

DISBURSEMENTS SURGE TO RECORD HIGH

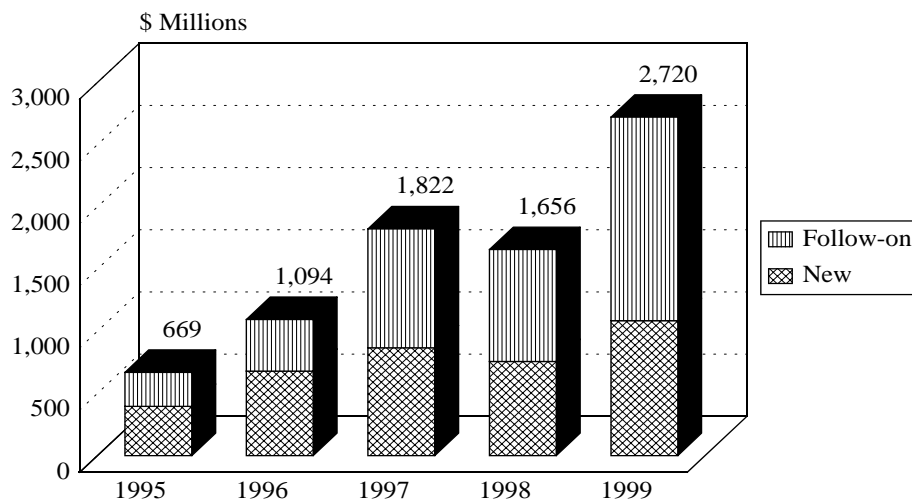
By almost any standard, the Canadian venture capital industry had a remarkable year in 1999, and one that contributed to continuing growth and maturation, particularly in investment terms. The year suggests evidence of diversifying deal activity, new strategic partnerships and syndications, growth in the quality of professional management - especially in technology deals - and the appearance of explicit benefits accruing to Canada as investors focus on the best venture opportunities.

Some new records were set in the industry in 1999. Among the most significant of these is the amount of capital invested, which rose to \$2.7 billion. The amount of capital flowing into Ontario-based firms also rose to new records - more than doubling to almost \$1.3 billion. The fact that these greatly increased dollars flowed to fewer companies and transactions than the year before indicates, at first glance, a possibly mixed performance. However, closer scrutiny of the data tells a different story. Indeed, much of the mone can be traced to large financings of innovative technology companies.

This trend suggests that the venture capital industry is making important advances in helping emerging technology sectors achieve "critical mass", in part by encouraging a larger pool of knowledgeable, specialized investors, as well as more sophisticated entrepreneurs.

Disbursements Surge to New Record High

New vs. Follow-on Investments; Canada



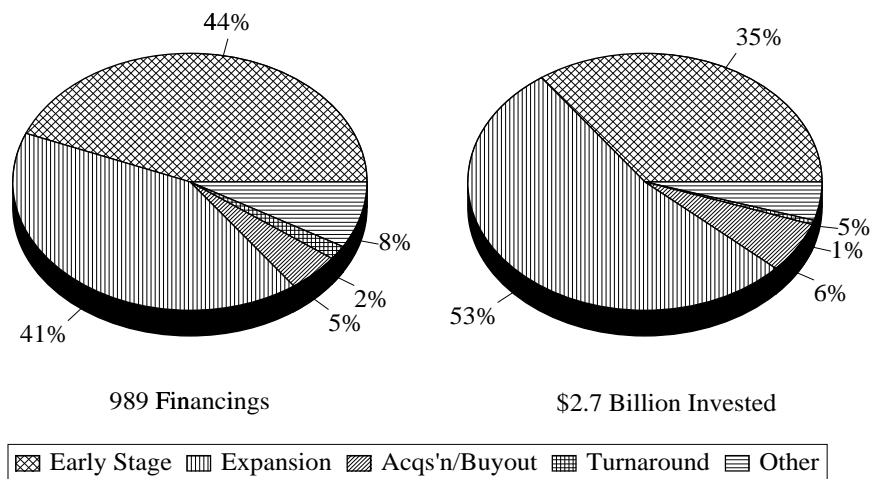
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Underlying the growth in disbursements was a sharp increase in the number of large deals being done - deals that involved \$5 million or more - and the amount of capital invested in these deals. During the course of 1999, members of the Canadian venture capital industry completed a total of 989 financings - down by 8% from the prior year. But 135 of these were large deals and together they absorbed \$1.75 billion or 64% of total disbursements. The average size of financing across the industry as a whole rose from \$1.5 million in 1998 to \$2.75 million last year as a result.

Follow-on financings accounted for 59% of all deals done last year, up slightly from the 55% share they accounted for in 1998. These follow-on deals absorbed \$1.6 billion, or 60% of the total amount invested by the industry. This upward trend has been evident for the past several years, but as more new private funds raise larger pools of capital, the ratio might well stabilize. There is little doubt that technology companies demand larger and larger rounds of capital over a shorter span of time to exploit their potential, so follow-on activity is likely to continue to account for close to two thirds of the industry's aggregate activity. The number of first-time financings completed last year fell by 15% but the amount of capital invested in these deals rose by 44% to \$1.1 billion. Some 52 large first time deals each captured an average of \$12 million. The average size of financing across all early stage deals was \$2.1 million, up from \$1.3 million.

Early Stage Activity Continues to be Strong

Investment Activity by Stage; 1999; Canada



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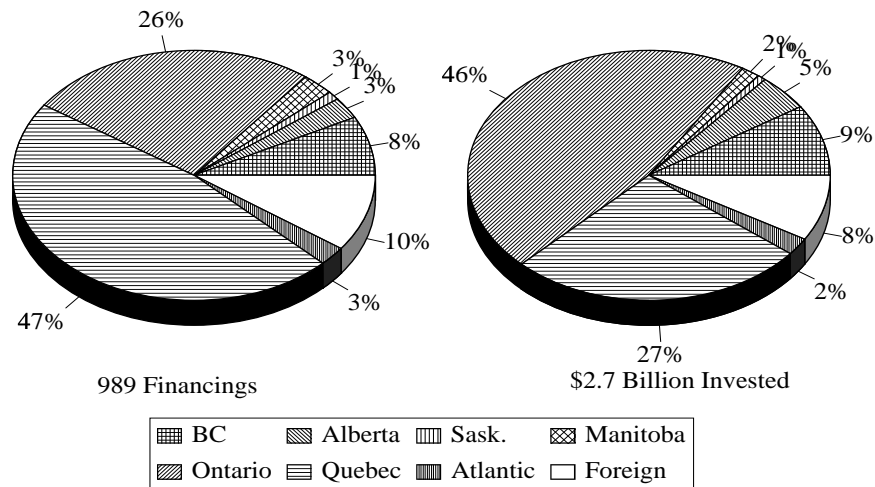
Early stage companies accounted for a substantial 44% of all deals done and for 35% of the capital invested. Expansion financings were almost as prevalent (41% of the deals) and they captured 53% or almost \$1.5 billion. In the IT sector in particular, large, follow-on expansion financings are almost becoming the norm.

While we saw several new seed funds established in 1997 and 1998, last year was the year for incubators. While these groups will often seed new ideas with a small amount of capital, they will also quickly move to significant capital injections if warranted.

Although more capital was invested in every province but Saskatchewan last year, it was Ontario that drove the industry totals. The number of financings done with Ontario-based companies fell slightly (from 273 to 258) but the amount invested in these firms surged from \$531 million to \$1.257 billion last year. The average financing in Ontario last year was \$4.9 million; while this still lags well behind the US average, but more than double the average of \$1.9 million one year earlier. The amount of capital invested in British Columbia rose by 70% to \$250 million; disbursements in Manitoba rose by 61% to \$46 million; and Atlantic Canada captured \$61 million, up by 83%. Quebec experienced a more modest 15% increase in disbursements. As a result, Ontario-based companies accounted for 46% of the capital invested; Quebec for 27%; BC for 9%; Alberta, Saskatchewan and Manitoba for 5%, 1% and 2% respectively; and Atlantic Canada for 2%. The share of capital invested going to companies outside of Canada fell from 10% to 8%.

Ontario-Based Firms Capture Larger Share

Disbursements by Province; 1999



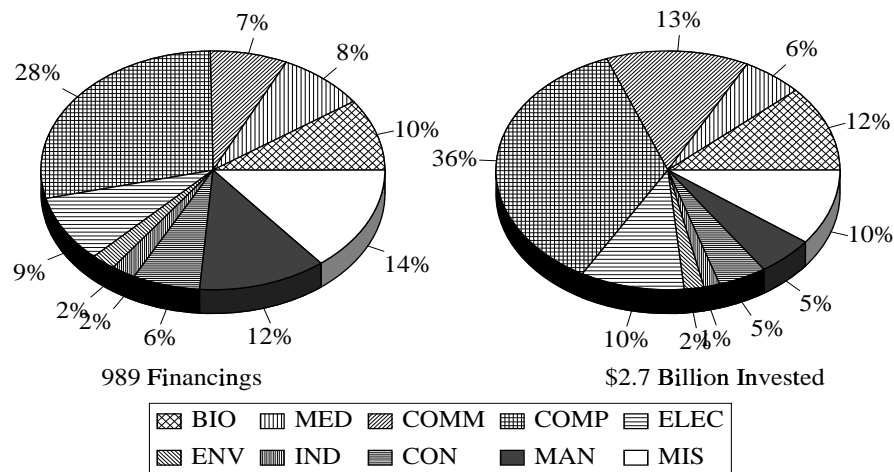
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The upward march towards increased technology exposure continued through last year, with 68% of all financings done involving technology companies (up from 62% in 1998) and these deals attracted \$2.2 billion or 80% of disbursements, up from 70% in the prior year. While the actual number of technology financings completed was virtually unchanged, the amount of capital invested in these deals almost doubled from \$1.2 billion to \$2.2 billion. The average technology financing was \$3.2 million up from \$1.7 million last year.

The computer-related and communications sectors were the beneficiaries of the industry's growth. A total of 281 financings were done with computer-related firms, up modestly from 244 a year earlier. But these deals attracted \$982 million - up by 250% from the \$387 million flowing into the sector one year earlier. Similarly, the 71 communications deals (up from 69 in 1998) attracted \$359 million compared with the \$150 million invested in the sector a year earlier.

Computer and Communications Firms Drive Growth

Investment Activity by Sector; 1999; Canada



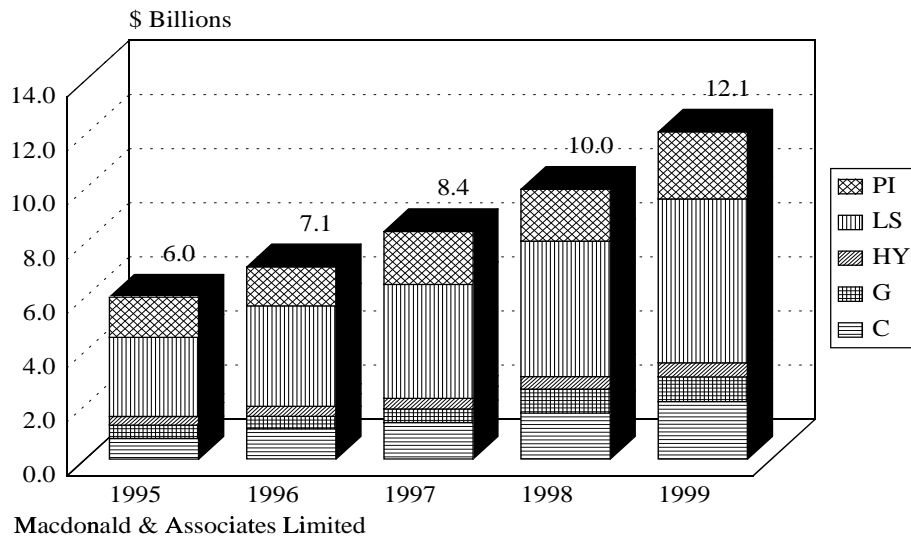
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The labour-sponsored venture funds continued to be the most active investors in the market last year, accounting for 28% of all investments made. The corporate funds were the next most active, accounting for 22% of all investments made. On the disbursement side, the labour-sponsored funds invested \$638 million last year or 23% of total disbursements while corporate groups invested \$563 million or 21% of the total. Of particular note is the fact that foreign investors (VCs and strategic corporate investors)

invested \$568 million (21%) in 48 Canadian companies last year, underscoring the important role they played in increasing the amount of capital available to these emerging growth companies. "Other investors" which include primarily institutional investors and some mutual funds, also became much more active in the venture capital market last year, investing \$479 million in 177 companies. In short, the industry has become much more diverse in recent years, with young high growth companies having a range of investors to which they can turn for equity.

Pool of Capital Continues to Grow

Capital Under Management by Investor Type; Canada



** The capital under management and liquidity of individual venture funds is measured as of December 31st, except for labour-sponsored venture capital funds which are measured as of March 1 of the following year to recognize the impact of the RRSP season.*

By the beginning of this year, the amount of venture capital under management in Canada had risen to \$12 billion, up by 20% from the \$10 billion under management one year earlier. The amount of new capital raised in 1999 rose by 22% to \$2.4 billion with LSVCCs accounting for slightly more than half of the new capital. The industry's liquidity rose \$2.95 billion, slightly more than a one year supply.