



Enterprise

CANADIAN VENTURE CAPITAL ASSOCIATION (CVCA)

Overview:

VC Industry Shows Vitality in 2001, Despite Odds

Despite a tough economic climate, activity in Canada's venture capital industry was surprisingly red-blooded in 2001. By December 31st, aggregate disbursements reached \$4.9 billion, down by 27% from the \$6.6 billion of last year, but still well above the \$3.0 billion registered in 1999. Once again, these results are in sharp contrast with the American situation, where capital invested dropped by 65% to \$36.5 billion in 2001. As a consequence, the Canadian industry managed to pull off the second-best year in its history, with only the record-breaking results of 2000 casting a longer shadow.

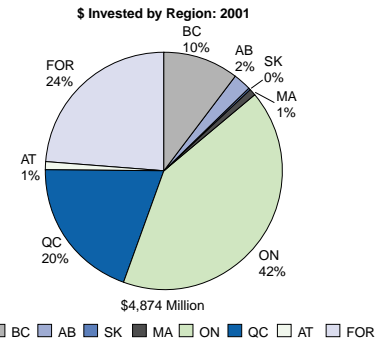
Transactional activity paralleled changes in dollar terms, with 1,077 deals done and 2,282 investments made in 2001, down 28% and 15% respectively from last year's 1,502 deals and 2,671 investments. A total of 818 companies secured venture-backing this time around, as compared to 1,132 in 2000.

Much of this still robust activity has been due to continued industry enthusiasm for young technology companies, seen in the

financings of Ceyba, SS8 Networks, Acclight, Q9 Networks and Xenon Genetics. There was also a clear industry preference for follow-ons in the past year, with 68% of disbursements going to existing portfolio firms. Higher average deal sizes also persist as a factor in capital flows, with the average standing at \$4.5 million in 2001.

Another driving force in 2001 was the unabated interest of foreign investors (i.e., primarily US venture/corporate funds), which poured a whopping \$1.6 billion into Canadian technology transactions, giving them an historic 34% share of deployments overall. Within the industry, LSVCCs led other groups, disbursing \$652 million, followed by private independent funds, which were responsible for \$608 million. At \$501 million invested, institutional investors with a direct market role remained active, followed by corporate venture groups with \$459 million.

A diverse array of IT companies remained the central focus of most venture investors, attracting \$3.2 billion in all, or close to two-thirds of capital invested. For the second



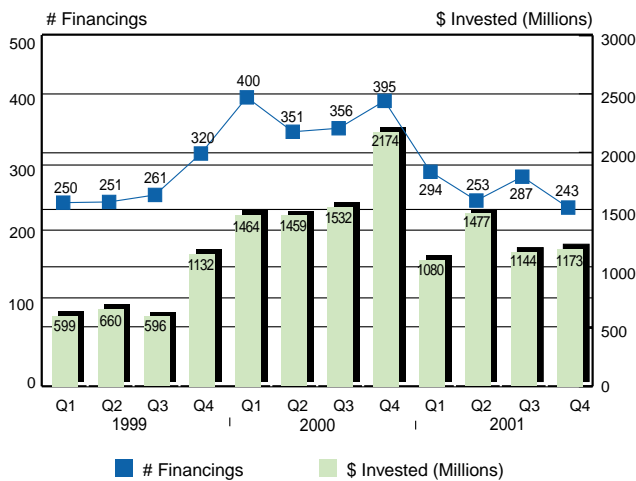
year in a row, communications and networking was the sector of choice, reflecting 132 financings completed totaling \$1.2 billion, or one-quarter of all disbursements, up from 20% last year.

Computer software firms took number two spot, finishing with 191 deals done and \$715 million, or 16% of amounts invested. By contrast, internet-related companies lost considerable support in 2001, capturing \$586 million, or 12% of disbursements, down from 19% in 2000. Firms concentrating on electronics/semiconductors closed 121 transactions involving \$618 million, giving this sector 13%.

2001 marked a North American revival in life science investment, in part because of the slightly reduced IT emphasis. 196 deals involving biopharmaceutical and other life science companies obtained \$1.1 billion, down only moderately from \$1.2 billion in 2000, accounting for 22% of capital invested, up from 18%.

At the core of activity in 2001 has been an unprecedented emphasis of start-up and other early stage companies. Related transactions, totaling 569, succeeded in capturing \$2.9 billion, which comes close to matching the \$3.1 billion of 2000, and an astonishing 60% share of aggregate disbursements, up from 47%. By contrast, expansion financings actually gave up ground, accounting for 32% of resources, down from 47% last year.

Quarterly Investment Activity*
By Canadian Venture Capital Industry



*Data revised since last issue

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(continued on page 2)

Introducing CVCA's Young Venture Capitalist Committee

The Young Venture Capitalist (YVC) Committee was formed to help foster relationships among the next generation of professionals working in all aspects of venture capital investing in Canada. To this end, our goal is to organize an array of exciting events throughout the year that will attract representation from a cross-section of Canada's most elite firms.

Our kick-off event was a sell-out golf tournament held in the fall of 2001 at the prestigious Greystone Golf Course in Milton. Our next event, planned for the spring of 2002, is a cycling tour of the

Niagara Wine Region with more details coming soon.

We invite all sub-partner level professionals to participate in our events and build invaluable networks among your peers.

Robin Axon
raxon@ventureswest.com

and

Wojtek Kawczynski
wkawczynski@ventureswest.com

Co-Chairs, Young Venture Capitalist Committee

It's time to mark your calendars for **CVCA's Annual National Conference 'Ride the Wave'**

**Four Seasons Hotel, Toronto
June 19-20-21, 2002**

Following the tremendous success and record attendance last year in Halifax, our Conference Committee is in the final stages of creating an even more exciting program for this June. Expert insights on the current market. Trends and best-practices. An inside look at where things are headed. And a gala evening that you will not forget!

Details will be posted on our web site by April 15th.

Jim Hall
Chair, Conference 2002

Events Calendar

CVCA Events

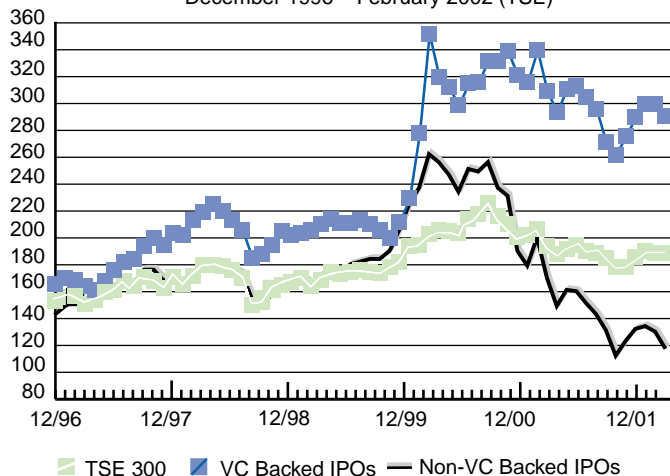
- Tuesday April 23, 2002 – Toronto
Professional Development Seminar
"Nanotechnology" Technology Trends and Investment Opportunities
TSE Conference Centre,
130 King Street West, Toronto, Main Floor
- May 29, 2002- Niagara
Young Venture Capitalists (YVC) Bike Tour
This 1st annual cycling tour for the next generation of professionals in Canada's venture capital industry, includes a wine tasting, lunch and transfers to from Toronto's Union Station.
- June 19-21, 2002 – Toronto
Annual Conference 2002
Canada's premiere Venture Capital and Private Equity Conference
"Ride The Wave"
Four Seasons Hotel
- August 26, 2002- Ontario
Young Venture Capitalists (YVC) Golf Tournament
Venue to be confirmed
- August 28, 2002- Brampton
Sharwood / CVCA Golf Classic
In support of the Parkinson Society Canada
Lionhead Golf & Country Club
To register or sponsor, please visit www.gtigolf.com/sharwood

To register to any of the CVCA events, please visit the events page of our web site for more information which will be posted as soon as it is available, at www.cvca.ca, or e-mail your contact info and questions to cvca@cvca.ca

Industry Events

- May 13 & 14, 2002 – Toronto
Canadian IT Financing Forum
Presented by Macdonald & Associates Limited and Canada IT.com, emerging IT companies present to major venture capital investors from Canada. For details visit www.financingforum.com or contact Nancy Hizaka-Vilardo at (416) 964-1265, ext. 227.
- June 2-4, 2002 – Los Angeles
Global Investors Conference
This meeting offers venture firms the opportunity to raise funds from investors, gatekeepers, corporations and VCs from around the world who are interested in becoming limited partners. For more details visit www.gvia.org

Venture-Backed Firms Outperforming
December 1996 – February 2002 (TSE)



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Questions, comments and contributions to the **Enterprise** are welcome!
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Information in this edition of **Enterprise** has been prepared with the assistance of Macdonald & Associates Limited.

New AdVENTURES

■ NB Capital Partners Inc. officially changed its name to **EdgeStone Capital Partners Inc.** For more information about EdgeStone please visit www.edgestone.com.

■ **Export Development Corporation** is pleased to announce **Jennifer Brooy** as Director and Team Leader of their Equity Team. Jennifer has extensive experience in financing including corporate and project financing and equity investing. You may contact Jennifer at jbrooy@edc-see.ca or (613) 598-6649.

■ **W. Michael Fix** joined the team at **Saskatchewan Opportunities Corporation** as VP of Investments, previously with Crown Investments Corporation of Saskatchewan as VP of Corporate Development. Michael is now responsible for leading a team of investment professionals in business development, due diligence and asset management. You can contact Michael at michael.fix@soco.sk.ca or (306) 787-7273.

■ **Geoff Horton** joins **Skylon Capital Corporation**, formerly with Working Ventures Canadian Fund as Investment Manager. Geoff is now VP of Skylon focusing on portfolio management and analysis. Geoff can be reached at ghorton@skyloncapital.com or (416) 601-2440.

■ **Pierre Genest** has been named CEO of **Solidarity Fund QFL**. He will remain the President and CEO of the SSQ Financial Group, subsidiary of the Solidarity Fund QFL, until the end of the year. Pierre has a background in insurance and financial services and has worked with Mercatille & General Reinsurance Company, National Insurance Society inc., Blondeau and Company, Consulting Actuaries, and the Optimum Group. Contact Pierre at pgenest@fondstfq.com or (514) 383-8383.

■ **VenGrowth Capital Partners** is proud to announce the appointment of both **Patrick Di Pietro** and **Mark Janoska** as General Partners to their new office located at 411 Legget Drive, Suite 705, Kanata Ontario K2K 3C9, Tel.: (613) 591-3363 and Fax: (613) 591-

7377. Patrick, formerly VP of 3G Wireless Systems at Nortel Networks, has indepth network and specialized systems knowledge of operational and product development. You can reach Patrick at pat@vengrowth.com. Mark, previously with PMC-Sierra as Principal Engineer, is experienced in high-tech product development and venture capital investing. Mark can be reached at mark@vengrowth.com. Both gentlemen can be reached alternatively by calling (613) 591-3363.

Also appointed to the positions of General Partners for the Toronto office are **Deborah Gray**, **Timothy Lee**, **Graham Matthews** and **Peter Seeligsohn**. Deborah, formerly head of sales and marketing for the firm, now serves as Senior VP and General Partner. In her new role Deborah is responsible for capital raising, managing the sales team and mutual fund partnerships. You can reach Deborah at deborah@vengrowth.com. Timothy, previously a corporate finance professional, now is responsible for the assessment of opportunities, structuring of transactions and business valuations. Contact Timothy at tim@vengrowth.com. Graham, previously VP of IT Investments and officer of one of Canada's largest venture capital firms, now occupies the role of General Partner. Among other responsibilities, his role includes reviewing business opportunities, structuring and negotiating transactions as well as serving on boards of venture backed technology companies. Graham can be reached at graham@vengrowth.com. Peter, a Chartered Accountant, represents VenGrowth on a number of venture backed company board of directors. Peter is responsible for advising investee companies, negotiating transactions and assessing business opportunities. You may contact Peter at peter@vengrowth.com. Alternatively all four individuals may be contacted by calling (416) 971-6656.

■ Joining the Entrepreneur-In-Residence program at **Ventures West Management Inc.** is **John Seminerio**. John, who has been President and CEO of Abatis System Corporation, is now focused on investment opportunities in the IT and Telecom sectors. John can be contacted at jseminerio@venturewest.com or by calling him at (604) 688-9495.

Overview (continued from page 1)

Despite securing \$2.0 billion, or 42% of all dollars invested, backing of Ontario-based companies was down in 2001. Swimming against the tide were IT firms located in Ottawa, which managed to attract undiminished support from Canadian and foreign investors, totaling \$1.1 billion, representing over half of all capital invested in the province this past year.

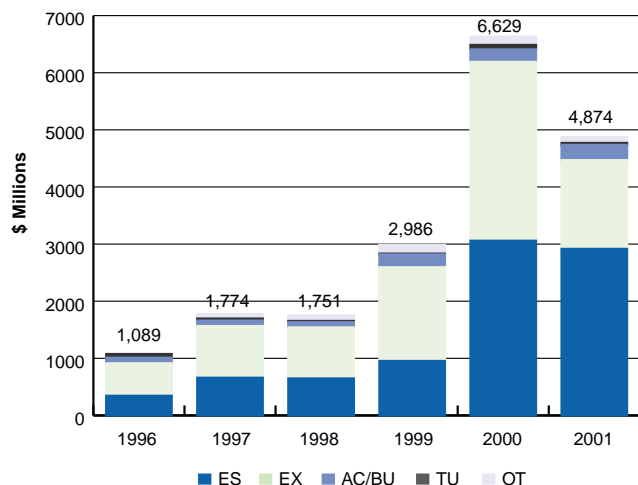
Capturing 433 rounds of financing in them, Quebec-based companies continue to absorb the lion's share of transactional activity in the Canadian industry, or 40% of the aggregate. Quebec also captured 20% of disbursements as a whole, or \$956 million in 2001, down from \$1.4 billion last year.

All year, activity in British Columbia demonstrated momentum, with capital flows reaching \$502 million by the end of December. This level is only slightly below the \$540 million of 2000, giving provincially based companies 10% of capital invested nationwide, up from its previous 7%.

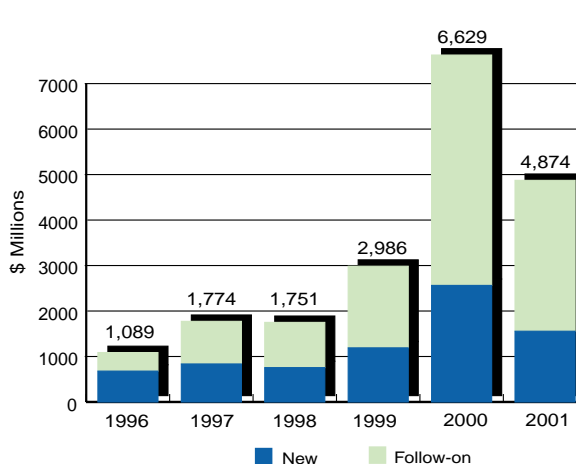
Consistent with a slower market, inflows of new capital commitments were lower for most Canadian fund types. Nonetheless, a total of \$4.6 billion in fresh supply was added, up from \$4.2 billion in 2000. Over two-thirds of this amount was raised by Quebec-based funds and, in particular, CDP Sofinov. As a result, the size of the pool managed by the Canadian industry rose to \$20.1 billion in 2001, up by 8% from the \$18.6 billion under management in 2000.

Currently, most venture investors are conserving their resources for follow-on activity and the next market upswing. Consequently, the industry's liquidity reserves are in solid shape, totaling \$6.2 billion, up from \$4.2 billion a year ago. Based on recent activity, this suggests the industry has 1.3 years of supply as it enters 2002, although the nature of fund-raising also indicates that much of this liquidity is concentrated in relatively few hands.

\$ Invested by Stage



New vs. Follow-on: Canada



NEW Funds

■ **AVAC LTD.** has started up a new fund, **AVAC IDEA BUILDER**, designed to assist entrepreneurs and others pursuing value-added agriculture in Alberta. The program offers matching capital up to \$25,000 for early-stage projects involving agrivalue™, such as new food and health products, marketing innovations and breakthroughs in food processing technologies. For more information regarding this fund please contact Corey Keith or Ross Bricker, Senior Investment Managers at ckeith@avactld.com or rbricker@avactld.com or (403) 274-2774 or visit their website at www.avactld.com

■ **THE CANADIAN MEDICAL DISCOVERIES FUND INC.** will be opening two new funds this year. **CMDF EARLY STAGE FUND** will emphasize investing in early stage health science companies. **CMDF VENTURE FUND** will focus primarily on later stage health sciences. Both funds have the same goal of achieving long-term capital growth through investing in fast growing Canadian health sciences sector. For more information please contact Janie Goldstein, VP Marketing and New Initiatives, at jgoldstein@cmdf.com or (416) 643-7095 or visit the company website at www.cmdf.com.

■ **DISCOVERY CAPITAL CORPORATION** is pleased to announce that **DISCOVERY CAPITAL 2001 TECHNOLOGY LIMITED PARTNERSHIP FUND**, its tax-assisted investment affiliate, has completed \$5 Million on the first closing of its offering of limited partnership units. For more information regarding this fund please contact Charles Cook at ccook@discoverycapital.com or (604) 683-3000 or visit their website at www.discovercapital.com.

■ **GENESYS CAPITAL PARTNERS INC.** is pleased to introduce their new biotechnology fund. The \$6 million

DISCOVERY DISTRICT BIOTECH FUND is developed to help support small biotechnology and life sciences firms in the Ottawa area. For additional information regarding the new biotech fund please contact Damion Lamb, Founder and Partner at damian@genesyscapital.com or Kelly Holman, Founder and Partner at kelly@genesyscapital.com or visit the company website at www.genesyscapital.com. Alternatively both gentlemen can be reached at (416) 598-4900.

■ **MOUNTAIN GOAT VENTURES** entered Ottawa in July 2001. The firm is now looking to open up a fund that will be closing in March 2002. Mountain Goat has an office in San Francisco and has already financed eight startup companies all of which are at various stages. For more information regarding the new fund please contact Tracy Trottier at tracy@mountaingoatventures.com or (613) 599-8880 or visit the company website at www.mountaingoatventures.com.

■ **VENTURELINK CAPITAL CORPORATION** is opening three new 2002 Labour Sponsored Funds. **VENTURELINK FINANCIAL SERVICES INNOVATION FUND**, will be focused on Canadian financial services companies with a portion of the portfolio investing in debt instruments whose returns are linked to the performance of the financial services sub-index of the TSE.

VENTURELINK BRIGHTER FUTURE (EQUITY) focuses on the essential services industry including energy, water and waste management.

VENTURELINK BRIGHTER FUTURE (BALANCED) is focused on start-up and early stage companies involved in infrastructure, essential resources and essential services industries such as water, waste management and energy. If you need more information regarding these three funds please contact Geoff Horton, VP Skyron Capital Corporation, at ghorton@skyroncapital.com or (416) 601-2440 or visit the company website at www.skyroncapital.com.

Update from CVCA's Public Policy Committee

We are delighted with the recent Federal Budget which, in two important respects, responded positively to the proposals made to the Department of Finance by our Association.

The first change remedies a major problem with the previous tax regime, which acted as a barrier to institutional investment in small Canadian enterprises. Most of this investment has traditionally taken place through Limited Partnership or Qualified Limited Partnership vehicles. Up until now, however, both these vehicles have been problematic for potential investors. An investment in a Limited Partnership has been classified as "Foreign Property" notwithstanding that the investments of the Limited Partnership might be entirely Canadian. As a result, Canadian institutions were forced to use their limited Foreign Property "basket" if they wished to invest in a venture capital Limited Partnership. While a qualified limited partnership investment was not classified as Foreign Property, a single investor could not hold more than 30% of the units in such a Partnership. This requirement acted as a barrier in the context of the Canadian venture capital market which is dominated by a small number of very large pension funds.

The December Budget has eliminated this ownership restriction and as a result we expect that the use of the Qualified Limited Partnership vehicle will be greatly expanded. It will now be a simple "user-friendly" vehicle for institutions to invest in venture capital opportunities without using their Foreign Property basket.

The second budget change makes it possible for both Canadian and U.S. investors to invest in the same Canadian Partnership. Up until now this was effectively prevented by the Canadian Tax Act which exposed U.S. investors to Capital Gains Tax in Canada. As a result, U.S. institutional investors, such as pensions funds, were forced to invest through U.S. based "side funds" if they wished to invest in Canadian venture capital pools. Most chose to avoid the complexities, costs and risks associated with this approach. As U.S. institutions can now invest without tax risk directly alongside Canadian institutions in the same partnerships, we believe that capital flows from U.S. institutions to emerging Canadian companies will be greatly expanded.

These budget changes will benefit our members and our investee companies. The Public Policy Committee extends its sincere thanks to Barbara Worndl of Aird & Berlis and Scott Wilkie of Oslers for their dedication and expert help in achieving this outcome.

John Bradlow
Chair, Public Policy Committee

Canadian Venture Capital Confidence Survey

The Canadian Venture Capital Confidence Survey is a joint venture between Deloitte & Touche Corporate Finance Canada Inc. and the CVCA. The survey is designed to provide a comprehensive snapshot of VC investors' expectations 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.

The inaugural edition of the survey was

released on December 10, 2001 with VC's across Canada expressing cautious optimism. The First Quarter 2002 survey results were released on March 19, 2002.

If you would like to receive a copy of the survey results or share your views please contact Allison Goldin, Vice President, Deloitte & Touche Corporate Finance Canada Inc. at 416.601.6539 or agoldin@deloitte.ca.