Canada's Venture Capital Industry in Q4 2006

THOMSON

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All figures in this report are in Canadian dollars

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Canada's Venture Capital Industry in Q4 2006

The CVCA – Canada's Venture Capital and Private Equity Association is pleased to provide the following overview of activity in the Canadian venture capital market through the full year 2006, including current data for the fourth quarter.

Venture capital investment across Canada in 2006 amounted to $1.69 billion, matching the total of $1.68 billion invested in 2005. In the fourth quarter, total investment amounted to $489 million, just below the $502 million of Q4 2005 but representing a 42% increase over the Q3 2006 level of $344 million.

In spite of these generally flat results across the market as a whole, three significant underlying trends are clearly visible:

•A substantial regional shift away from Ontario and into Quebec and British Columbia,
•A major increase in Canadian investment by foreign (principally U.S.) venture funds, and
•A decline in the number of companies funded, with a corresponding increase in the amount of capital invested per company.

In the broader North American context, the relatively flat Canadian venture capital sector is not participating in the steady growth of major U.S. markets, and is therefore declining in the regional rankings.

Regional Shift

Quebec performed very strongly in Q4 2006, leading all Canadian provinces with $247 million in venture investments compared to $104 million in Q3 2006. For the full year, Quebec saw $603 million invested in 179 companies, up 9% from the $552 million of 2005. British Columbia experienced even stronger growth for the full year 2006, where 52 companies received $298 million ($44 million in Q4), up 30% from the $230 million of 2005.

Growth in these markets contrasted with the decline in Ontario, which attracted $165 million in Q4 2006, consistent with $163 million in Q3 2006 and down 16% from the $197 million of Q4 2005. For the full year 2006, 118 Ontario companies received investment of $686 million, a decline of 9% from the $755 million reported in 2005.

For the full year 2006, Ontario remained the largest venture capital market in Canada with a 40% share (down from 45% in 2005), followed by Quebec with 36% (up from 33%) and British Columbia at 18% (up from 14%).

Canada's Venture Capital Industry in Q4 2006…cont'd

Investor Type

For the full year 2006, venture capital investment in Canadian companies from foreign (principally U.S.) VC funds amounted to $549 million, an increase of 19% from the $460 million they invested in 2005. Foreign VC funds provided 32% of all venture capital invested in Canadian companies in 2006, up significantly from their historical level in the 25% range (27% in 2005).

Investment by LSVCC's amounted to $379 million in 2006, down 11% from the $427 million invested by this group in 2005, and accounting for 22% of all venture investment in Canada in 2006 (from 25% in 2005). Private independent venture funds invested $334 million in 2006, consistent with the $337 million of 2005 for a repeat 20% market share.

Companies Funded and Deal Sizes

157 Canadian companies were funded by VC firms in Q4 2006, down 25% from the 209 firms of Q4 2005 (up 23% from the 128 firm in Q3 2006). For the full year 2006, a total of 404 Canadian companies received venture funding, the lowest number since 1995 and 28% below the 560 companies funded in 2005.

The decline in the number of companies funded – but not the total capital invested – led to a substantial increase in the average amount invested per company, a positive trend. The average Canadian VC investment in 2006 was $4.2 million, up 40% from the $3.0 million average in 2005.

North American Context

The CVCA has released data showing where the major Canadian markets rank in reported venture capital investment relative to activity in individual U.S. states. Ontario, Quebec and British Columbia finished 2006 in 9th, 10th and 17th place, respectively, compared to 2005 standings of 7th, 9th and 20th place.

The relative decline of Canada's major markets arises from their overall flat performance compared to the steady growth in the U.S. venture capital market, which invested US$25.5 billion in 2006, up 12% from the US$22.8 billion of 2005. U.S. venture funds continue to invest substantially larger amounts than their Canadian counterparts in each of their portfolio companies with an average level of $10.1 million per company, or 2.4 times the Canadian average (although this differential is narrowing).

Canada's Venture Capital Industry in Q4 2006…cont'd

Investment by Sector

Activity in the Information Technology sectors continued to drive industry investment in 2006, with $882 million placed into 183 companies representing 52% of all disbursements (compared to $914 million in 2005). Within the IT sector, software led with $311 million (compared to $300 million in 2005), followed by communications and networking with $238 million (compared to $333 million in 2005), and electronics and semiconductors at $205 million (compared to $161 million in 2005).

Biopharmaceutical and other life science investments increased in 2006 with 78 companies receiving $493 million (compared to $438 million in 2005). Venture investment in environmental "clean" technologies amounted to $119 million in 2006, an increase of 83% from 2005 and the highest amount invested on record.

VC industry fundraising

Fund-raising by the Canadian VC industry dropped substantially in 2006 after experiencing a strong growth year in 2005. New funding raised by venture capital funds amounted to $1.6 billion in 2006, a drop of 26% from the total of $2.2 billion raised in 2005.

LSVCC's raised $907 million in 2006 down 25% from the $1.2 billion raised in 2005. The new LSVCC capital was overwhelmingly concentrated in Quebec, which received 85% of the national total.

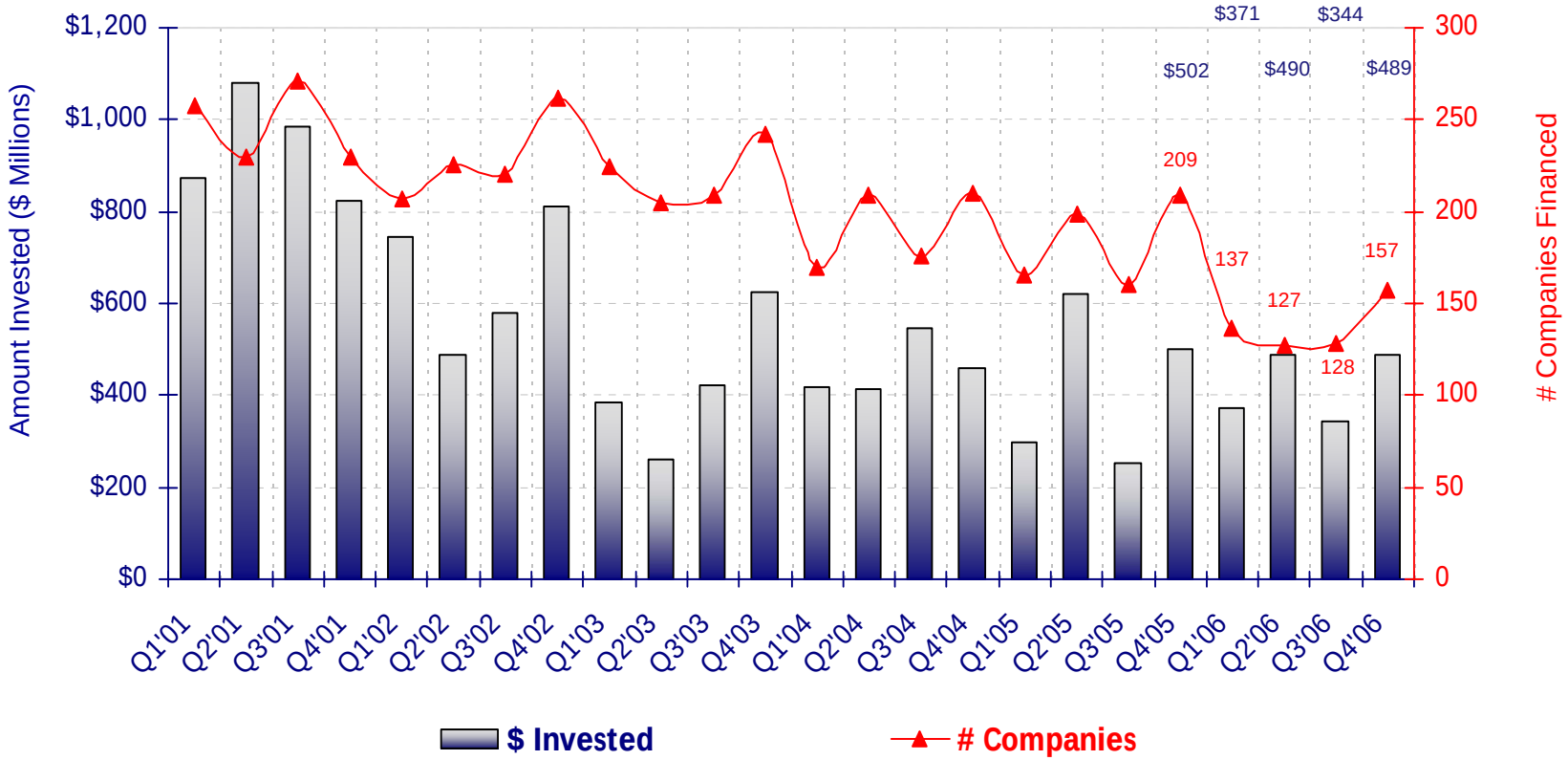
Canadian private independent funds raised $666 million in new commitments in 2006, essentially matching the $672 million raised in 2005.

For additional information, please contact CVCA Executive Director Richard Remillard: rremillard@cvca.ca (613) 744-8969.

All data provided by Thomson Financial. To stay abreast of VC trends Thomson Financial continually updates all company financing information. For this reason, data are subject to regular change. Thomson Financial is always working closely with fund managers to ensure that the full range of this activity is captured and advises that related data changes may impact quarterly VC industry statistics.

Q4 Dollars Consistent with 2005 Levels

Dollars Invested and Companies Financed



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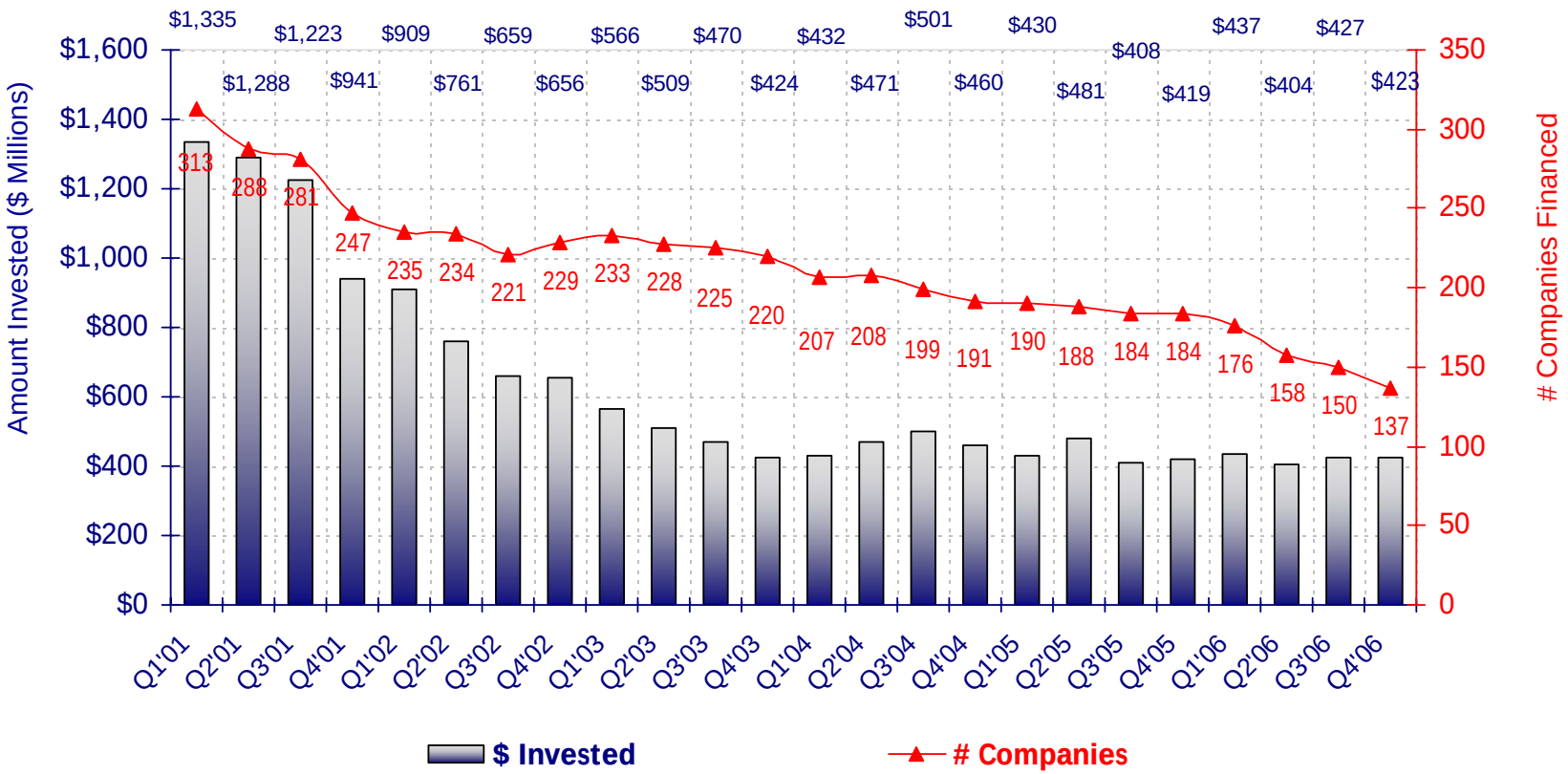
Trend in Year Over Year Dollars Flat – Average Investments Growing as Fewer Companies Funded

Dollars Invested and Companies Financed – Four Quarter Rolling Averages



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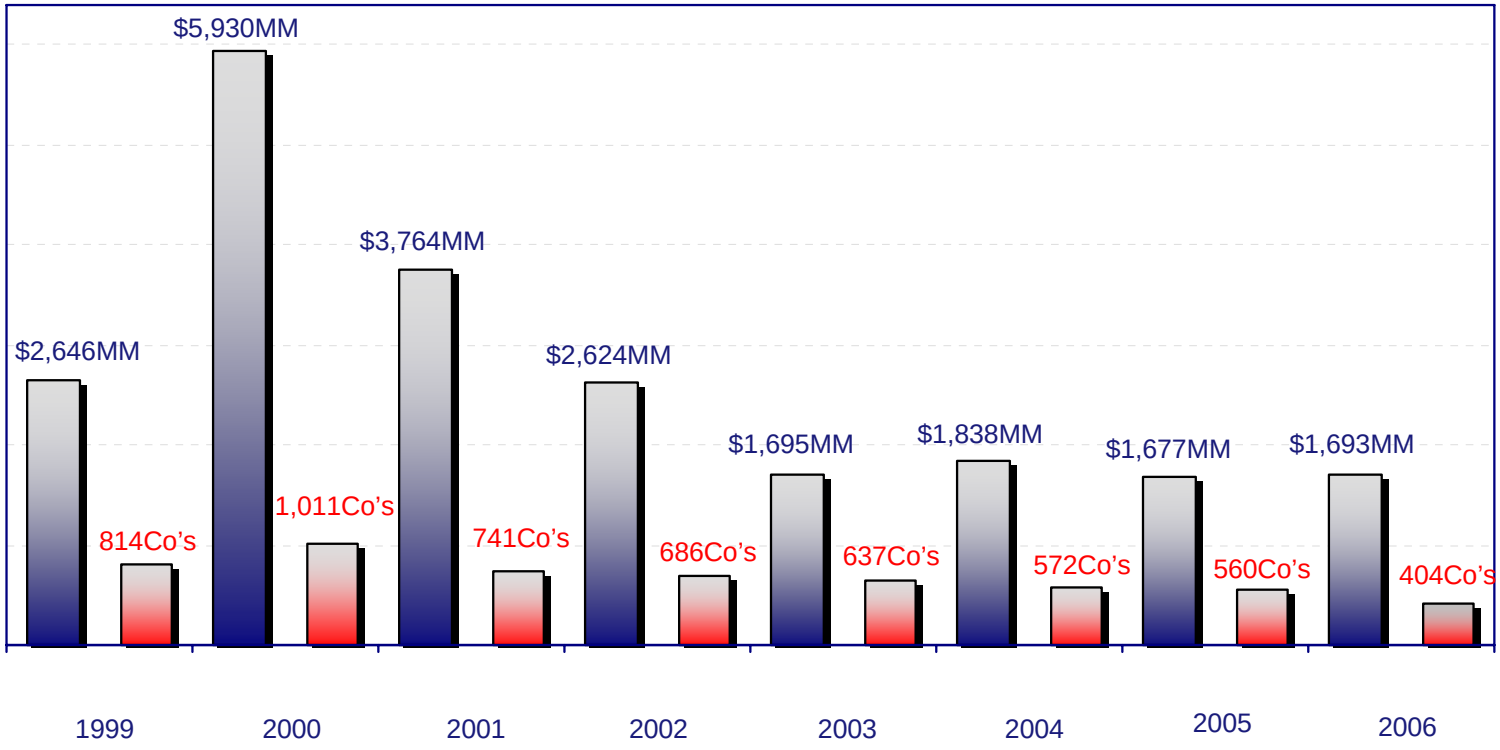
2006 VC Activity Consistent with Recent Years

Dollars Invested and Companies Financed



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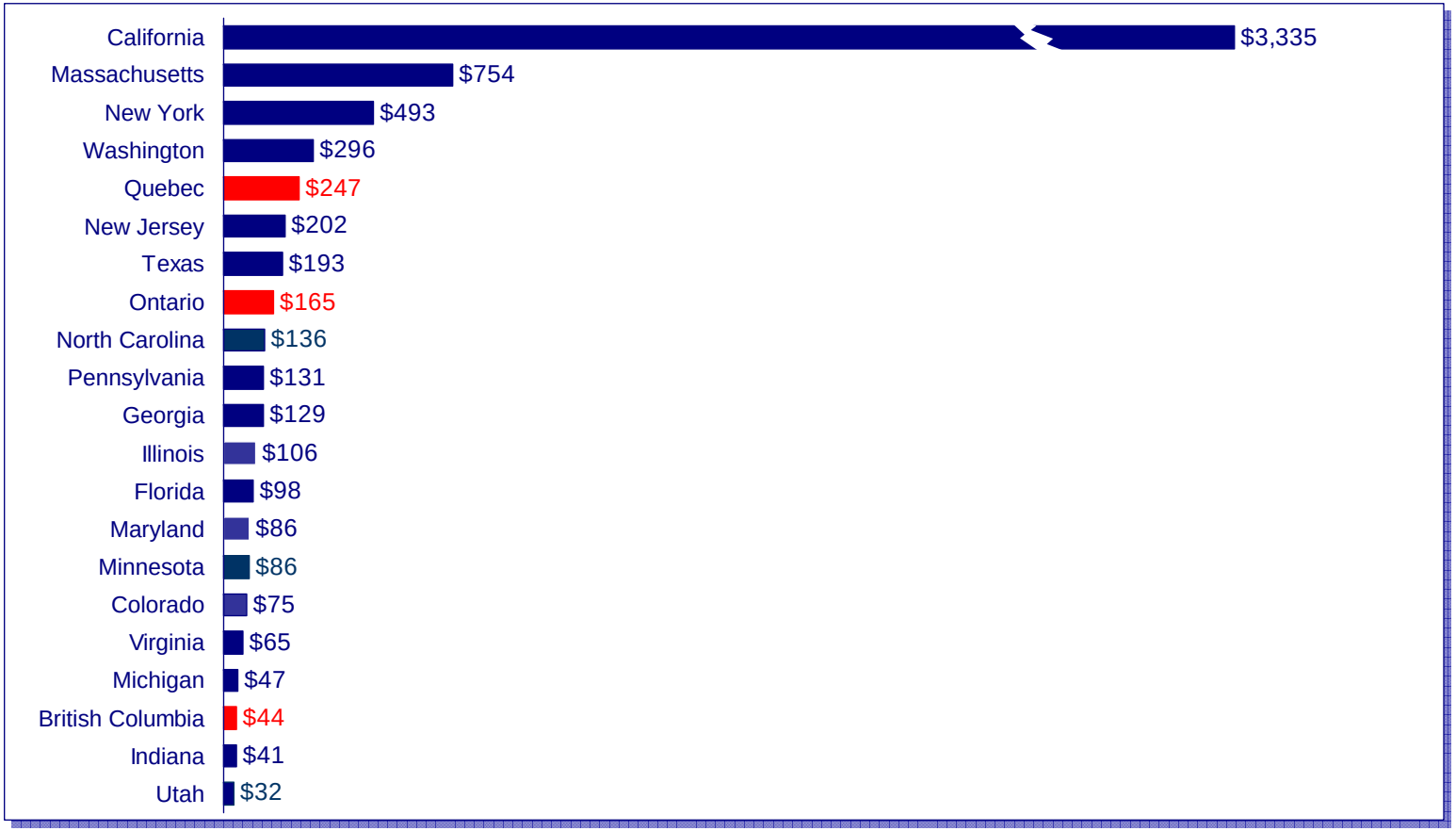
North American Context in Q4 2006: Québec, Ontario, and BC Finish in 5th,8th and 19th Place Overall

Q4 2006 VC Disbursements Ranking by Province and State (Cdn$ MM)



US data as per the MoneyTree™ Report by PWC/NVCA based on data by Thomson Financial

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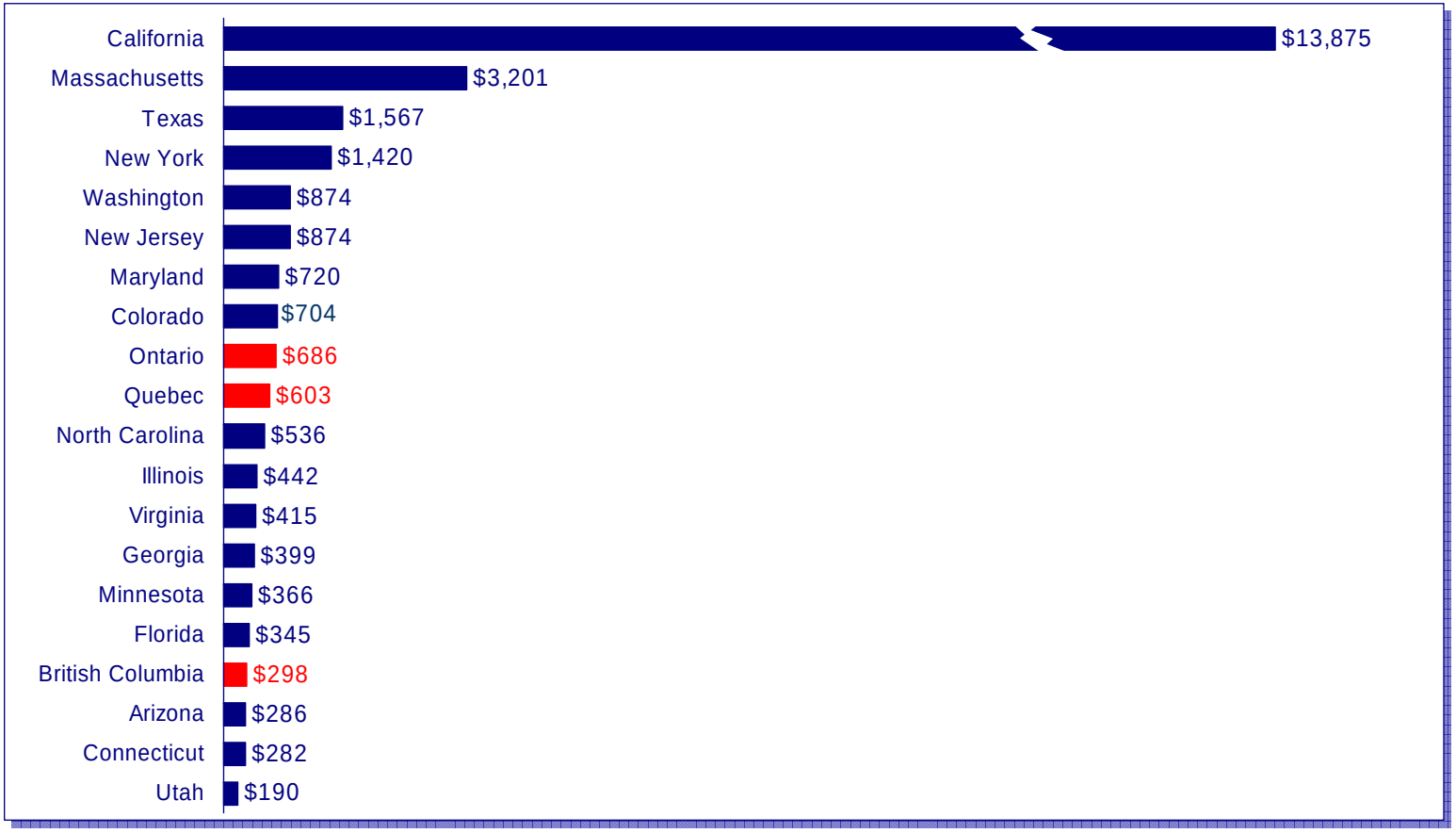
North American Context for Full Year 2006: Ontario, Québec and BC Finish in 9th,10th and 17th Place Overall

2006 VC Disbursements Ranking by Province and State (Cdn$ MM)



US data as per the MoneyTree™ Report by PWC/NVCA based on data by Thomson Financial

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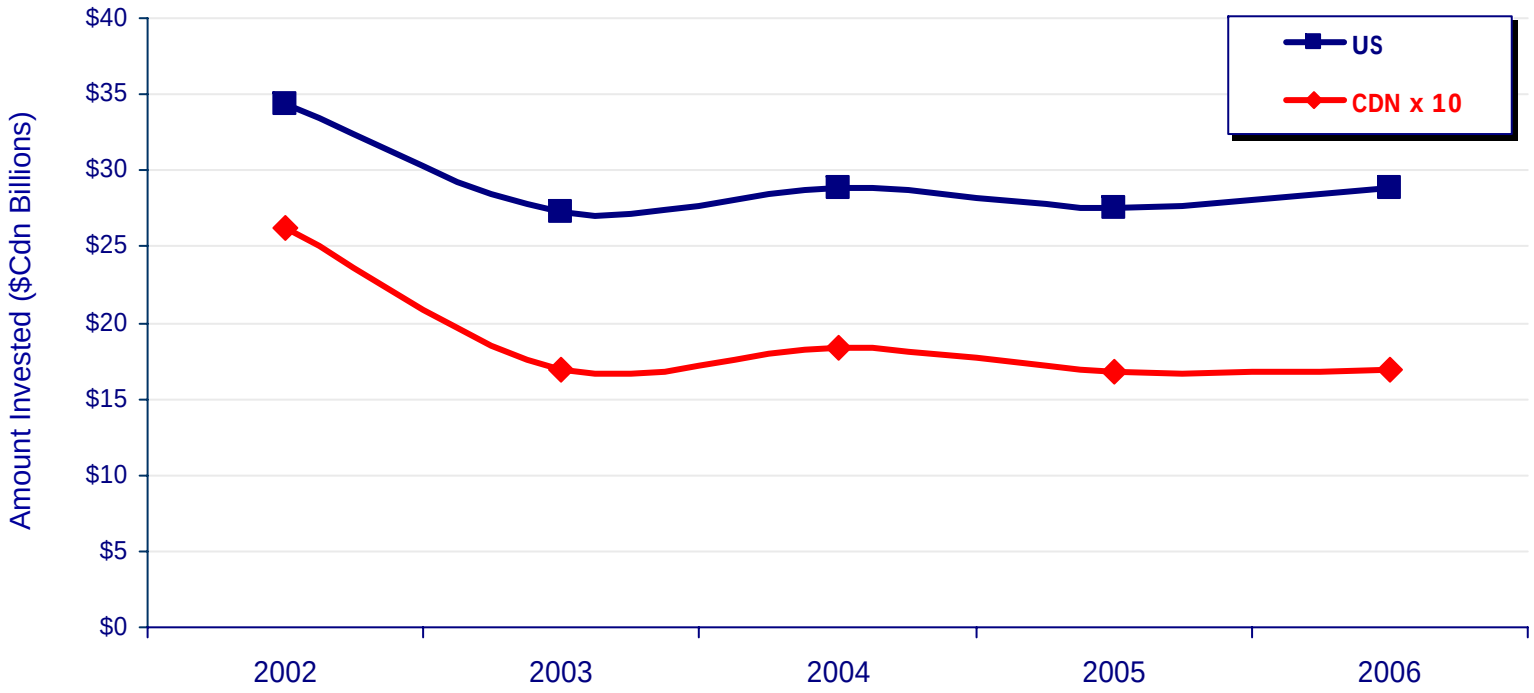
US Investments up 12% While Canada Remains Flat

Disbursements: Canada & US



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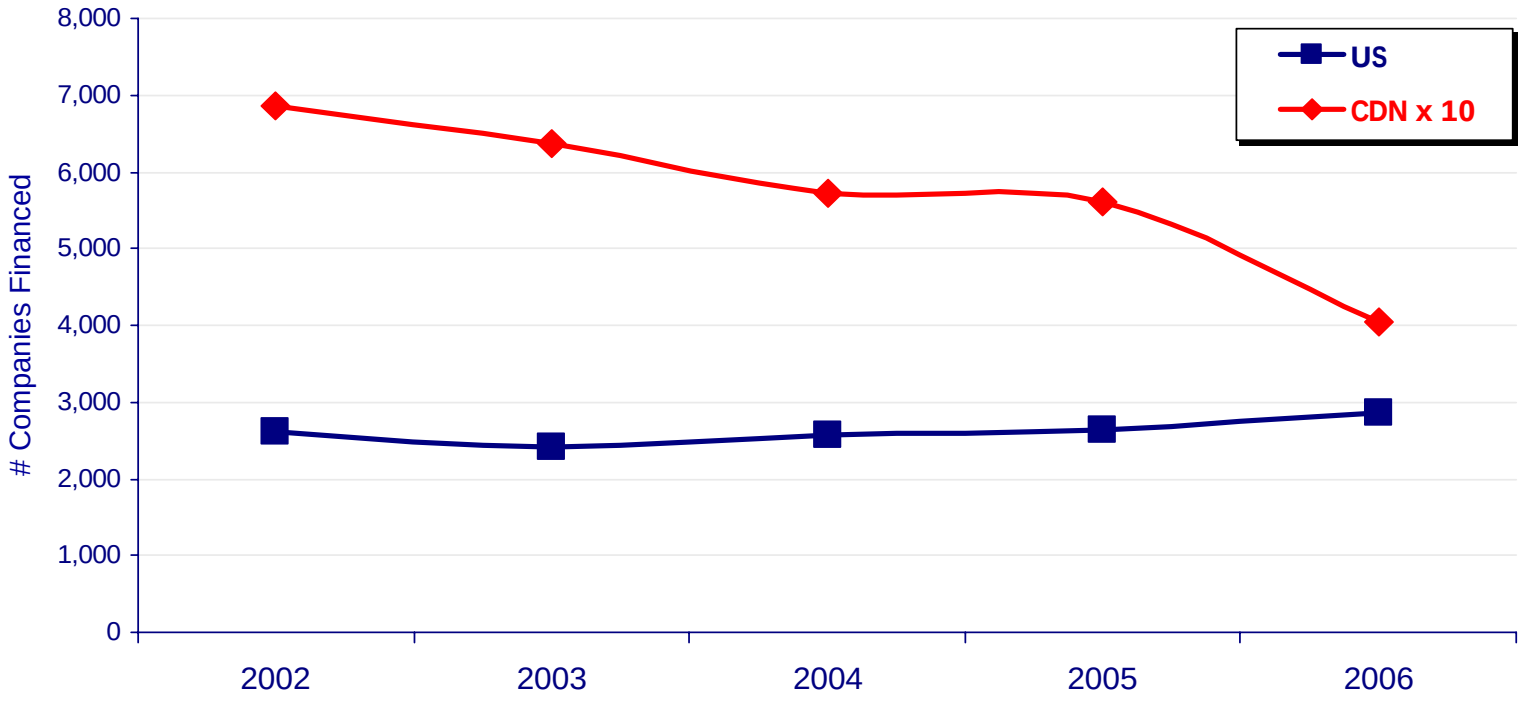
Canadian Investors Tighten Their Focus – Average Investments Growing as Fewer Companies Funded

Number of Companies Funded: Canada & US



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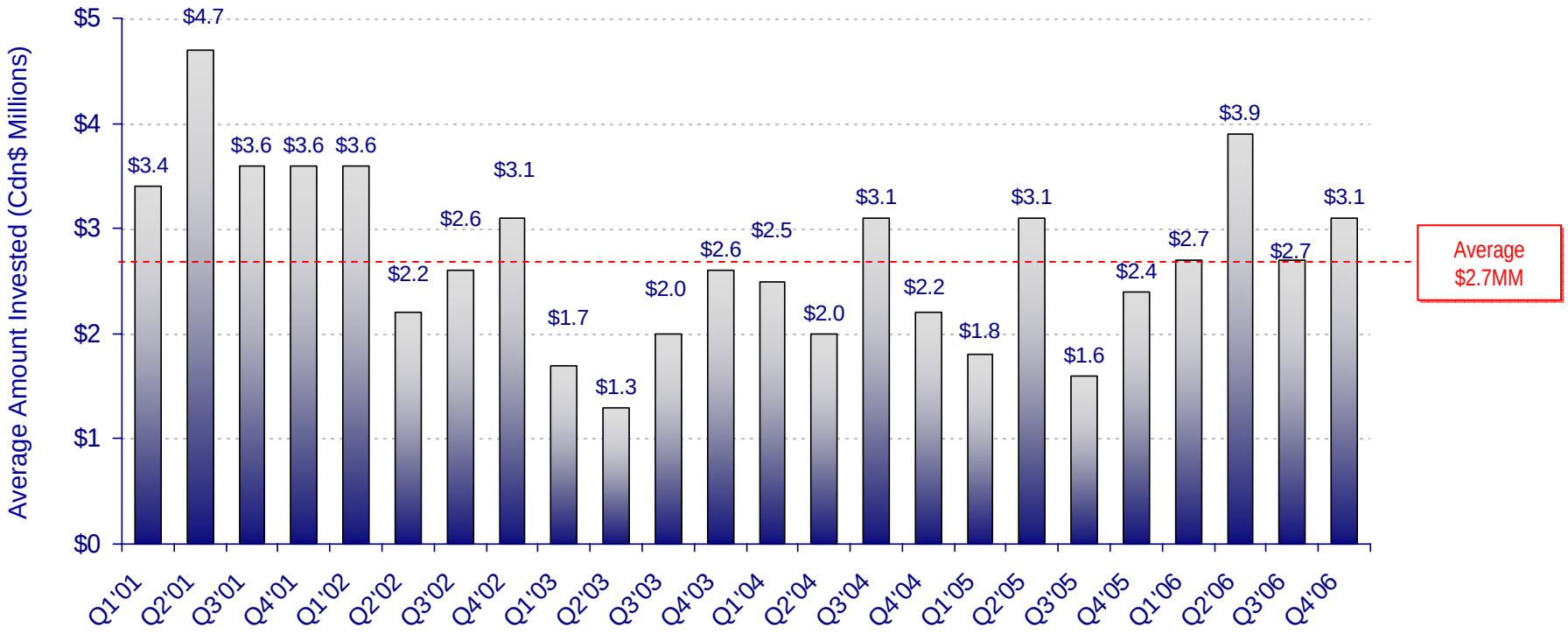
Q4 Average Financing Size 15% Higher Than Historic Average

Average Amount Invested per Company



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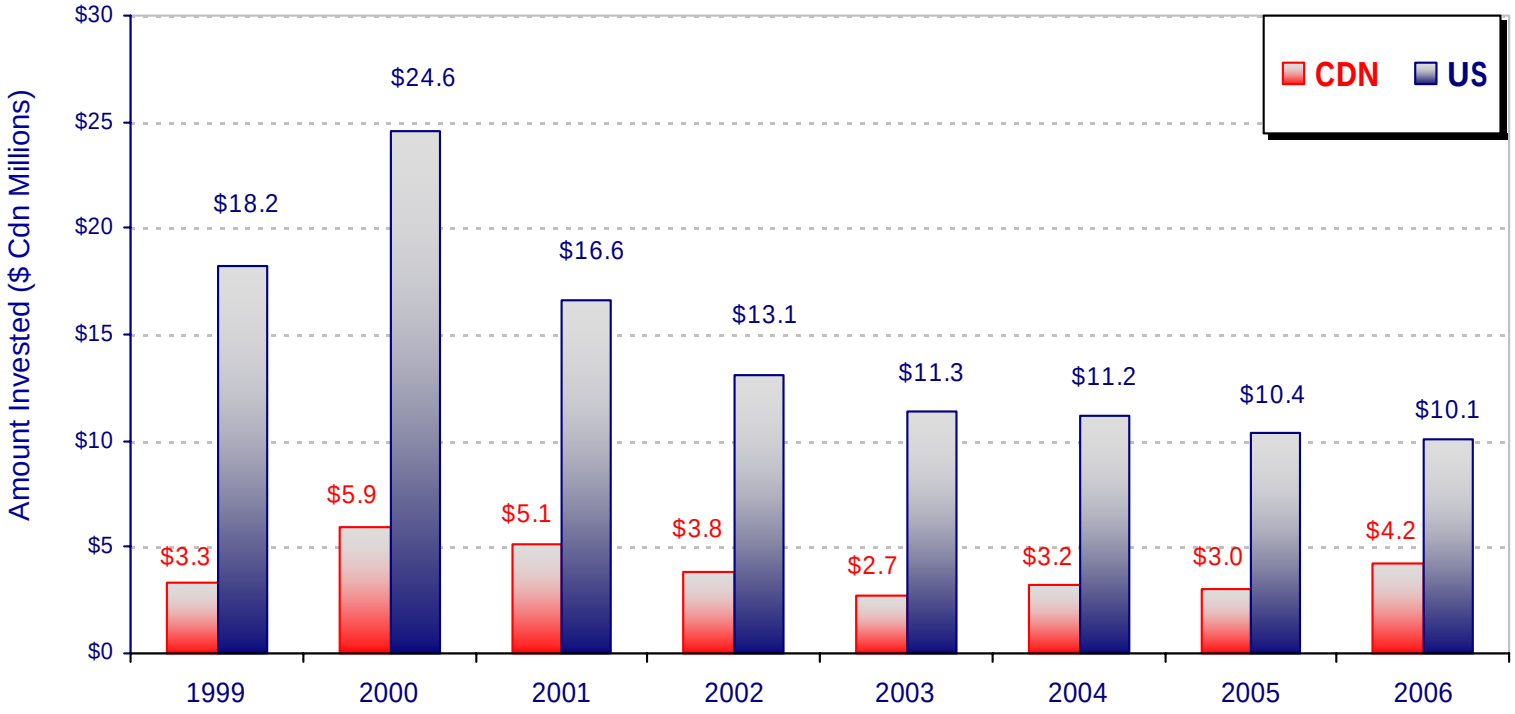
2.4x More Invested in US Firms in 2006 – Differential Narrowing

Amounts Invested per Company, Canada & US



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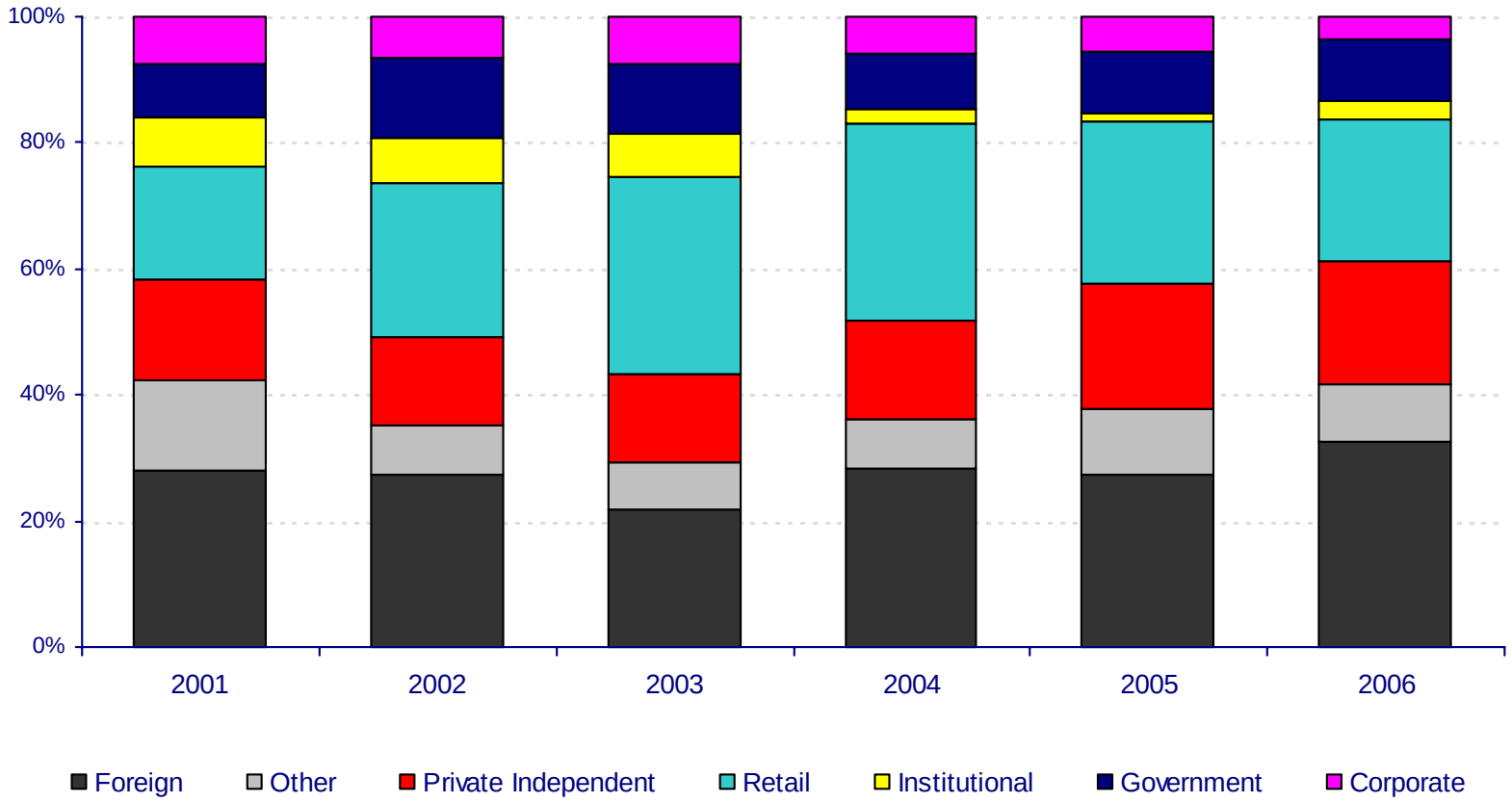
Foreign Investment Growth to 32% Share at Highest Level Since 2001

Share of Dollars Invested by Investor Type



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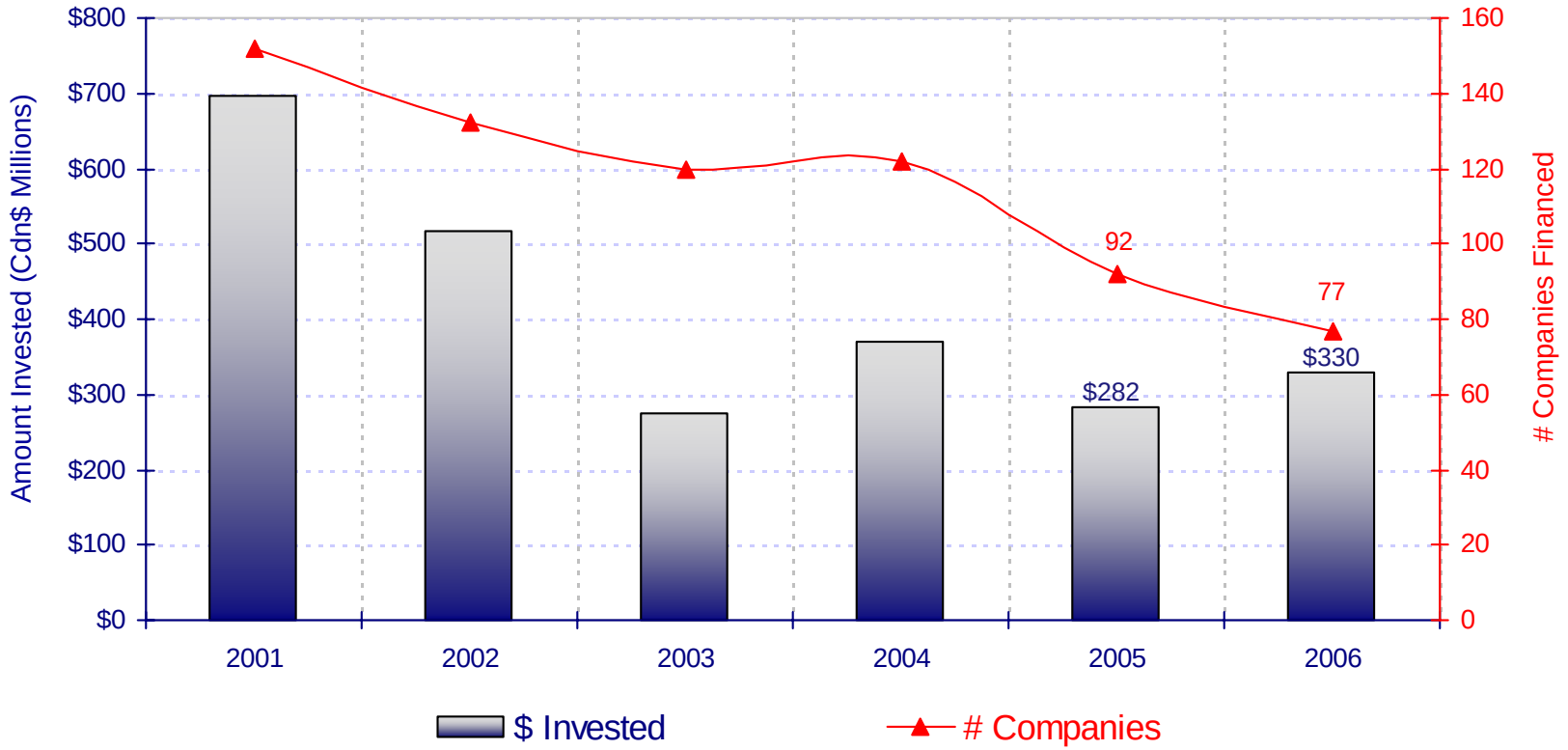
2006 Canadian Investment Abroad Up 17% Over 2005

Dollars Invested Outside of the Country by Canadian Investors



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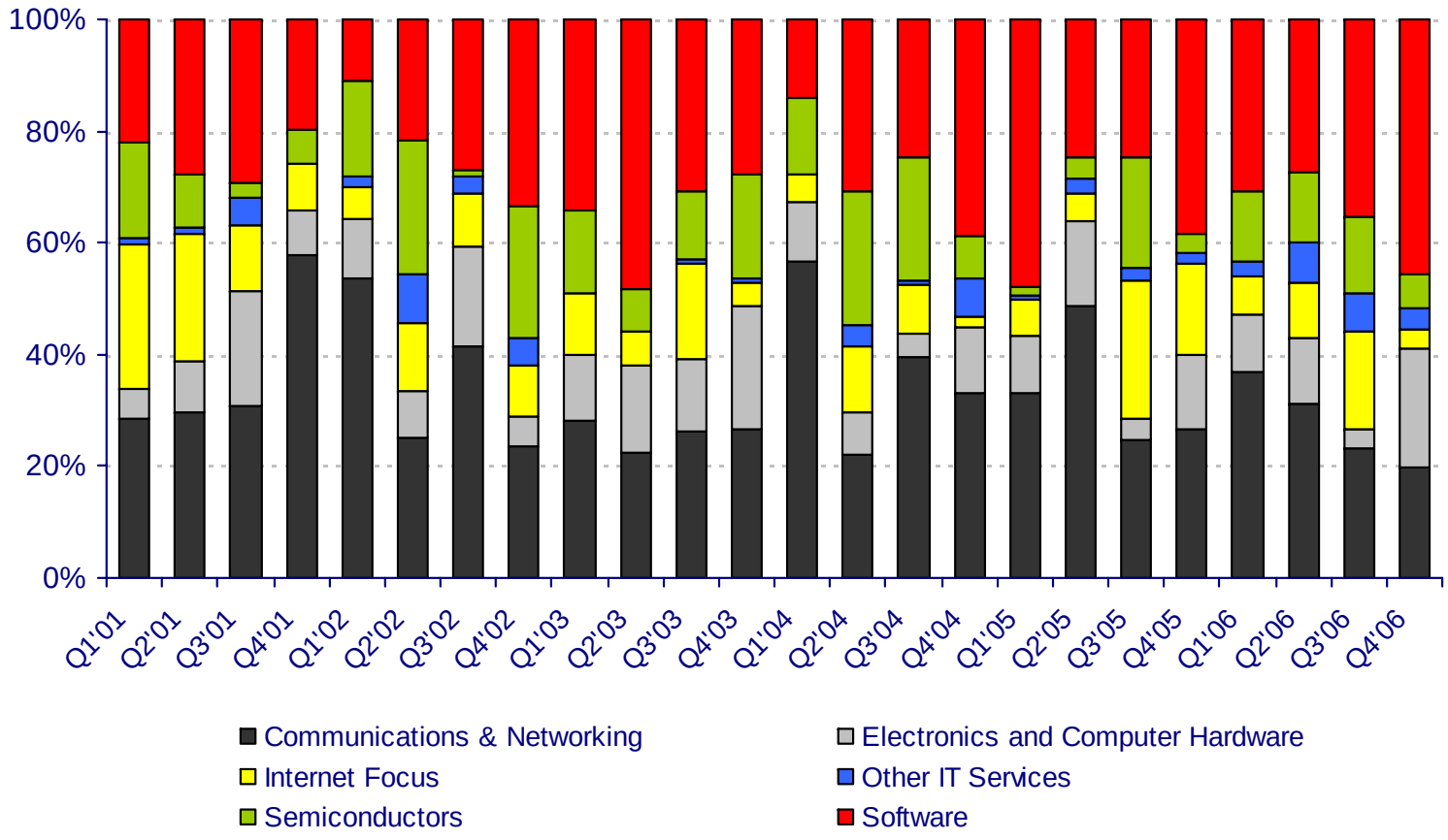
Software Leads IT – Experiences Second Consecutive Quarterly Share Increase

Dollars Invested in IT by Sub-Sector



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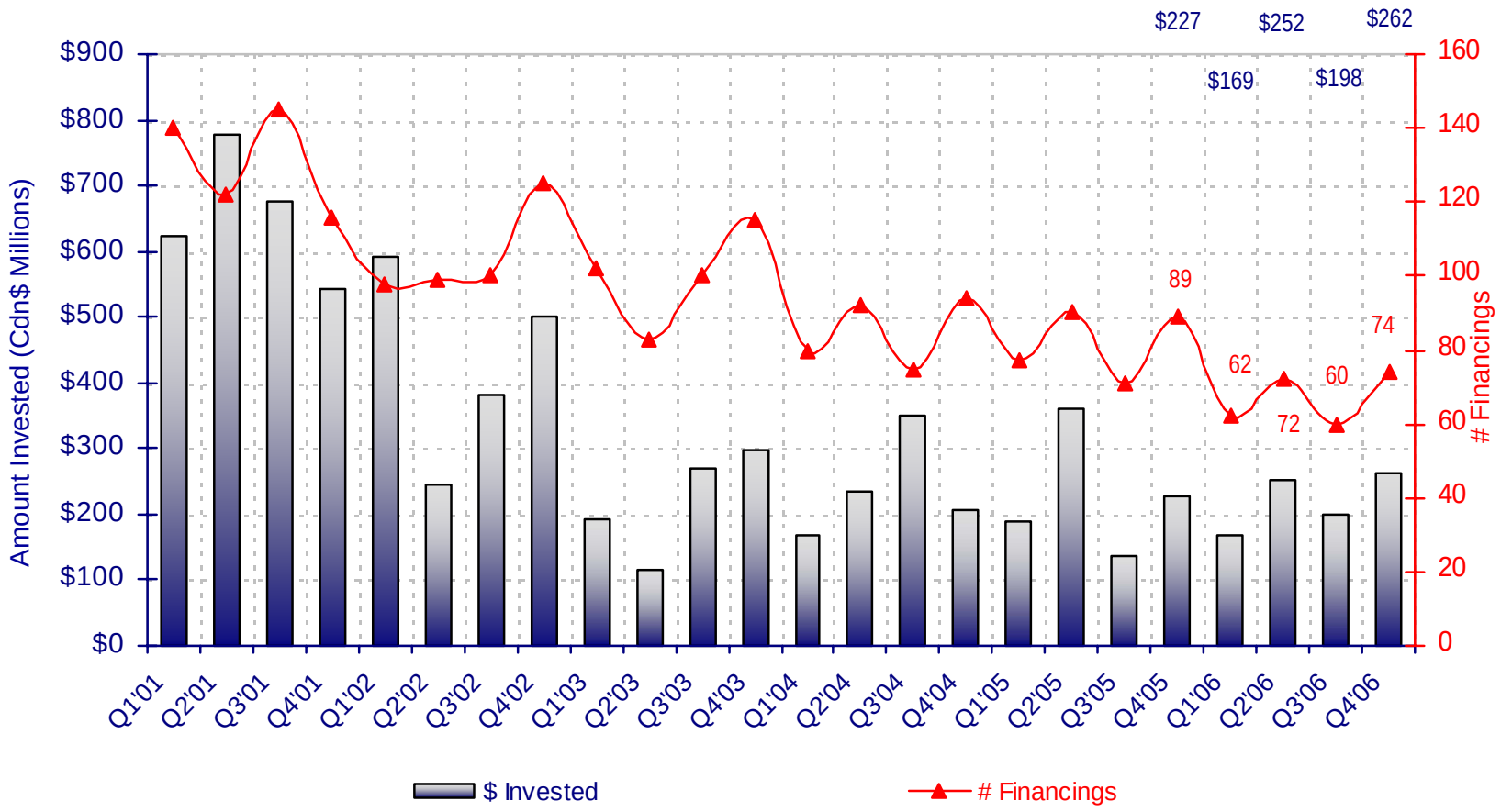
IT Dollars Invested Up 16% from Q4 2005

Dollars Invested and Completed Transactions in IT



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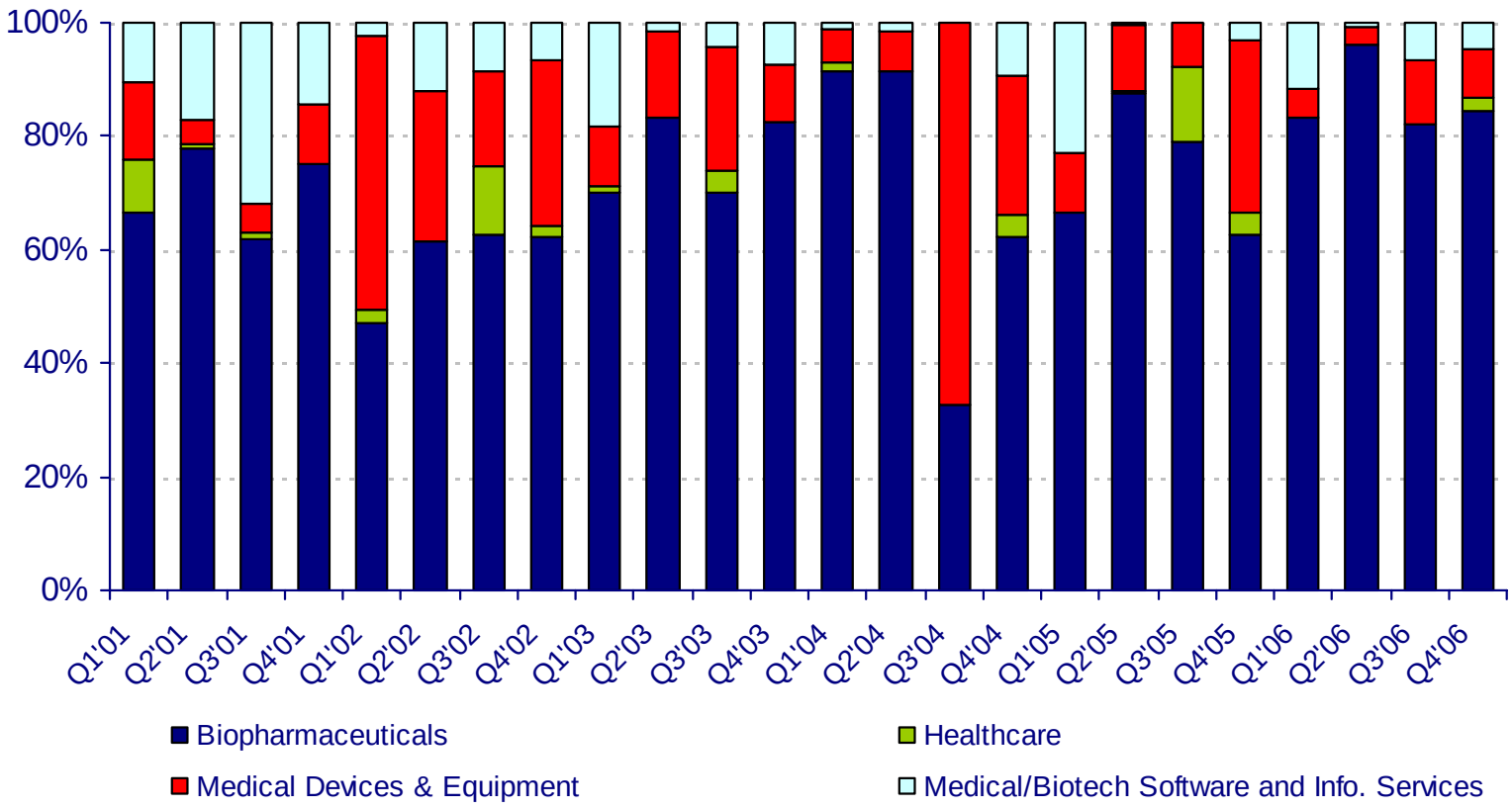
Biopharmaceuticals Continue to Dominate Life Sciences

Dollars Invested in Life Sciences by Sub-Sector



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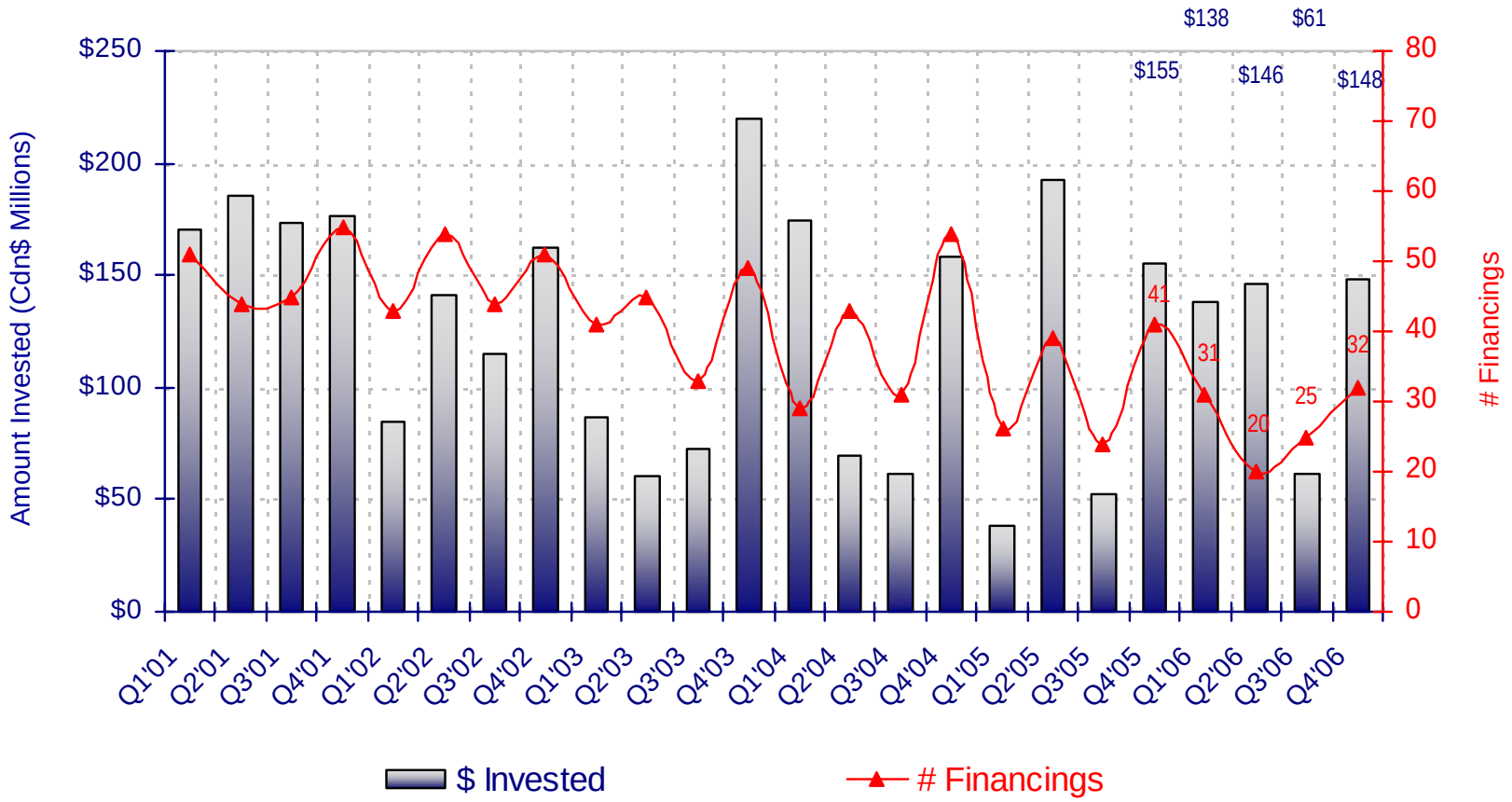
Life Science Dollars Down 4% From Last Year

Dollars Invested and Completed Transactions in Life Sciences



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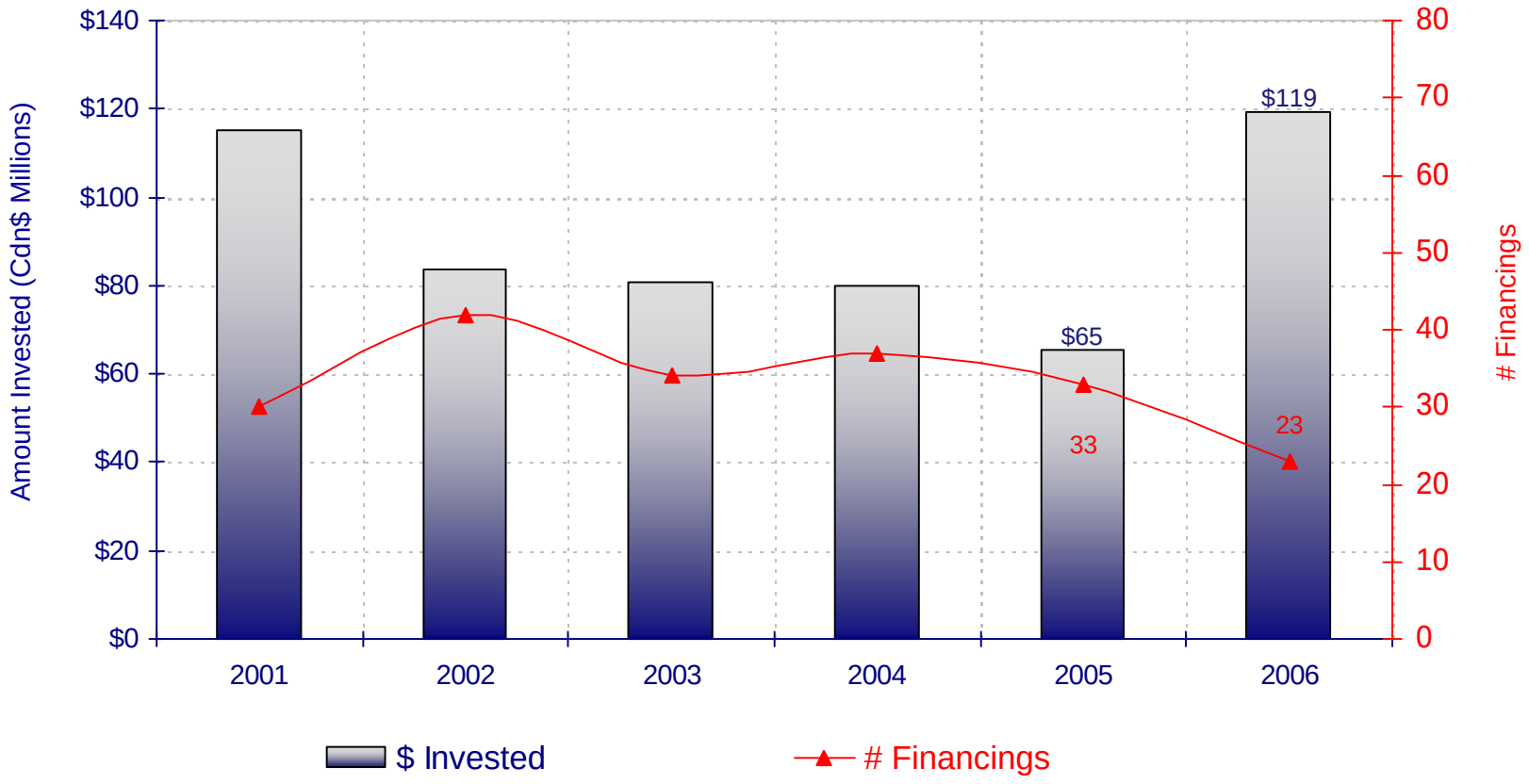
Clean Tech Investments at Highest Level in Six Years

Dollars Invested and Completed Transactions in Clean Technologies



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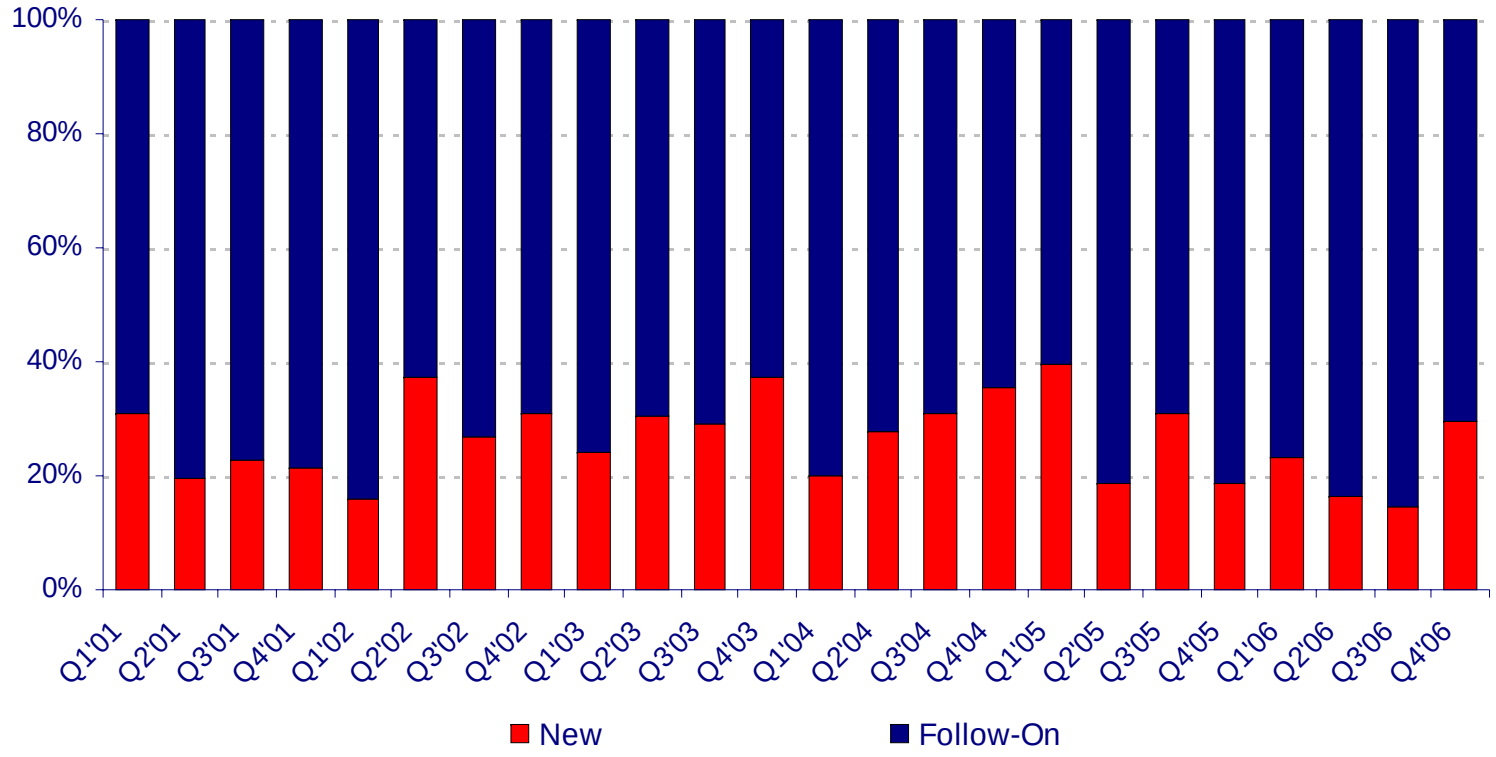
VCs Continue Greater Follow On Investment in Existing Portfolios

Dollars Invested, New vs. Follow-On



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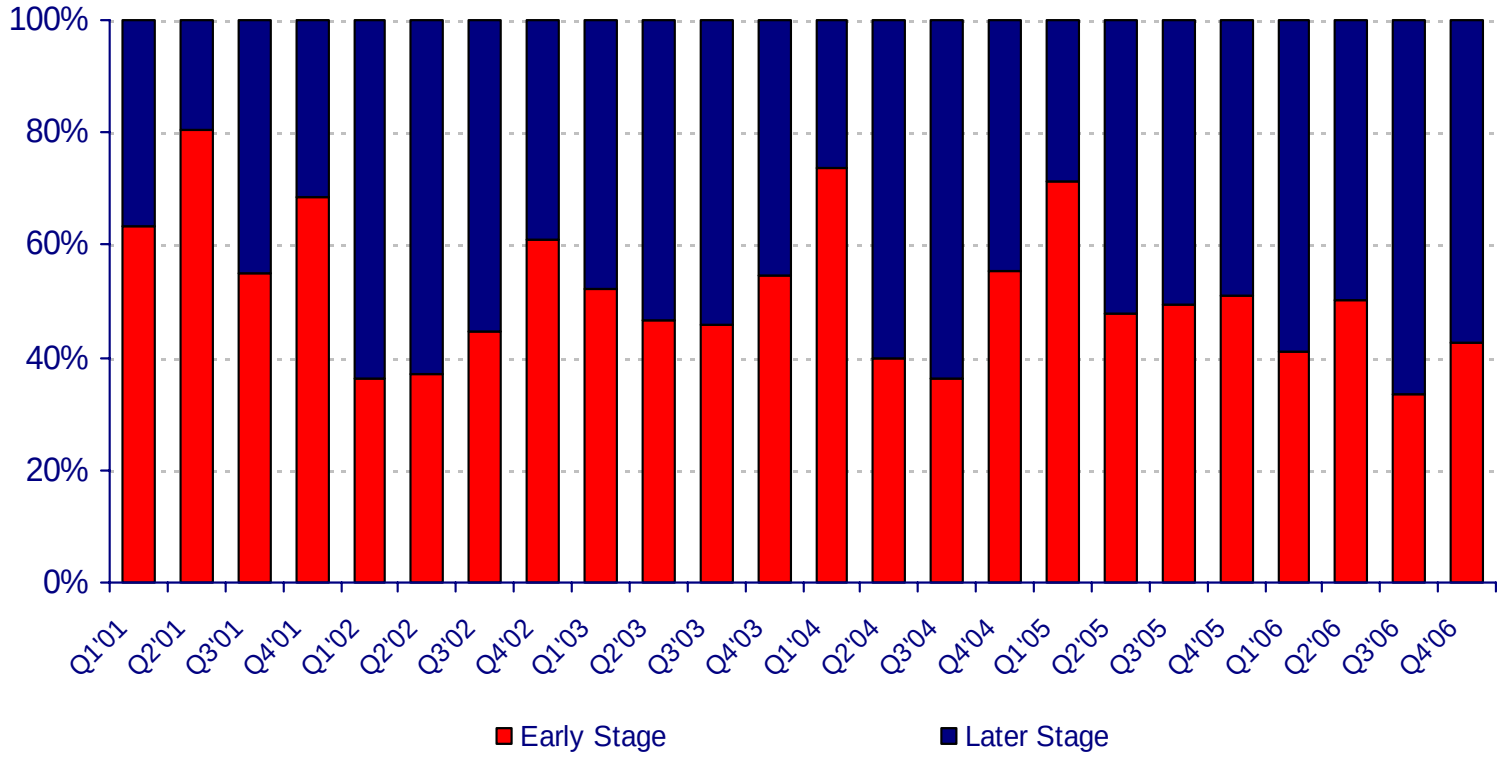
57% of Q4 Investments Directed to Later Stage Companies

Dollar Invested by Stage



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Top (Disclosed) VC Deals of Q4 2006

Company	City	Province	$Cdn MM Invested
Variation Biotechnologies Inc.*	Gatineau	QC	$41.4
OZ Communications Inc.*	Montreal	QC	$38.5
Liquid Computing Inc.*	Ottawa	ON	$31.5
Xanthus Pharmaceuticals Inc.*	Montreal	QC	$28.5
Aegera Therapeutics Inc.	Montreal	QC	$14.4
Natural Convergence Inc.	Ottawa	ON	$11.4

* Includes foreign participation

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Top (Disclosed) VC Deals of 2006

Company	City	Province	$Cdn MM Invested
Variation Biotechnologies Inc.*	Gatineau	QC	$41.4
OZ Communications Inc.*	Montréal	QC	$38.5
Xenon Pharmaceuticals Inc.*	Burnaby	BC	$35.6
Liquid Computing Inc.*	Ottawa	ON	$31.5
Iogen Corporation*	Ottawa	ON	$30.0
Neuromed Pharmaceuticals*	Vancouver	BC	$28.9
Airwide Solutions*	Kanata	ON	$28.7
Xanthus Pharmaceuticals Inc.*	Montréal	QC	$28.5
MethylGene Inc.*	Montréal	QC	$22.4
Viron Therapeutics Inc.*	London	ON	$22.0

* Includes foreign participation

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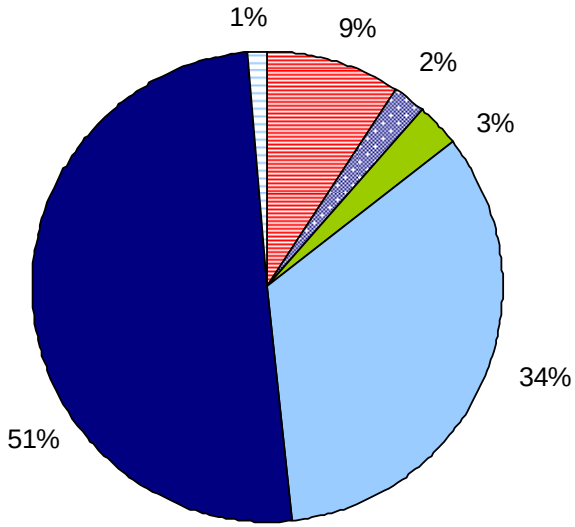
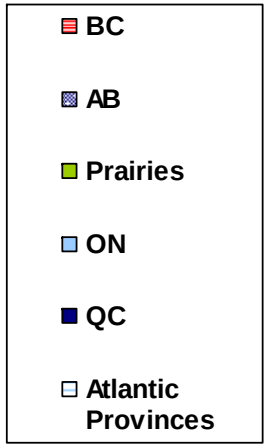
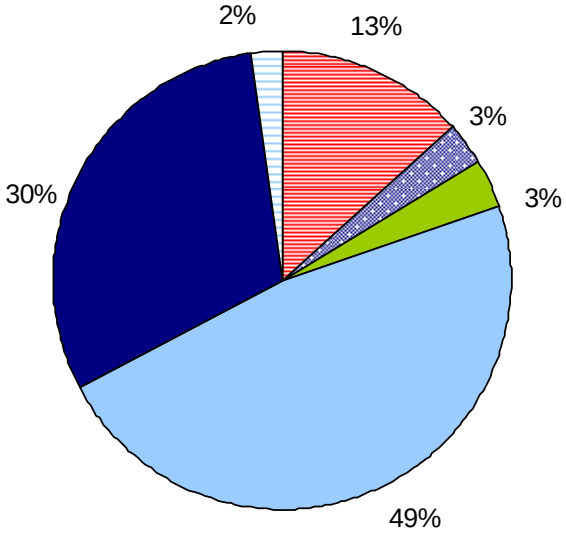
Québec Market Share Increase; Ontario and BC Share Drops

Dollars Invested by Region



Q4 2006
$489 Million





Q3 2006
$344 Million

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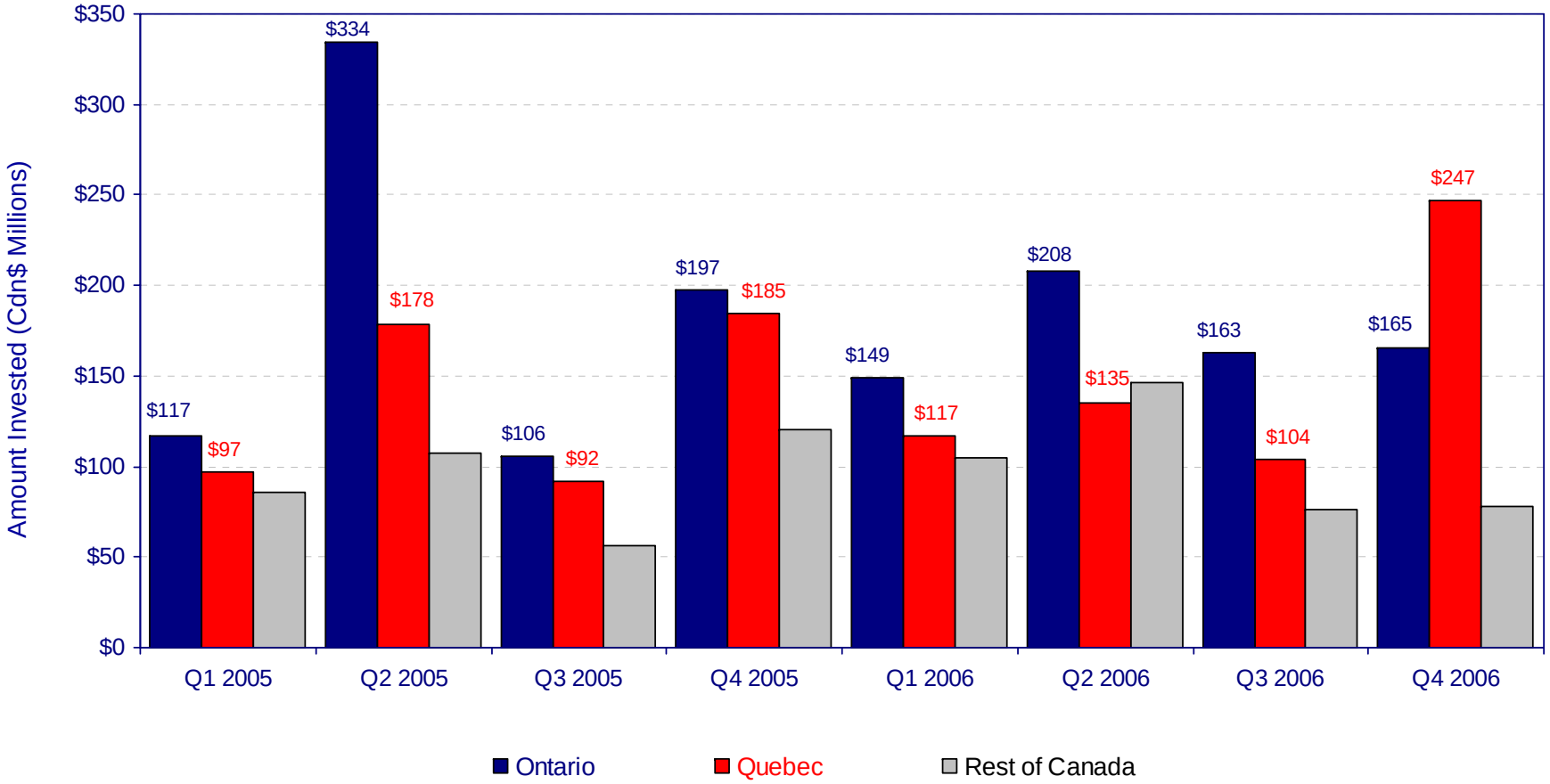
Quebec Leads in Q4

Quarterly Investment in Ontario and Québec



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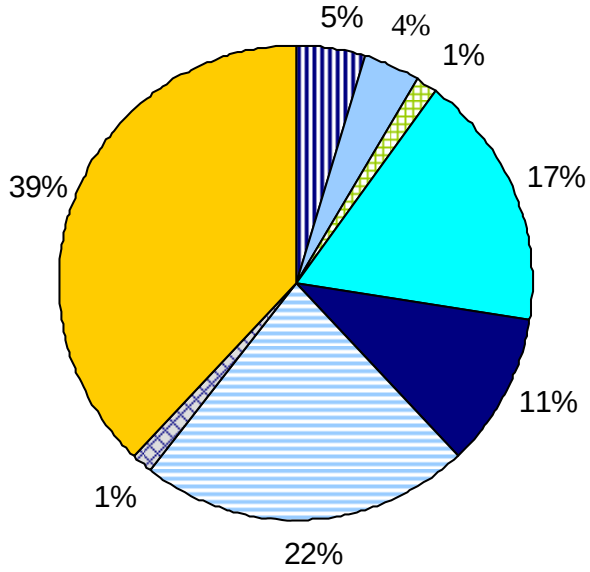
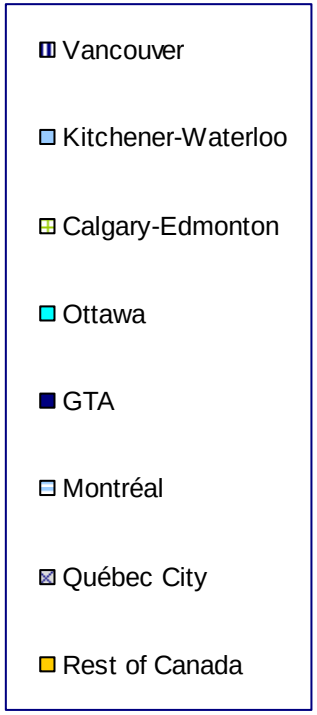
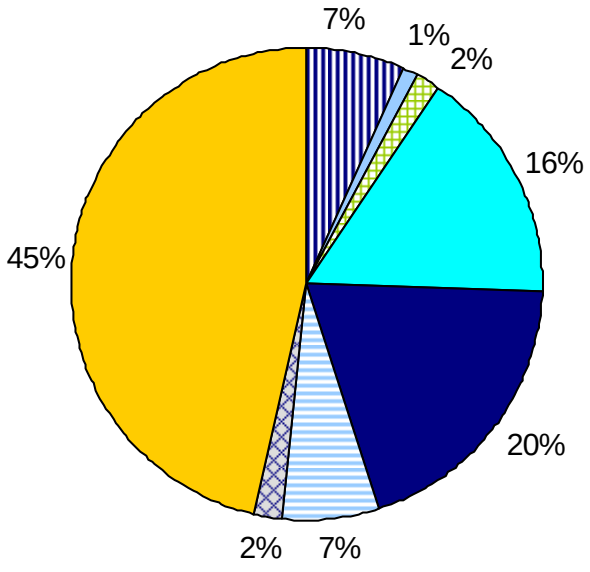
Montreal Share Triples; GTA Halves From Last Quarter

Dollars Invested by Major Urban Centres



Q4 2006
$489 Million





Q3 2006
$344 Million

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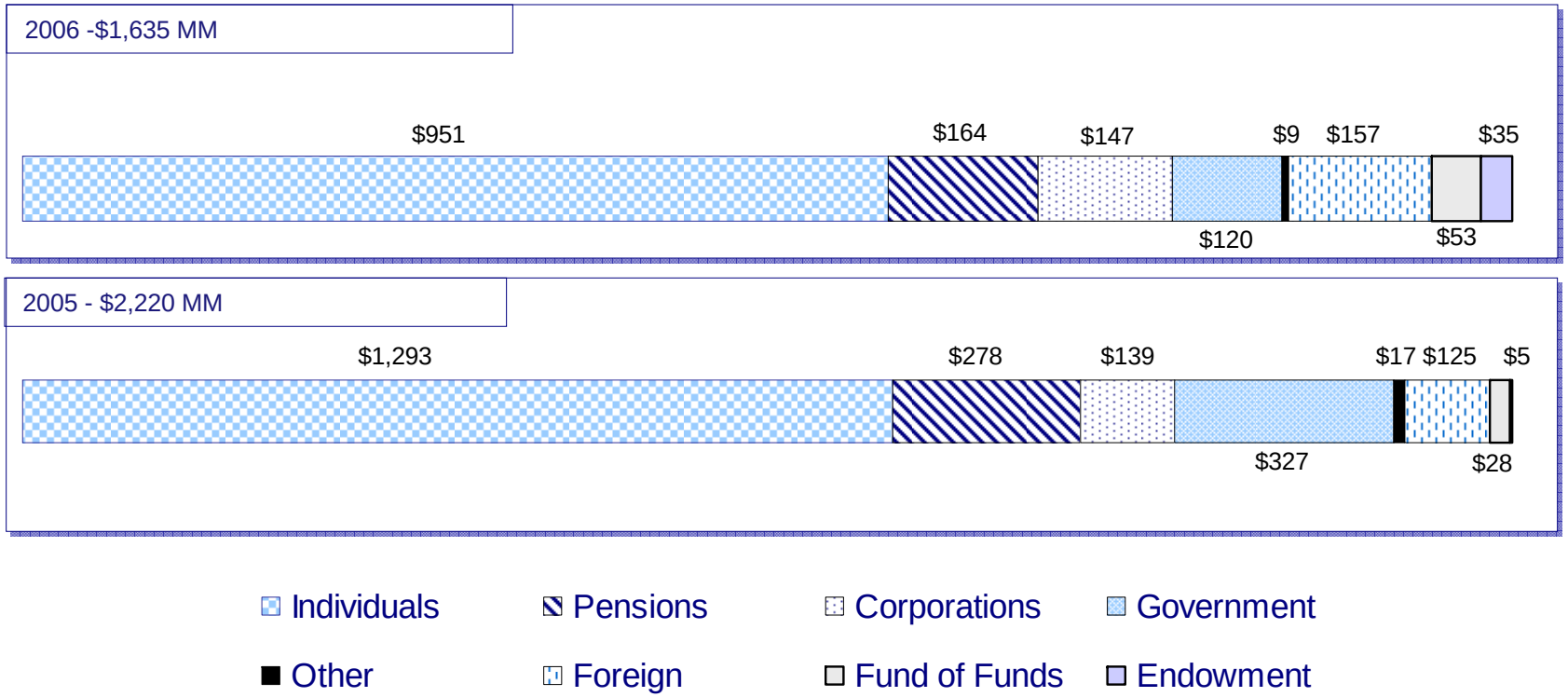
New Capital Commitments by Supply Source



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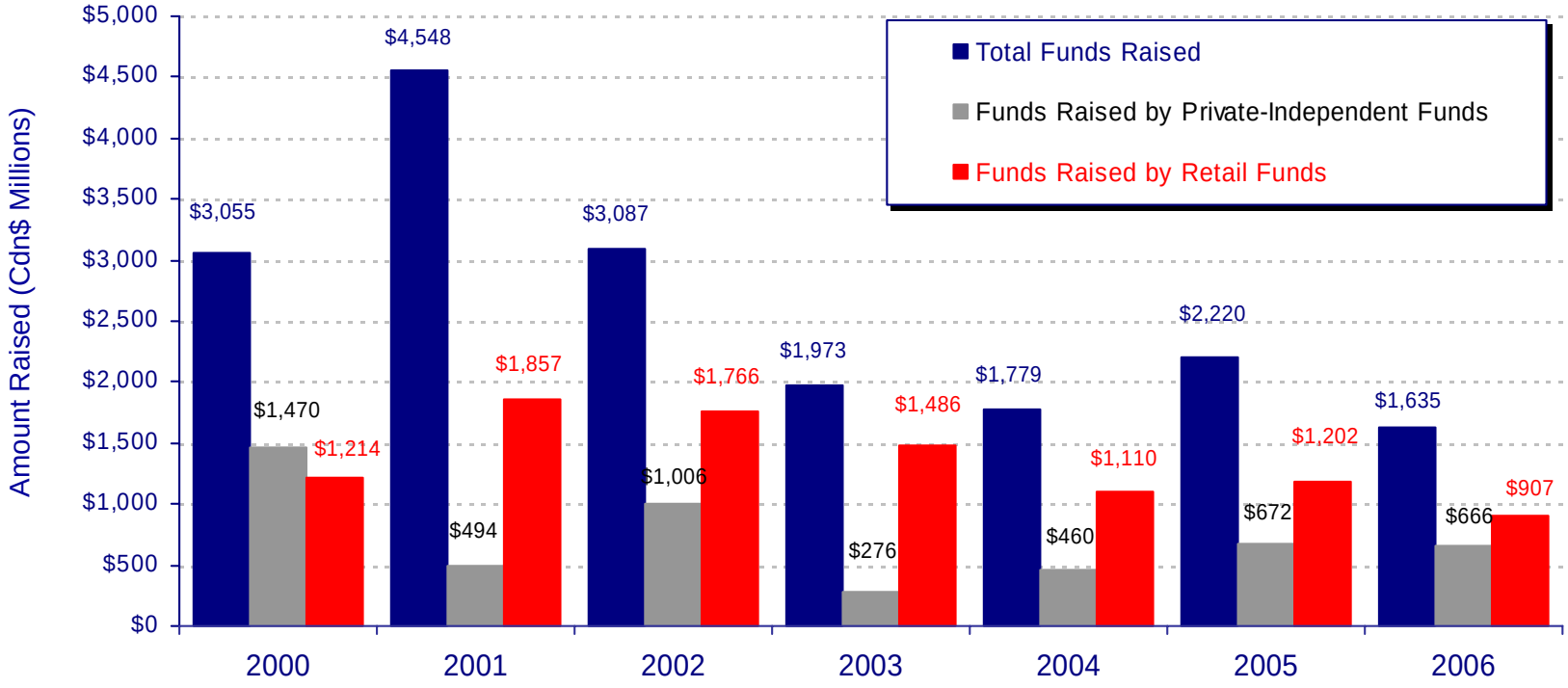
Retail Funds Contributed 55% of Fundraising Activity in 2006

New Capital Commitments



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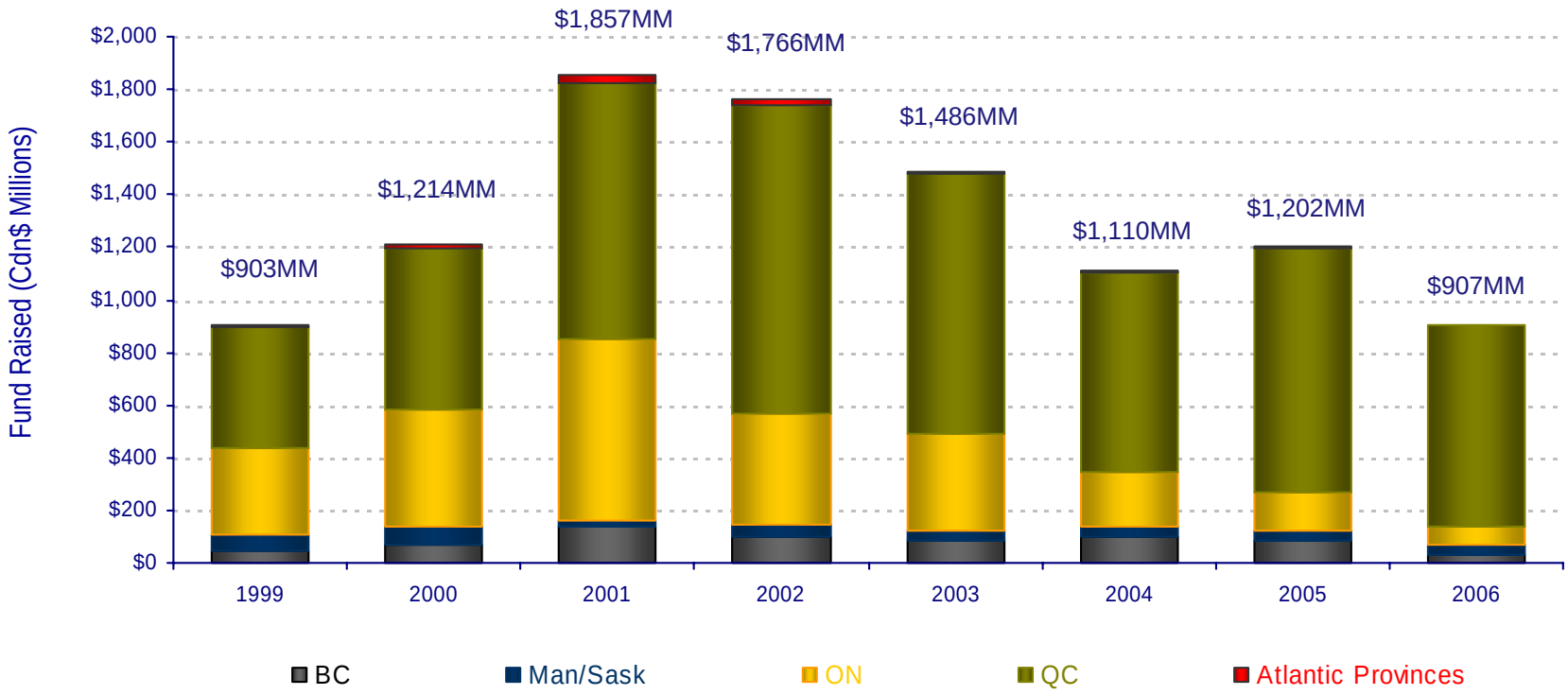
Québec Continues to Dominate Dominate Retail Fundraising

Retail Funds Raised by Region



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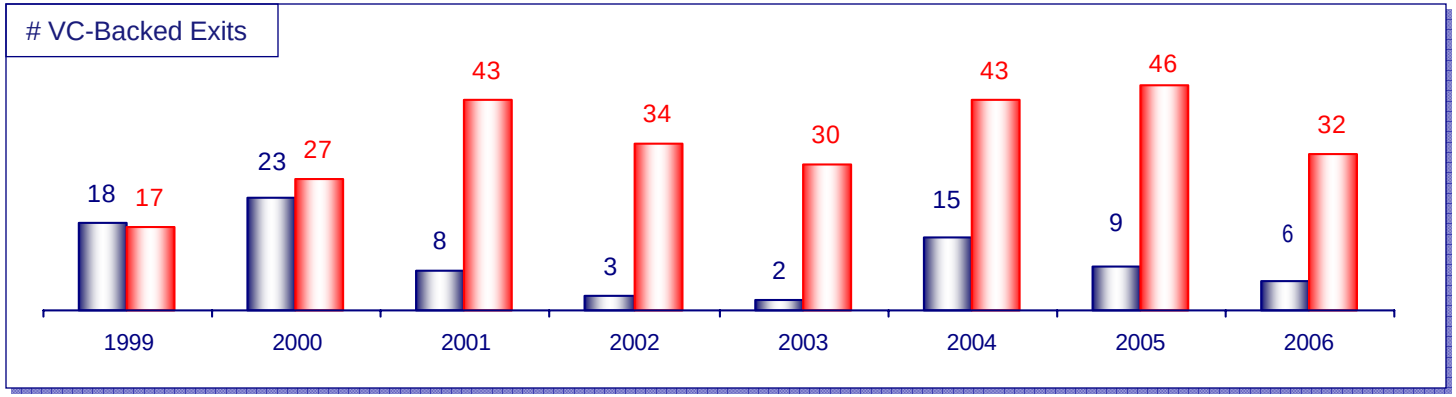
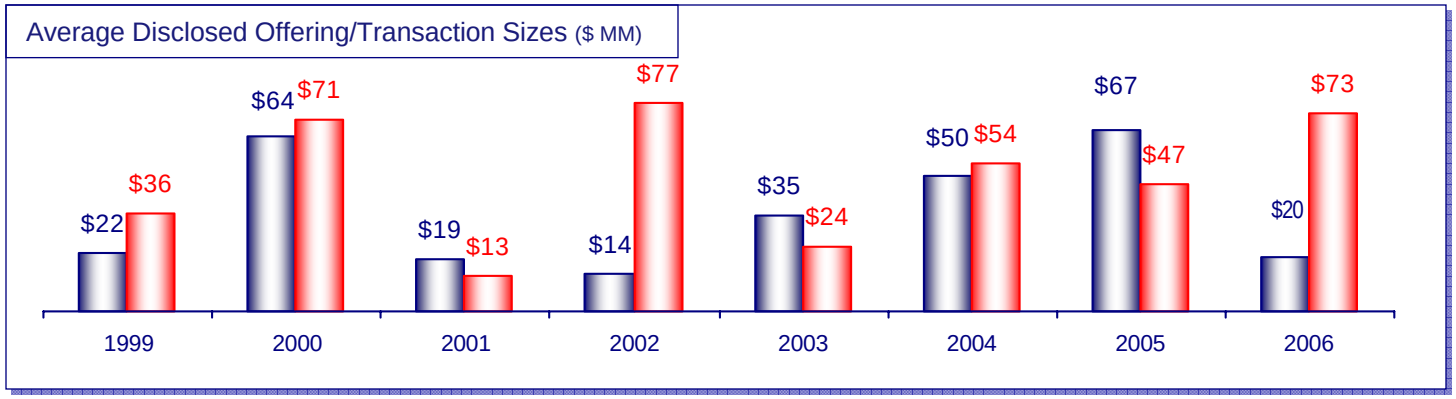
VC-backed IPO and M&A Exit Trends

of Exits and Average Disclosed Transaction Sizes





IPO

M&A

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