$88 million invested in 47 firms. This is down from their particularly strong showing in Q2 2004, when \$105 million went to 72 traditional companies.

Foreign Activity in Canada

A key variable in year-over-year growth in dollars invested was the greatly increased activity of US VC funds and other foreign investors. Non-residents brought \$203 million to Canadian deals in the third quarter, or 41% of all disbursements, and better than 2.5 times the \$80 million of one year ago. Indeed, this is highest level of foreign VC activity in Canada since Q1 2002.

Types of Fund Investing

Among Canadian industry players, LSVCCs and other retail funds once again led with \$103 million, or 21% of capital invested, in 94 companies. Private-independent funds followed with \$66 million, or a 13% share, in 41 firms.

Stage of Development

While a clear majority of companies financed with VC in Q3 2004 were at an early stage of development, these consumed less than one-third of resources, or \$159 million. Instead, expansion transactions came to the fore, with 61 firms obtaining \$334 million, or 67% of the aggregate. This is well above the 46% share

assumed by expansions in 2003 overall.

Mergers and acquisitions involving VC-backed companies continued unabated in the third quarter. Among the best known were Core Networks, Grocery Gateway, LINMOR Technologies, Millenium Biologix, Neurostream Technologies, Sonic Mobility and Spotnik Mobile.

Regional Breakdown

Q3 2004's upswing in IT activity ensured that Ontario captured 54% of industry disbursements in total, followed by Quebec with a one-third share. British Columbia also had an active July-through-September, taking 10%.

Fund-Raising

The Canadian VC industry raised \$286 million in new capital commitments in the third quarter, or close to twice the \$150 million recorded during the same period last year. However, the overall pace of fund-raising appears to be slower at this point, as \$1.2 billion has been added to national industry coffers since January, whereas that total was \$1.3 billion after the first nine months of 2003.

This being said, 60% of the \$286 million in new supply derived from the initial or final closings of several major limited partnerships, including the eighth fund of Ventures West Management.

CVCA's 2004 New Members Reception

Toronto,
November 16, 2004



The CVCA has welcomed the following new members in the past year.

- | | | |
|------------------------------------|--|---|
| Acorn Partners | Entrepia Ventures (Canada, Inc.) | Nixon Peabody LLP |
| Alberta Revenue | ENTx Capital Corporation | ONEX Corporation |
| Alisha Hirsch | FTG & Partners Inc. | Pangaea Ventures Ltd. |
| Bell Accelerator Fund | Heenan Blaikie LLP | PFM Corporate Finance Consulting Inc. |
| Bennett Jones LLP | IMAC Management & Consulting
Group Inc. | Pinnacle Merchant Capital Ltd. |
| Blaney McMurtry LLP | Inno-Centre Alberta | PSP Investments (Public Sector Pension
Investment Board) |
| Brascan Asset Management | InNOVAcorp | Richardson Financial Group |
| CanWest Consulting Group Inc. | LaBarge Weinstein LLP | SRG Capital Ltd. |
| Cassels Brock & Blackwell LLP | Macleod Dixon LLP | Stable Capital Advisors |
| Charlton Capital Corp. | Marathon Capital Advisors Inc. | Tabrizi Law Office |
| CIBC Mid-Market Investment Banking | Marsh Canada Limited | Team Works |
| Community Ventures Capital Fund | MDS Capital Corp. | Toll Cross Investments Inc. |
| Corporate Recruiters Ltd. | Milton, Geller LLP | Torquest Partners |
| DAI Capital Advisors Inc. | Moskowitz Capital Management Corp. | TriWest Capital Management Corp. |
| Discovery Capital Corporation | | |

CVCA's 2004 AGM Dinner and 'Deal of the Year' Award Ceremony

Toronto,
September 22, 2004



Of Interest...

Canadian PE Outlook Survey

Watch out for the results of the Canadian Private Equity Outlook Survey, conducted by Deloitte. The quarterly survey provides a comprehensive snapshot of venture capital and private equity investors' outlook in Canada for the next six months and acts as an indicator of changing confidence levels and expectations of economic and market climate; deal activity; and investment focus. For more information visit www.deloitte.ca.

Compensation Survey

In 2005, The Canadian Venture Capital Association and Mercer Human Resource Consulting will be partnering on the fifth annual compensation survey of Canadian Private Equity/Venture Capital Firms. The survey covers 10 partner levels, professional and administrative benchmark roles. Information on base salary as well as incentive plans such as carried interest and co-investment will be examined. Organisational matters such as staffing, revenues, expenses and performance will also be reviewed. Watch for your invitation to participate in the next few weeks.

Canada's Top 10 Life Science Companies

A jury of U.S. and Canadian venture capitalists has identified the following Life Science companies as the top investment

prospects. These companies will present at BioNorth 2004. www.bionorth.com

Early Stage

- ARC Pharmaceuticals Inc. (Vancouver, BC)
- Ininimex Pharmaceuticals, Inc. (Vancouver, BC)
- LIPONEX Inc. (Ottawa, ON)
- Molecular Templates Inc. (Toronto, ON)
- REPLICor Inc. (Laval, QC)

- Variation Biotechnologies Inc. (Ottawa, ON)

Emerging Stage

- Bioniche Life Sciences Inc. (Belleville, ON)
- Ecopia BioSciences Inc. (Saint-Laurent, QC)
- Ionalytics Corp. (Ottawa, ON)
- Zelos Therapeutics Inc. (Ottawa, ON)

Best Practices for Professional Conduct – Approved September 22, 2004

The members of Canada's Venture Capital and Private Equity Association (CVCA) voluntarily adhere to the following Best Practices for Professional Conduct:

Members undertake to maintain exemplary standards of behavior in their dealings with each other, investors, portfolio firms and potential portfolio firms, governments and the general public. Specifically, members undertake to:

- Maintain and promote high ethical standards by always conducting their business transactions in a professional, fair, honest and respectful manner;
- Not engage in conduct that would be likely to harm the reputation of the venture capital and private equity industry;

- Educate their personnel about, and fully comply with, all relevant legislation to which the industry is subject, including privacy protection and anti-money laundering legislation;
- Remain accountable to their investors by providing, among other things, regular financial reports.

The CVCA encourages philanthropic investment by its members in their communities.

This Best Practices for Professional Conduct will be reviewed and revised periodically.

Any questions should be addressed to Richard Rémillard, CVCA's Executive Director at rremillard@cvca.ca.

Events Calendar

CVCA Events

- Wednesday, January 19, 2005 – Vancouver
Vancouver Networking Reception
Details posted in January
- Thursday, February 10, 2005 – Halifax
Halifax Networking Reception
Details posted in January
- Wednesday, February 23, 2005 – Toronto, and video conferenced into Vancouver, Calgary, Montreal, Ottawa and Halifax
Professional Development Series & Reception
Topic posted in January 2005
At TSE Conference Centre,
1:00 pm – 6:00 pm, 130 King Street West
Toronto, Main Floor
- Thursday, March 10, 2005 – Calgary
Calgary Networking Reception
Details posted in February
- Thursday, April 7, 2005 – Winnipeg
Winnipeg Networking Reception
Details posted in March
- Monday, April 18, 2005 – Toronto, and video conferenced into Vancouver, Calgary, Montreal, Ottawa and Halifax
Professional Development Series & Reception
Topic will be posted in February 2005
At TSE Conference Centre,
1:00 pm – 6:00 pm, 130 King Street West
Toronto, Main Floor
- June 1-3, 2005 – Quebec City
CVCA's Annual Conference
Fairmont Le Château Frontenac
Details will be posted in February 2005

- Wednesday, August 31st, 2005 – Markham
CVCA Golf Classic
Angus Glen Club
Registration details will be posted in March 2005
- Tuesday, September 20, 2005 – Toronto
CVCA's Annual General Meeting & Dinner
Venue and registration details will be posted in June 2005
- Tuesday October 11, 2005 – Toronto, and video conferenced into Vancouver, Calgary, Montreal, Ottawa and Halifax
Professional Development Series & Reception
Topic will be posted in August 2005
At TSE Conference Centre,
1:00 pm – 6:00 pm, 130 King Street West
Toronto, Main Floor
- Tuesday, November 8, 2005 – Toronto
New Members' Reception
Open to CVCA members only
- Wednesday November 23, 2005 – Toronto, and video conferenced into Vancouver, Calgary, Montreal, Ottawa and Halifax
Professional Development Series & Reception
Topic will be posted in September 2005
At TSE Conference Centre,
1:00 pm – 6:00 pm, 130 King Street West
Toronto, Main Floor

To register for CVCA events, please visit the events page of our web site at www.cvca.ca, or e-mail cvca@cvca.ca

Industry Events

- January 18, 2005 – Montreal
Réseau Capital – 'Speaking from Experience'
www.reseaucapital.com
- January 26-28, 2005 – Toronto
Venture Skills Summit
www.federatedpress.com
- January 31 – February 1, 2005 – Toronto
Canadian Venture Funding
www.canadianinstitute.com
- February 15, 2005 – Toronto
Canadian Investor Relations Institute (CIRI) "Understanding Big Canadian Investors"
www.ciri.org
- February 16, 2005 – Montreal
MAKING TRACKS: RFID
www.cwta.ca
- February 23-24, 2005 – San Francisco
Semiconductor Venture Fair IV
www.semiconductorventurefair.com
- March 1-2, 2005 – Toronto
Canadian Venture Forum 2005
Co-hosted by CanadaIT and TVG
www.financingforum.com or www.tvg.org
- March 22-24, 2005 - San Francisco
Cleantech Venture Forum VI
www.cleantechventure.com
- March 29, 2005 – Toronto
Canadian Investor Relations Institute (CIRI) "Understanding Valuation"
www.ciri.org
- April 8-9, 2005 – China
China Venture Capital Forum
www.cvcric.com
- May 4-5, 2005 – New York
2005 NVCA Annual Meeting
www.nvca.org
- May 10-11, 2005 – Toronto
ExpoCom Canada Communications
www.reedexpo.ca
- May 17-19, 2005 – Toronto
BioFinance
www.biofinance.ca
- September 28-29, 2005 – Australia
Annual AVCAL Venture Capital Conference
www.avcal.com.au/

Winners' Circle

The CVCA is pleased to announce **Teachers' Private Capital**, as the recipient of the CVCA's 6th Annual 'Deal of the Year Award'.

Established in 1998, the purpose of CVCA's 'Deal of the Year Award' competition is to promote, highlight and celebrate the achievements of Canadian companies backed by CVCA members. The selection process focuses on firms with the most significant return during the last twelve months ending June 30, 2004.

Teachers' Private Capital won this year's award for its investment in Yellow Pages Group. The investment in November 2002 has generated a gain, for Teachers'

Private Capital, of over \$500 million on its original investment of \$320 million. The Yellow Pages Group successfully closed its \$1 billion initial public offering in August 2003. This was the largest IPO of an Income Trust in Canadian history.

Dean Metcalf, Vice-President of Teachers' Private Capital, accepted the award at CVCA's AGM in Toronto on Wednesday, September 22, 2004.



TEACHERS'
PRIVATE CAPITAL



Questions, comments and contributions to the **Enterprise** are welcome!
Please contact Lauren Linton, CVCA's Director of Marketing at:

234 Eglinton Avenue East, Suite 200
Toronto, Ontario M4P 1K5
Tel: (416) 487-4299 Fax: (416) 487-5899
E-mail: llinton@cvca.ca Web: www.cvca.ca

Information in this online edition of **Enterprise** has been prepared with the assistance of Macdonald & Associates Limited.