Canada's Venture Capital Market in 2011

Prepared by Thomson Reuters for the Canadian Venture Capital & Private Equity Association

Table of Contents

Canada's VC Market in 2011	3-5
$ Invested and # Companies Financed	6-7
North American Context	8-12
Domestic vs. Foreign Investment	13-16
Deal Sizes & Types of Companies Funded	17-21
Investment Stages	22-23
Top (Disclosed) Deals	24
Geographical Distribution of Investment	25-27
VC Funds Raised	28-31
IPO and M&A Exits	32

Canadian VC market trends

Venture capital (VC) market activity in Canada built on moderate year-over-year growth in 2010 with more substantial expansion in 2011. VC invested totaled $1.5 billion at the end of December, up 34% from $1.1 billion invested in 2010. Indeed, domestic disbursements in 2011 were the highest since 2008, though they remained well shy of the $2.1 billion invested in 2007.

The number of Canadian innovative firms that secured one or more rounds of VC financing was also increased last year. Companies financed totaled 444 in 2011, or 24% more than the 357 companies financed the year before.

Canadian market outcomes at year's end were facilitated by steady VC activity in the fourth quarter. A total of $342 million was invested in 144 firms between October and December, which is 39% above the $246 million invested at the same in 2010. Q4 2011 activity was broadly in keeping with quarterly deal-making levels throughout the year.

However, increased VC activity was not accompanied by large gains in deal sizes. Amounts invested per firm averaged $3.4 million last year, up somewhat from $3.2 million in 2010, and from $3.1 million in 2009, but still below the $3.6 million averaged in 2008, and the $5.1 million averaged in 2007. Once again, this occurred despite the presence of major deals, which included Q4 2011 financings of Saint-Laurent's Beyond the Rack Inc. and Toronto's Fixmo Inc.

In fact, the competitive gap in VC financing sizes between Canada and the United States was further eroded in 2011. Canadian innovative firms captured only 37% of the dollars going to American firms last year, down from 39% in 2010. In general, domestic deal capitalization levels have not improved vis-à-vis levels south-of-the border since 2007.

In contrast with trends in 2010, Canadian VC funds did not match increased activity at home with increased global investment in 2011. Instead, the international deal-making of Canadian investors moved at a slower pace, with a total of $309 million deployed to opportunities abroad, down 10% from the year before.

Trends in the US VC market

VC market activity in the United States also expanded in 2011, with dollars invested totaling US$28.5 billion at the end of December, or 23% more than the US$23.2 billion invested in 2010. The number of American VC-backed companies, totaling 3,104 last year, also rose over this period.

Canadian VC trends by region

Higher levels of Canadian VC market activity in 2011 were spread widely across provinces and regions. Ontario and Québec were effectively tied in domestic market share this time around, with both absorbing 36% of all disbursements. Ontario saw marginally more VC invested, with $550 million invested in total, up 29% from $426 million invested the year before.

Canada's Venture Capital Market in 2011

Not far behind, dollar flows in the Québec VC market totaled $549 million last year, or 48% more than the $370 million invested in 2010. Québec also led the country in share of companies financed with VC, which came in at 58% of the total number in 2011.

Deal-making in British Columbia accounted for $226 million last year, or 15% of all disbursements, and up 3% from 2010. Alberta-based VC activity rose 10% over the same period, with $74 million invested in 2011, while activity in the Atlantic region of Canada, totaling $70 million, was better than triple the amount reported the year before.

Canadian VC trends by investor type

Canadian VC funds were essential to deal-making trends in 2011. Combined domestic investment totaled $1.1 billion last year, or 32% more than the $819 million invested in 2010. Private-independent funds contributed significantly to this increase, investing $377 million, up 42% year over year, while retail funds invested $240 million, up 2%.

The activity of American and other foreign VC funds in the Canadian market also showed growth last year. Foreign investors brought a total of $430 million to deals in Canada, which is 38% above the $311 million they brought to deals in 2010, and reflects the highest level of cross-border VC investment in 4 years.

Canadian VC trends by sector

Increased Canadian VC market activity in 2011 was felt in virtually all emerging technology sectors. Activity in information technology sectors continued to lead trends, with $692 million invested in 162 companies last year, or 46% of the total, and up 41% from $491 million invested in 2010. Particularly large gains were registered by internet-focused firms and software firms, which garnered $236 million and $201 million, respectively.

Deal-making in biopharmaceuticals, medical devices and other life sciences sectors also grew last year, with $343 million going to 60 companies, or 15% more than the $299 million invested in 2010. This gave life sciences activity a slightly above-par 23% of all disbursements this time around.

VC activity in alternative energy and other clean technology sectors was powered with $245 million invested in 2011, or 16% of the total, and up 43% from $171 million invested the year before. Importantly, these dollar flows, which went to 38 clean-tech companies last year, were the highest on record in the domestic market.

Canadian VC trends by stage

Higher levels of Canadian VC market activity last year owed to late-stage deals, which accounted for 71% of all disbursements, improving on the 59% received in 2010. This trend was primarily driven by expanding firms, which captured $958 million in 2011, or 52% more than the $630 million invested at this end of spectrum the year before.

Canada's Venture Capital Market in 2011

In contrast, there was decline in VC invested in early-stage companies, totaling $434 million last year, or 5% below the $458 million invested in 2010. Consequently, early-stage deals took a lower share of dollars flows, only 29% in 2011, which is well below the 46% averaged in the domestic market in past.

Trends in Canadian VC-Backed Exits

VC fund realizations of Canadian-based portfolio assets held onto some post-slowdown momentum last year, though the final number of exits was lower relative to 2010. Liquidity events involving domestic and foreign investors in Canadian firms totaled 27 in 2011, down 13% on a year-over-year basis, but numbering slightly more than events reported in both 2008 and 2009.

Sales of VC-backed firms to strategic investors accounted for the bulk of disclosed exits in 2011, and suggested much higher values. This trend was re-enforced in Q4 2011, when the largest acquisition in domestic market history was announced, the US$1.1 billion purchase of Montréal's Enobia Pharma Corp. by Alexion Pharmaceuticals Inc. Other liquidity events were represented by 2 IPOs, one more than was reported the year before.

Trends in Canadian VC Fund-Raising

In contrast with deal-making, Canadian VC fund-raising activity did not exhibit substantial growth last year. Instead, new supply going to domestic funds was almost unchanged between 2010 and 2011, with $1.0 billion committed in total in the latter year, up a moderate 2%. Fund-raising in the fourth quarter added $227 million to the year-end tally, though this was 15% below the $266 million of Q4 2010.

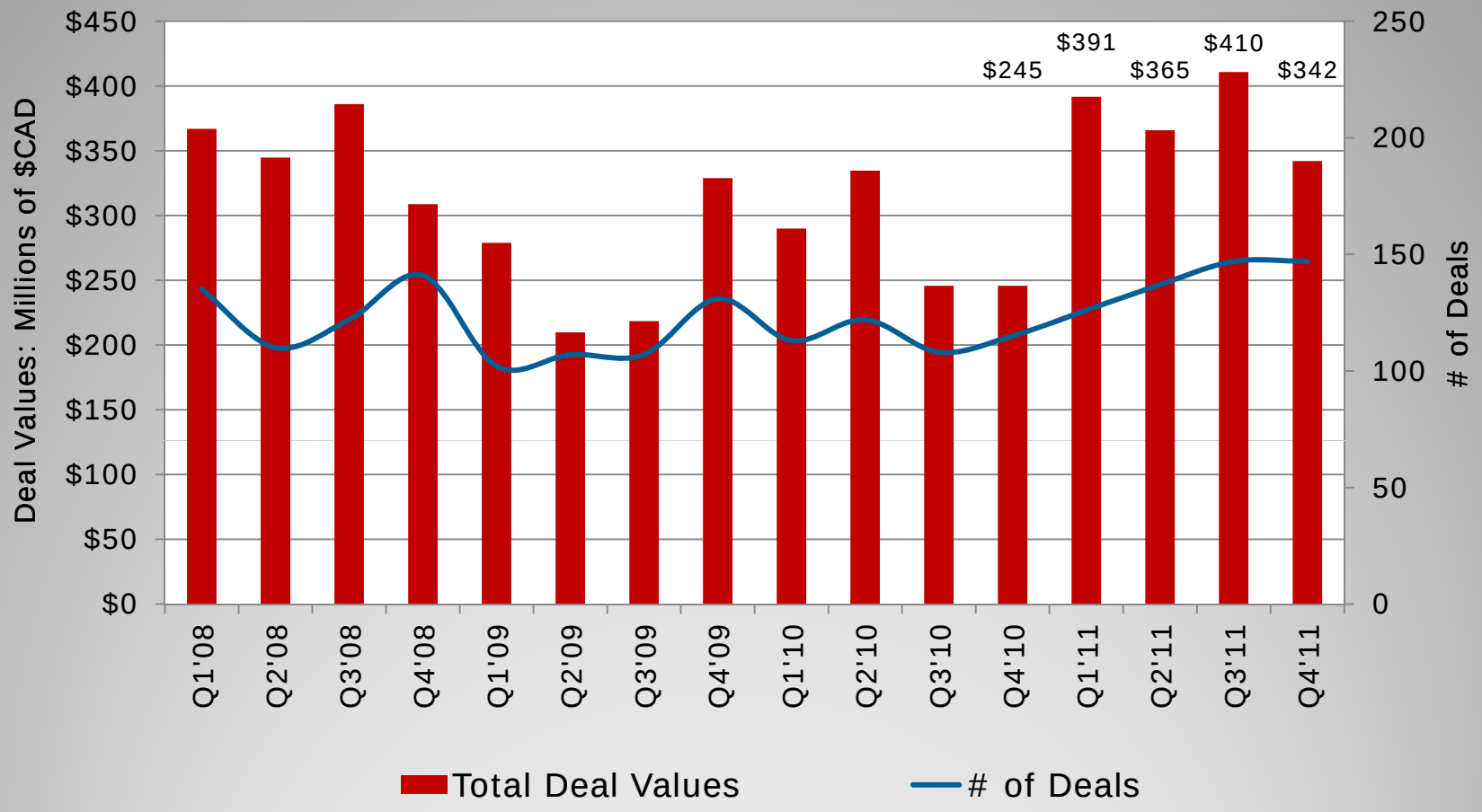
Retail VC funds captured $402 million in 2011, accounting for the largest share of total new commitments, or 39%. After leading trends in 2010, private funds, which attracted $368 million last year, accounted for a reduced 36%. This occurred despite some major partnership closings, including the $110 million first close of iNovia Investment Fund III LP, managed by iNovia Capital, announced in Q4 2011.

Twenty-seven domestic VC funds were responsible for new commitments last year, 11 of which reflected initial or final partnership closings. This compares against 33 funds that were comparably active in 2010.

Trends in US VC Fund-Raising

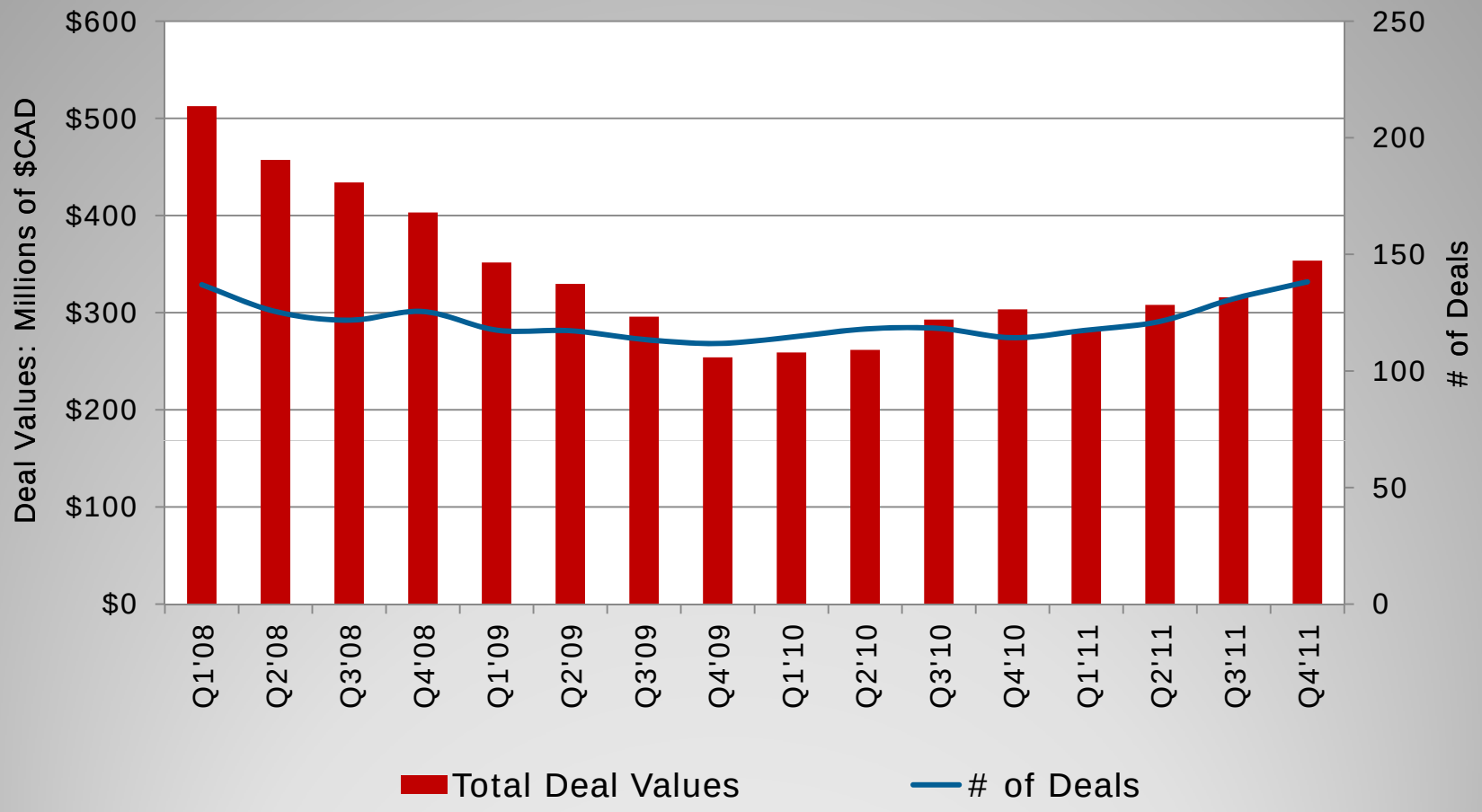
While the fund-raising environment in the United States was also challenging in 2011, activity there increased much more significantly than in Canada. New commitments going to American VC funds totaled US$18.2 billion last year, or 32% more than the US$13.8 billion committed in 2010.

Canada's Venture Capital Market in 2011



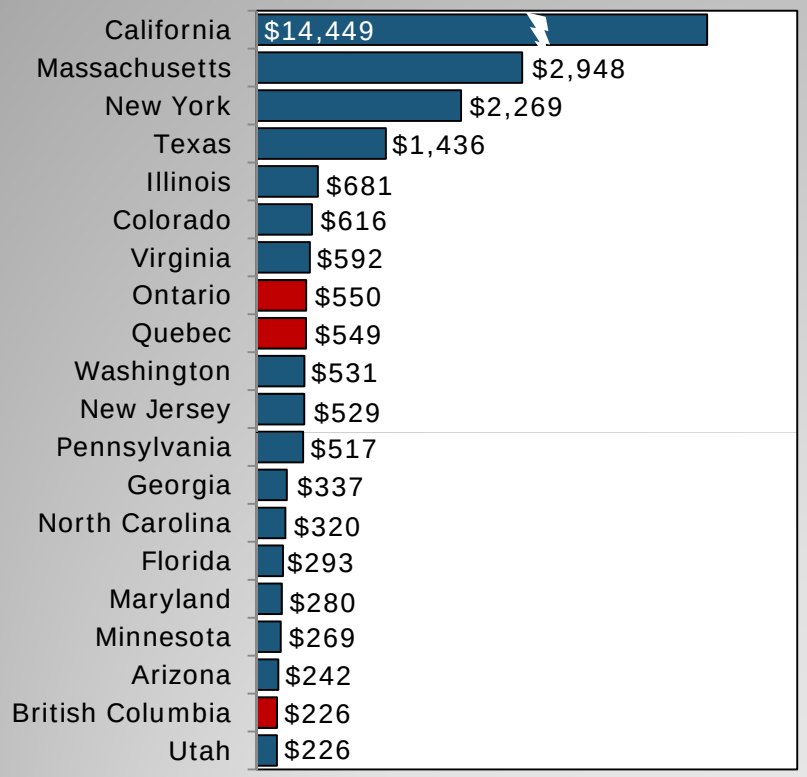
$342 Million of Venture Capital Invested in Q4 2011

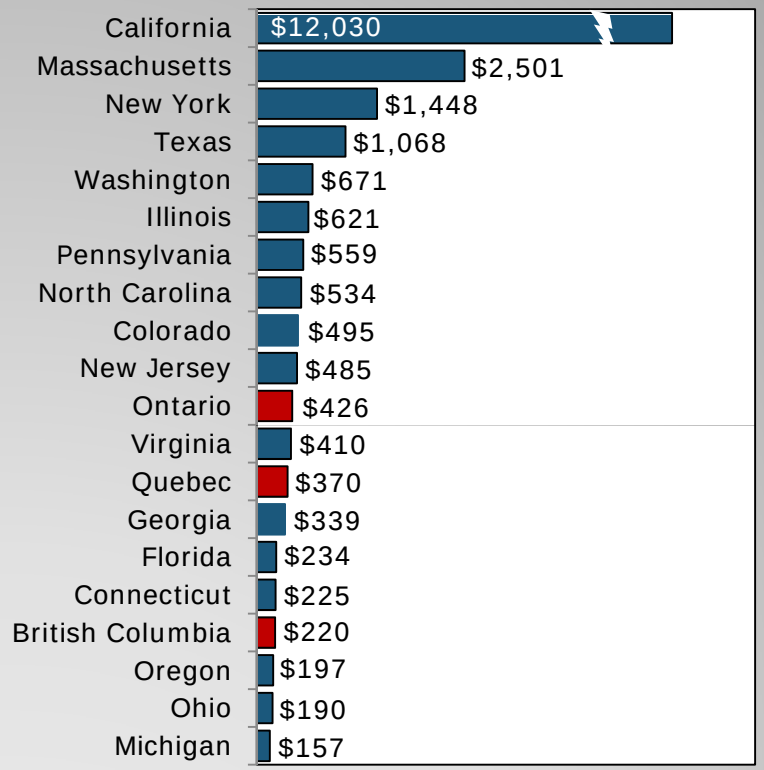
DOLLARS INVESTED AND COMPANIES FINANCED



Annual Investment Tops $1.5 Billion, A Four Year High

DOLLARS INVESTED AND COMPANIES FINANCED
FOUR QUARTER ROLLING AVERAGES

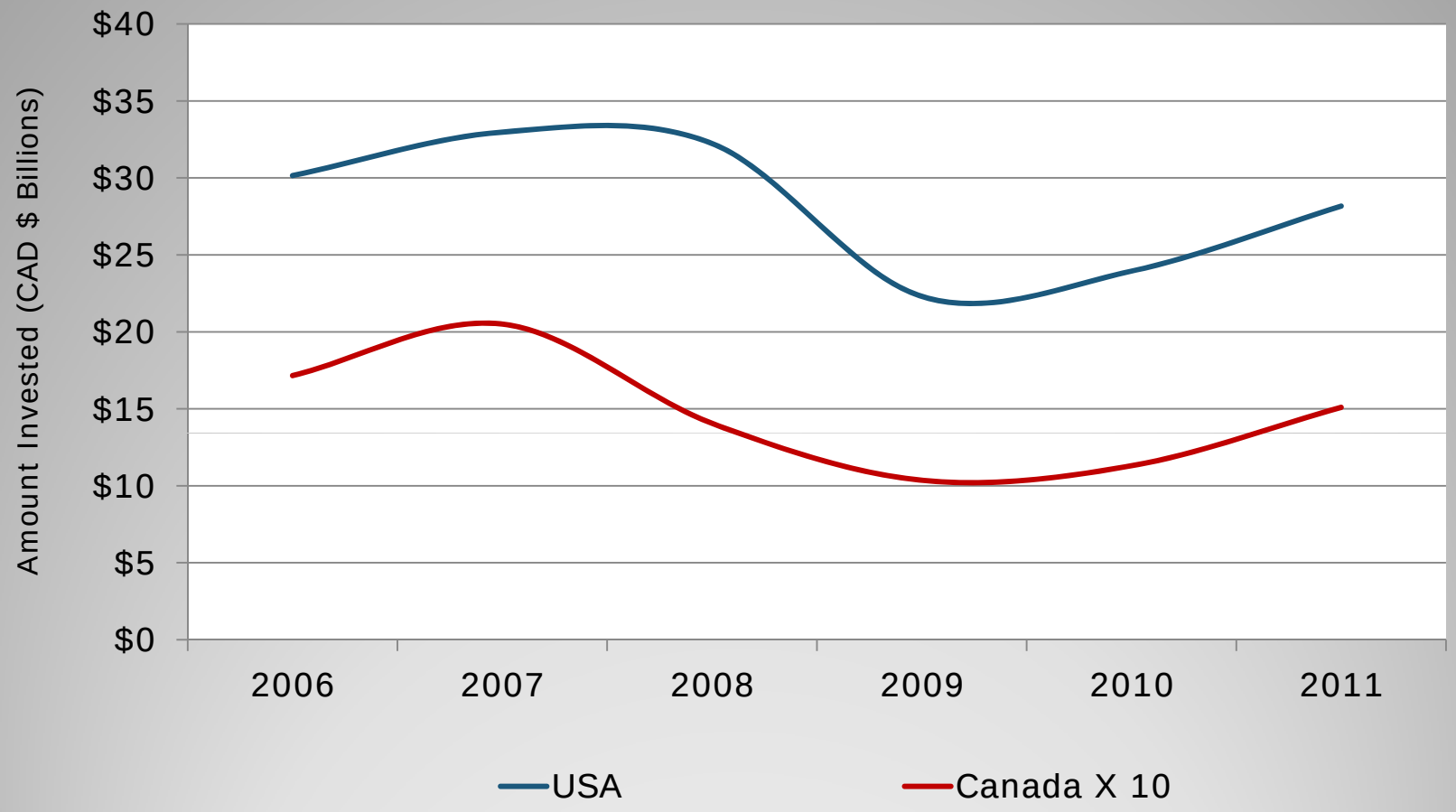




North American Rankings

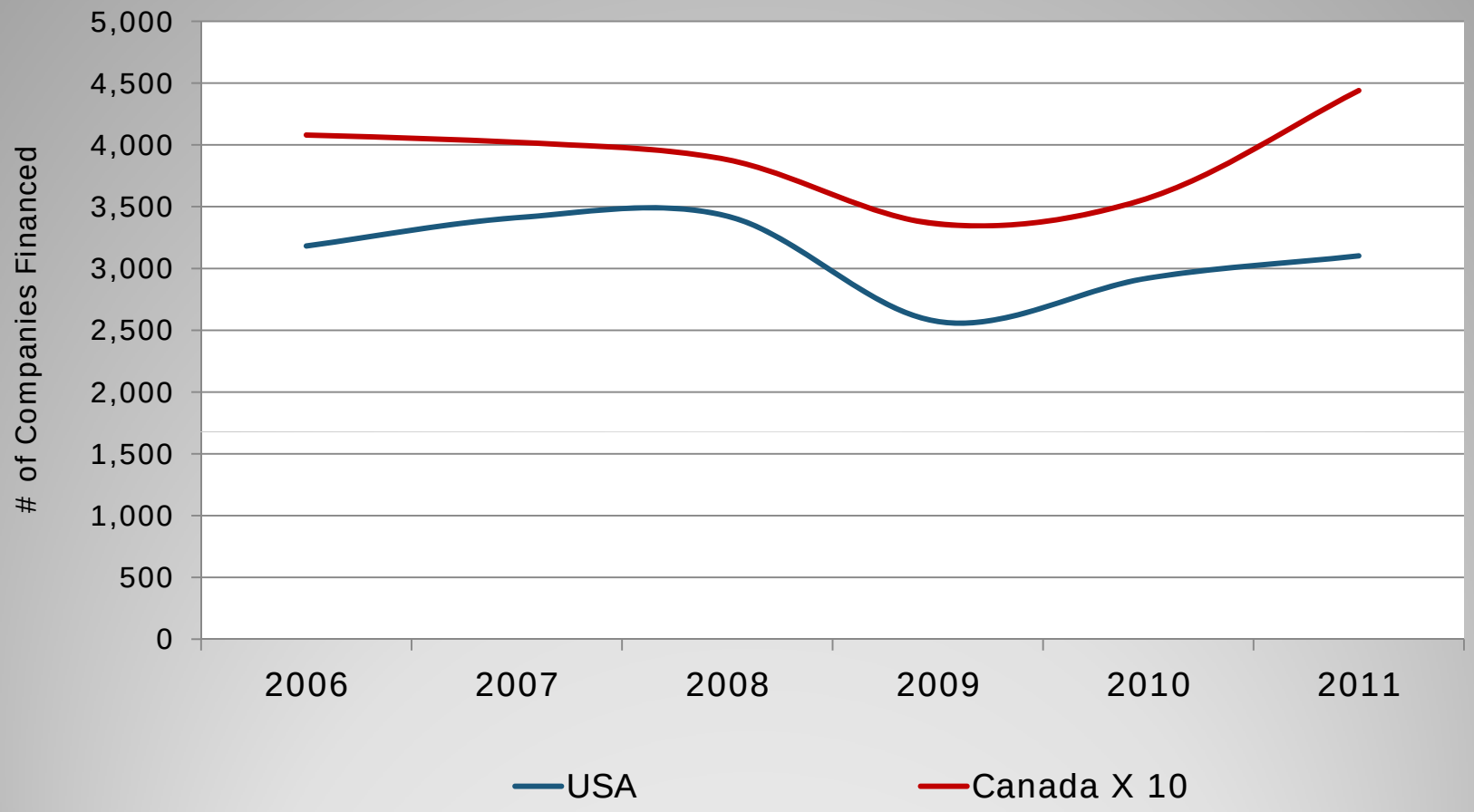
VENTURE CAPITAL DISBURSEMENTS BY PROVINCE AND STATE

ONTARIO, QUÉBEC, BRITISH COLUMBIA FINISH 2011 IN 8th, 9th, and 19th Place



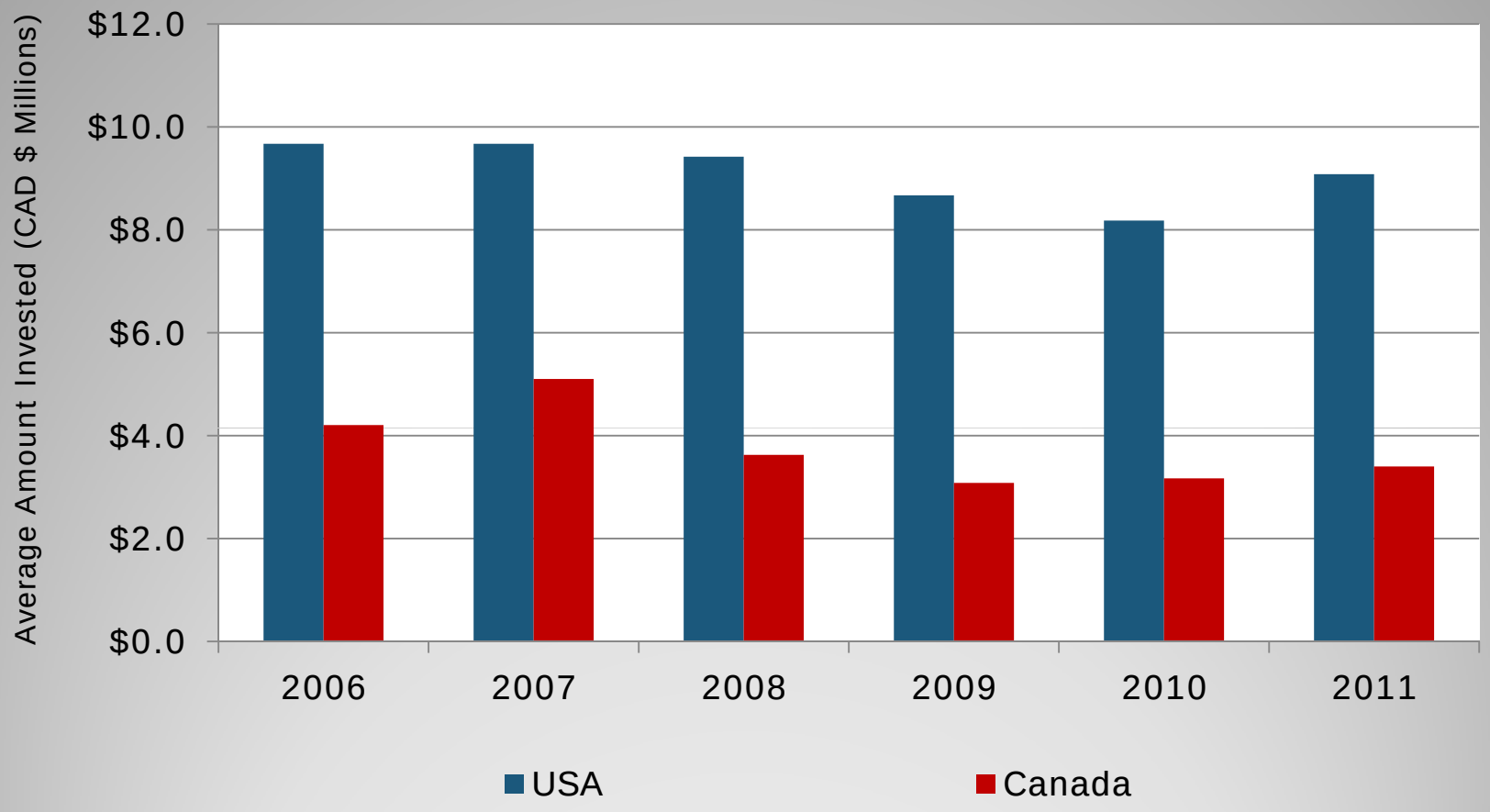
Canadian Investment Trends Mirror United States

VENTURE CAPITAL DISBURSEMENTS: CANADA & THE UNITED STATES



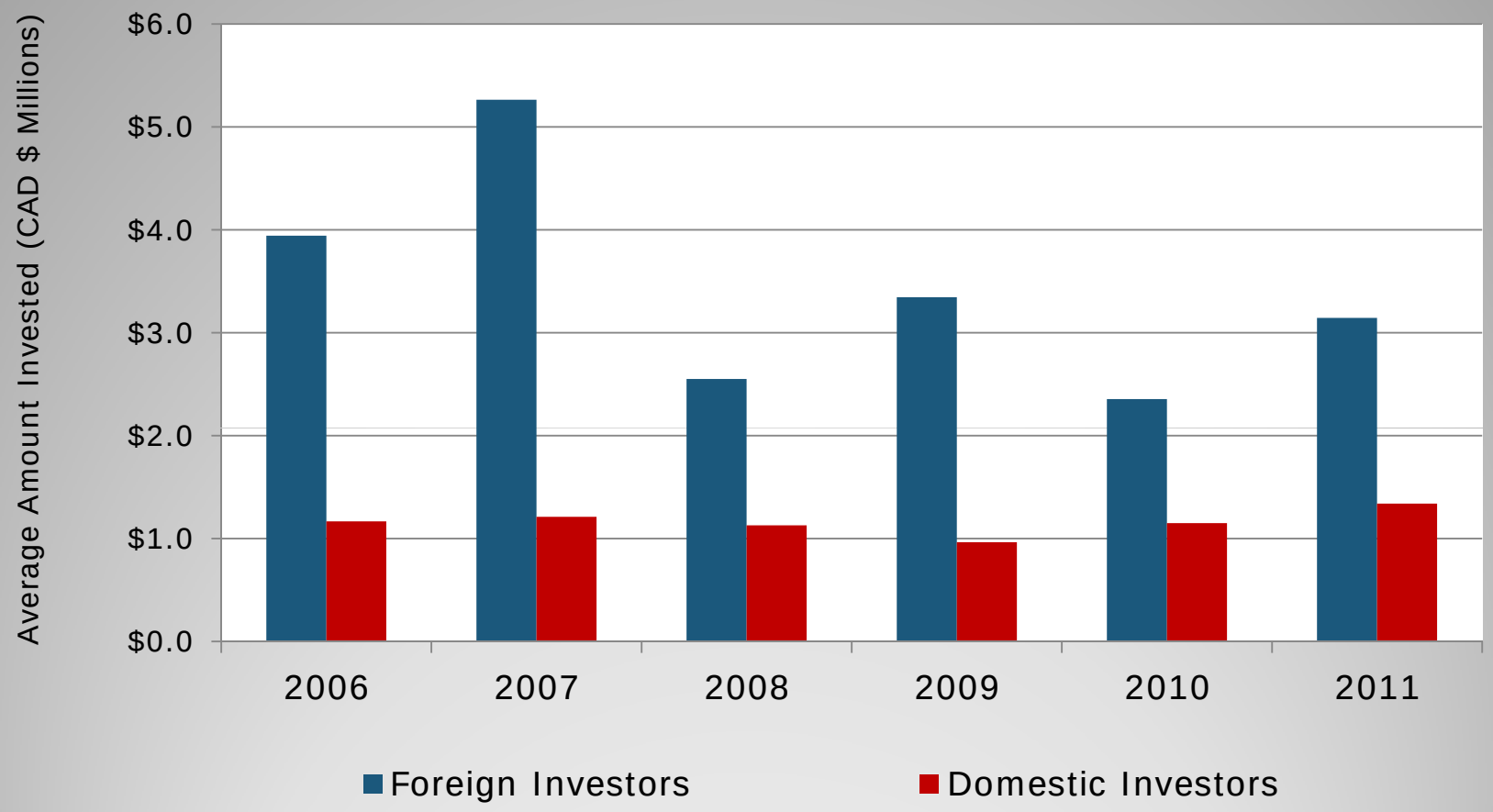
444 Canadian Companies Funded by VC in 2011, a Six Year High

NUMBER OF COMPANIES FUNDED: CANADA & UNITED STATES



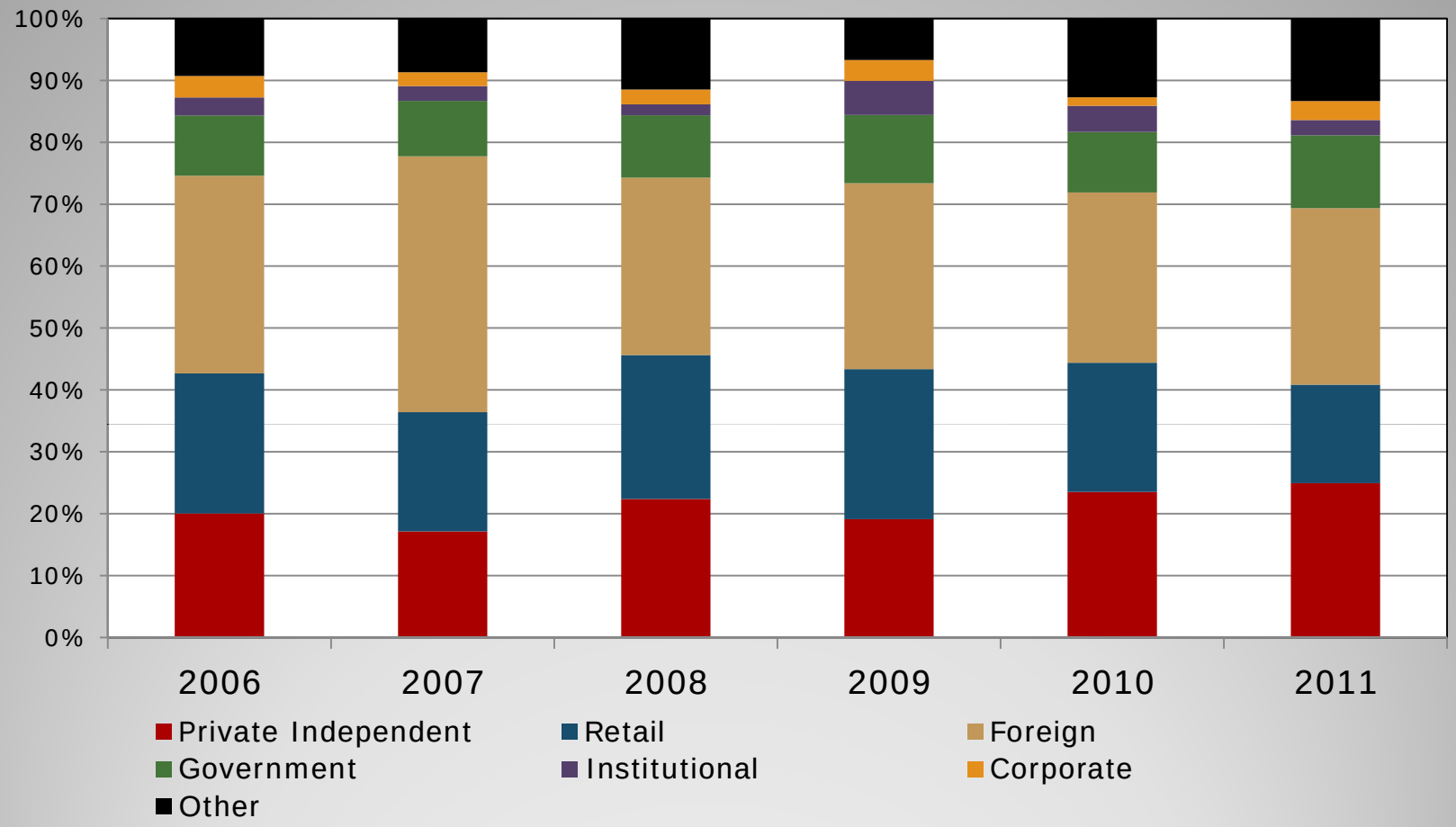
Average Canadian Company Secures Less Than Its U.S. Counterpart

AMOUNTS INVESTED PER COMPANY, CANADA & UNITED STATES



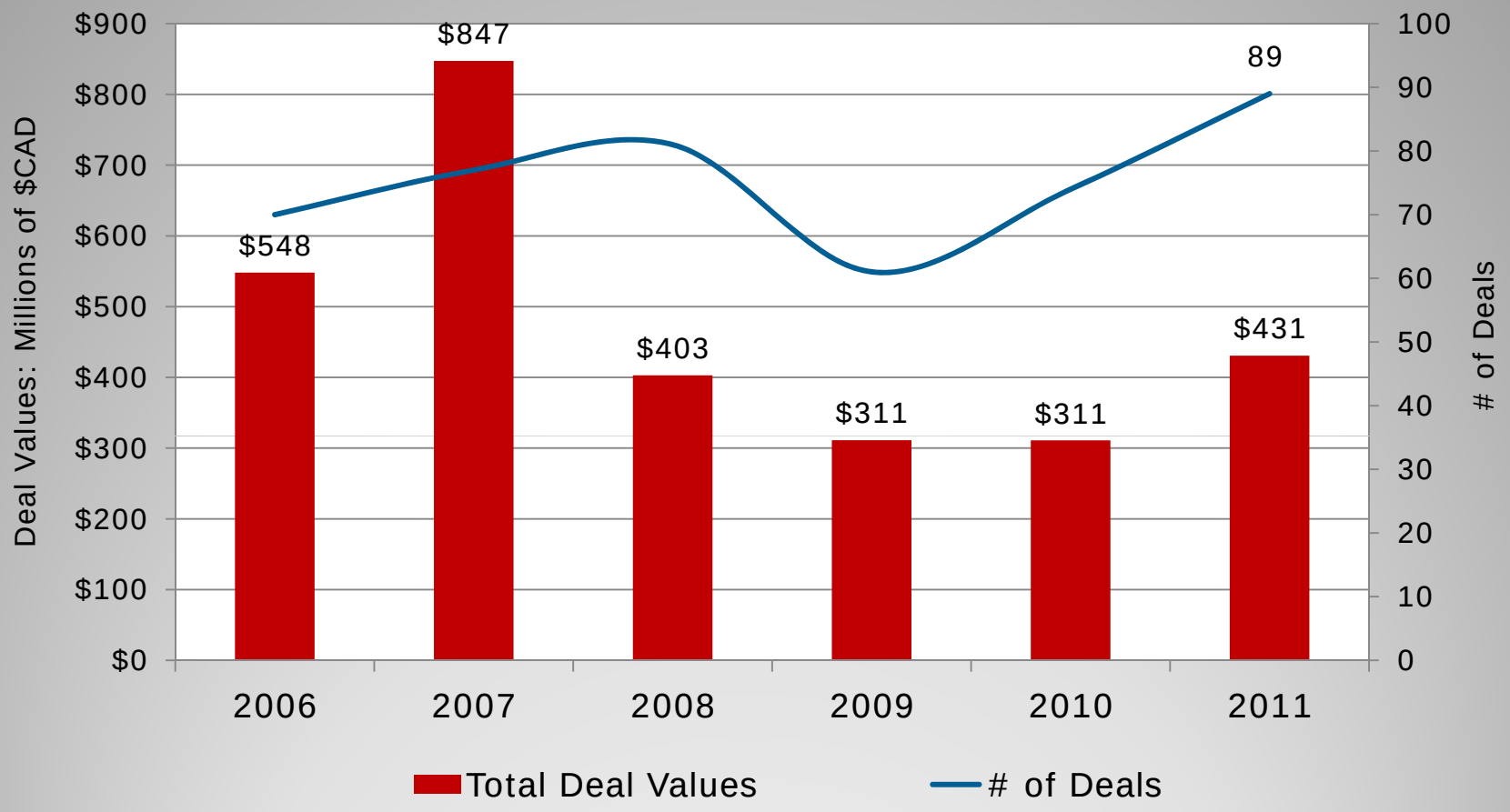
U.S. Funds Still Making Larger Investments Than Domestic Funds

AVERAGE INVESTMENT SIZES IN CANADIAN COMPANIES
DOMESTIC INVESTORS VS. FOREIGN INVESTORS



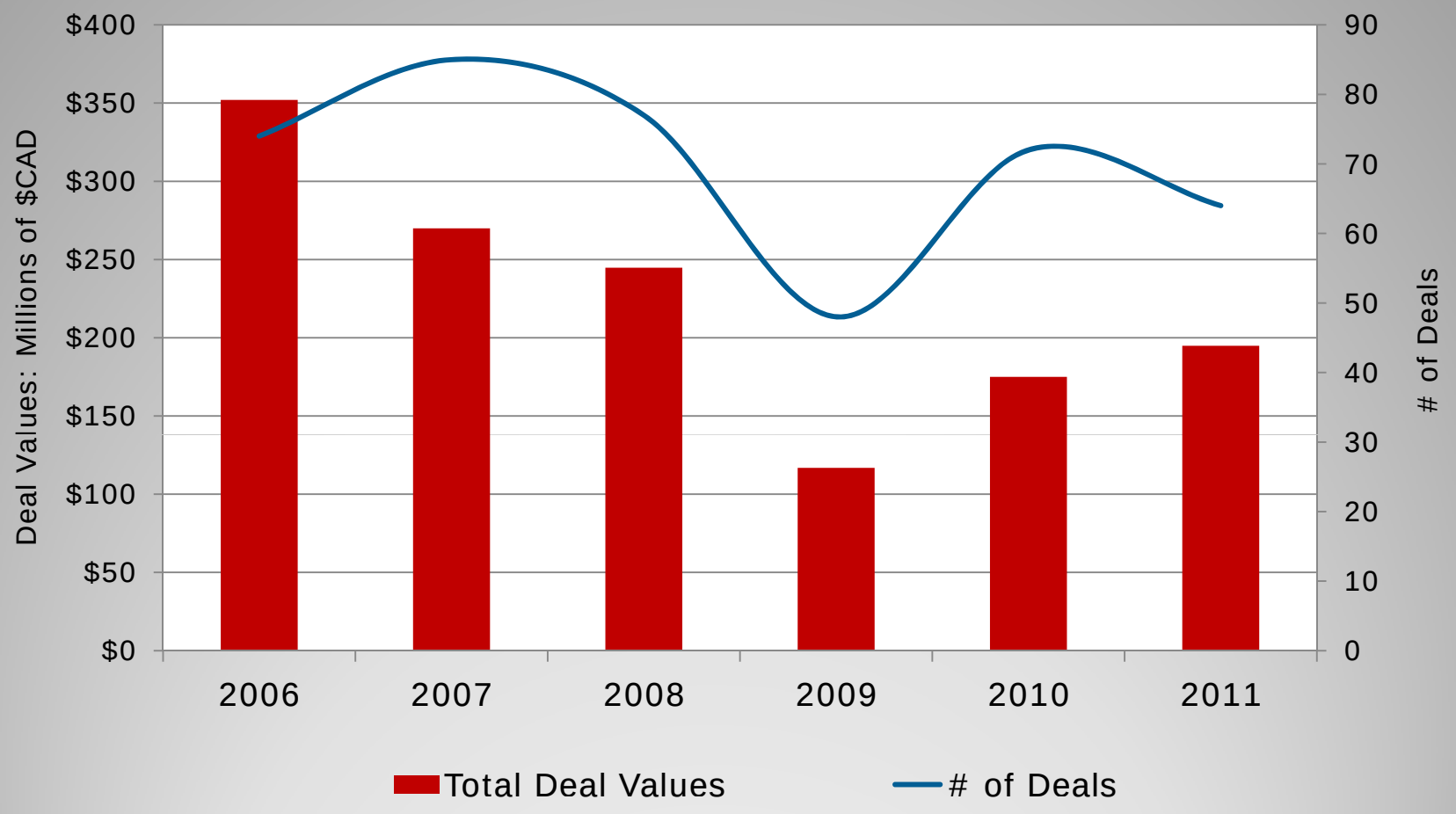
Private Independent Funds Slowly Gaining More Influence

SHARE OF DOLLARS INVESTED BY INVESTOR TYPE



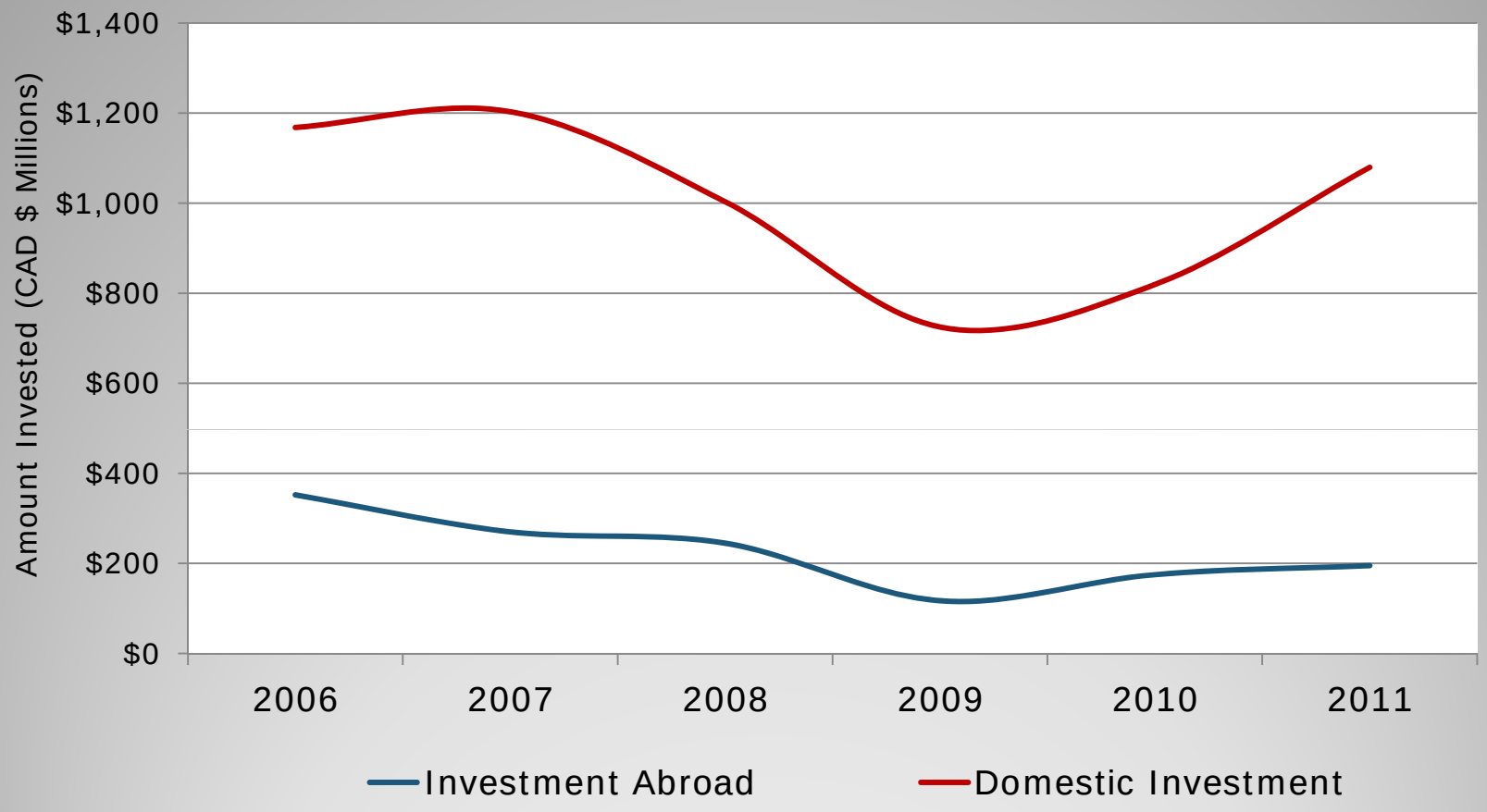
Foreign Investors Increase Canadian Investment in 2011

FOREIGN INVESTORS, CANADIAN PORTFOLIO COMPANIES
DOLLARS INVESTED AND NUMBER OF FINANCINGS



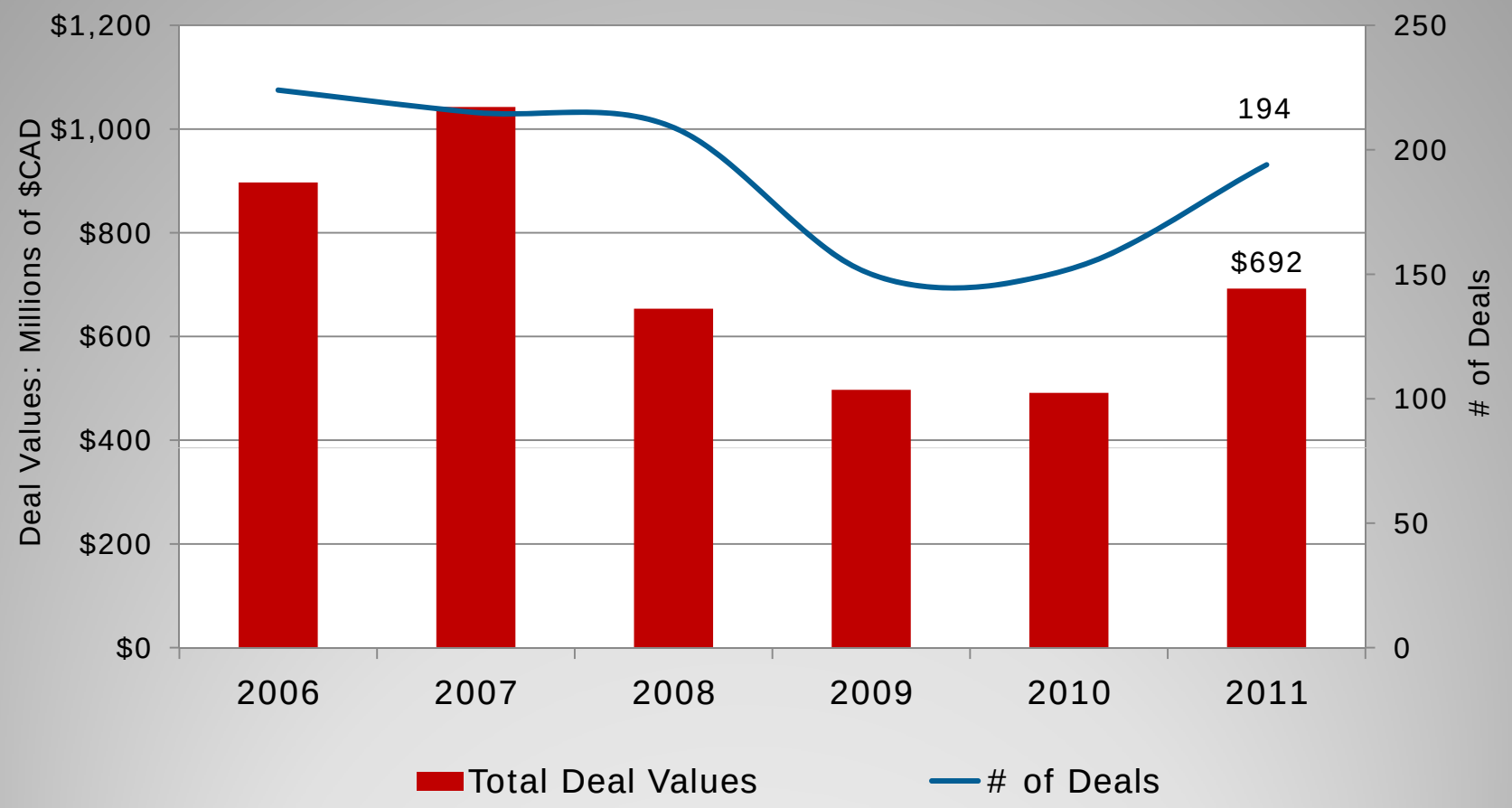
Canadian Funds Put More Cash In Fewer Foreign Companies

CANADIAN INVESTORS, FOREIGN PORTFOLIO COMPANIES
DOLLARS INVESTED AND NUMBER OF FINANCINGS



Canadian Funds Investing More Domestically

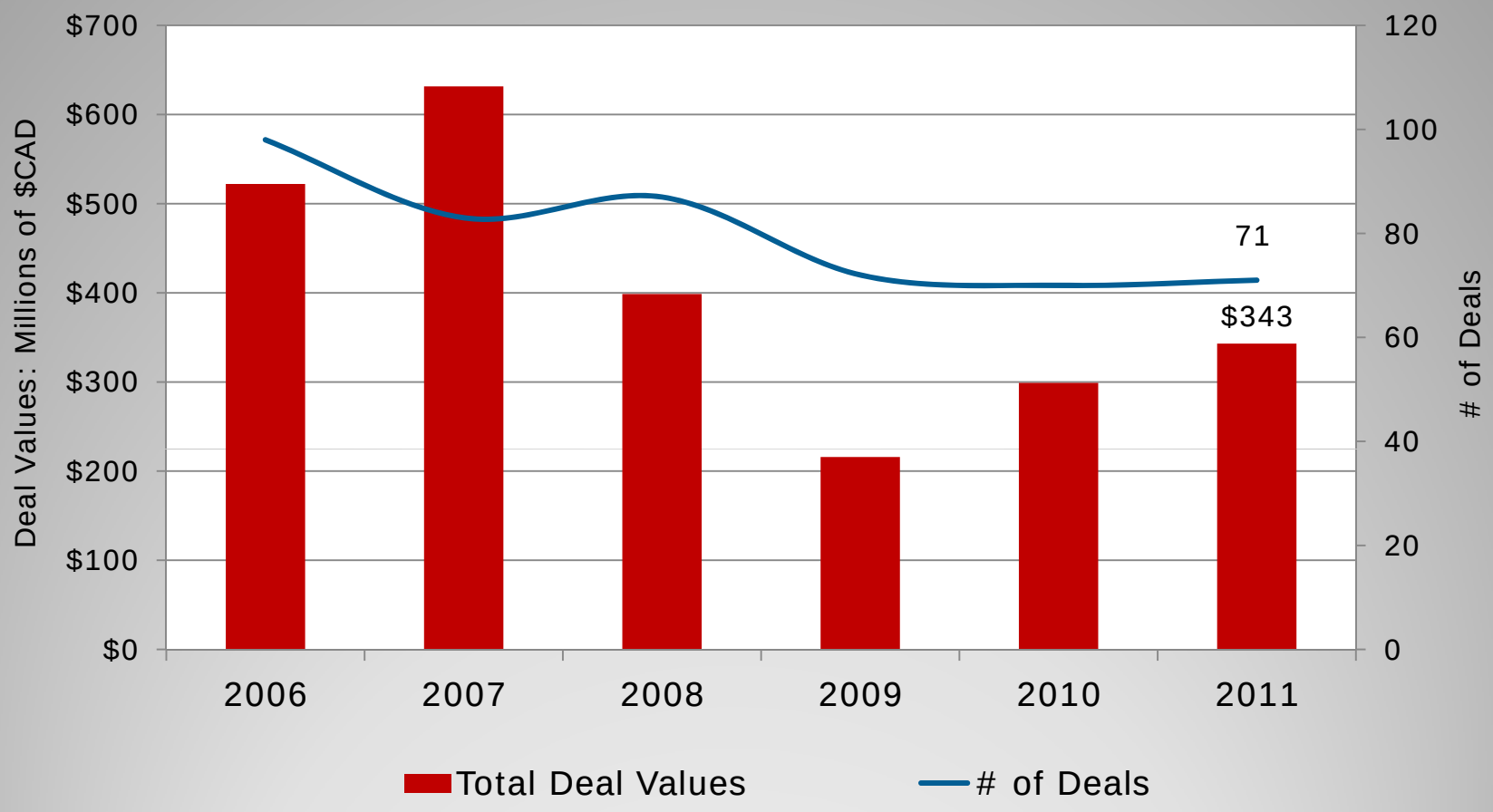
CANADIAN INVESTMENT WITHIN CANADA VS. CANADIAN INVESTMENT OUTSIDE CANADA



Information Technology Investment Increases by 41%

INFORMATION TECHNOLOGY SECTOR

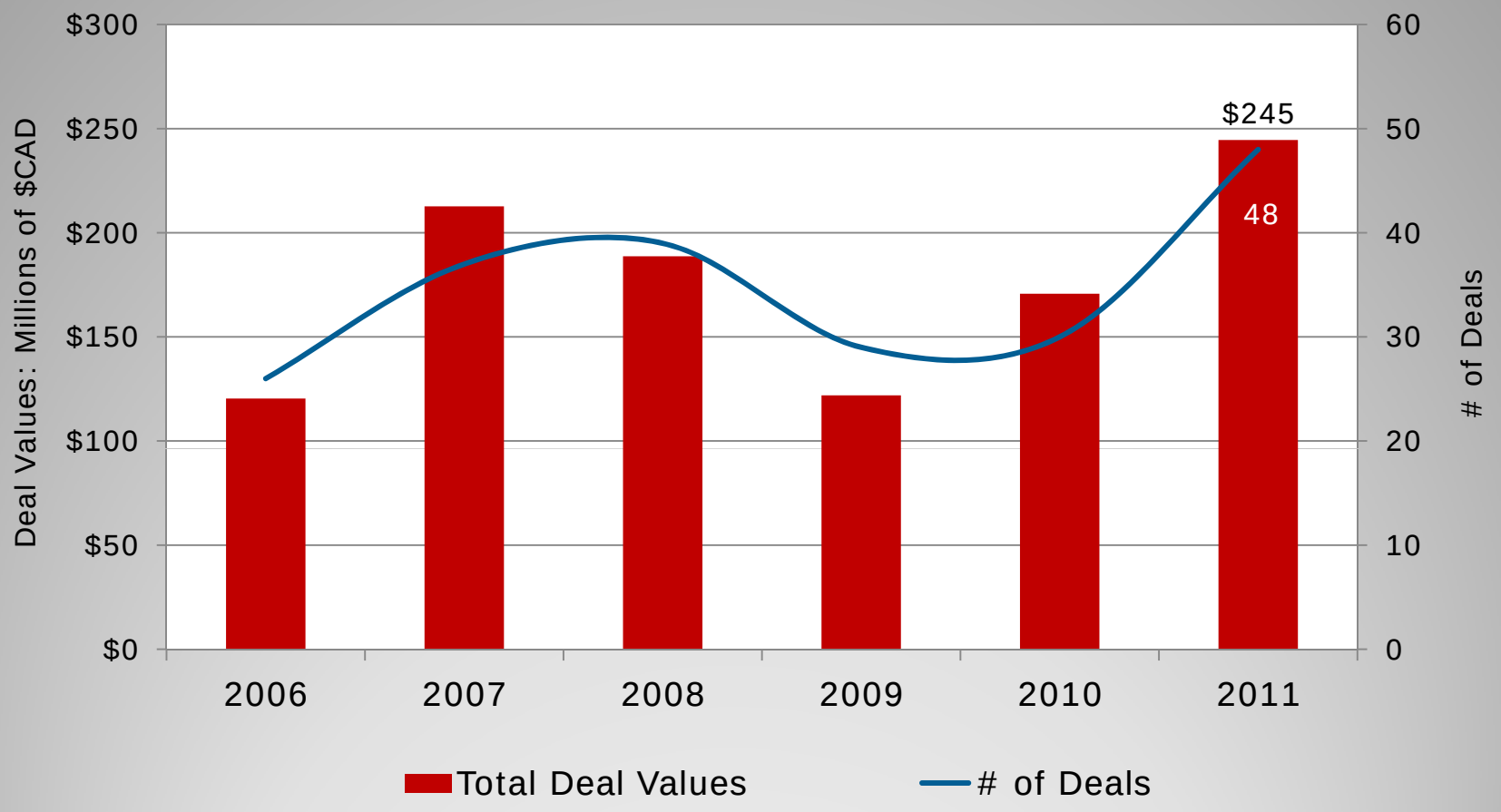
DOLLARS INVESTED AND NUMBER OF FINANCINGS



Life Sciences Investment Increases by 15%

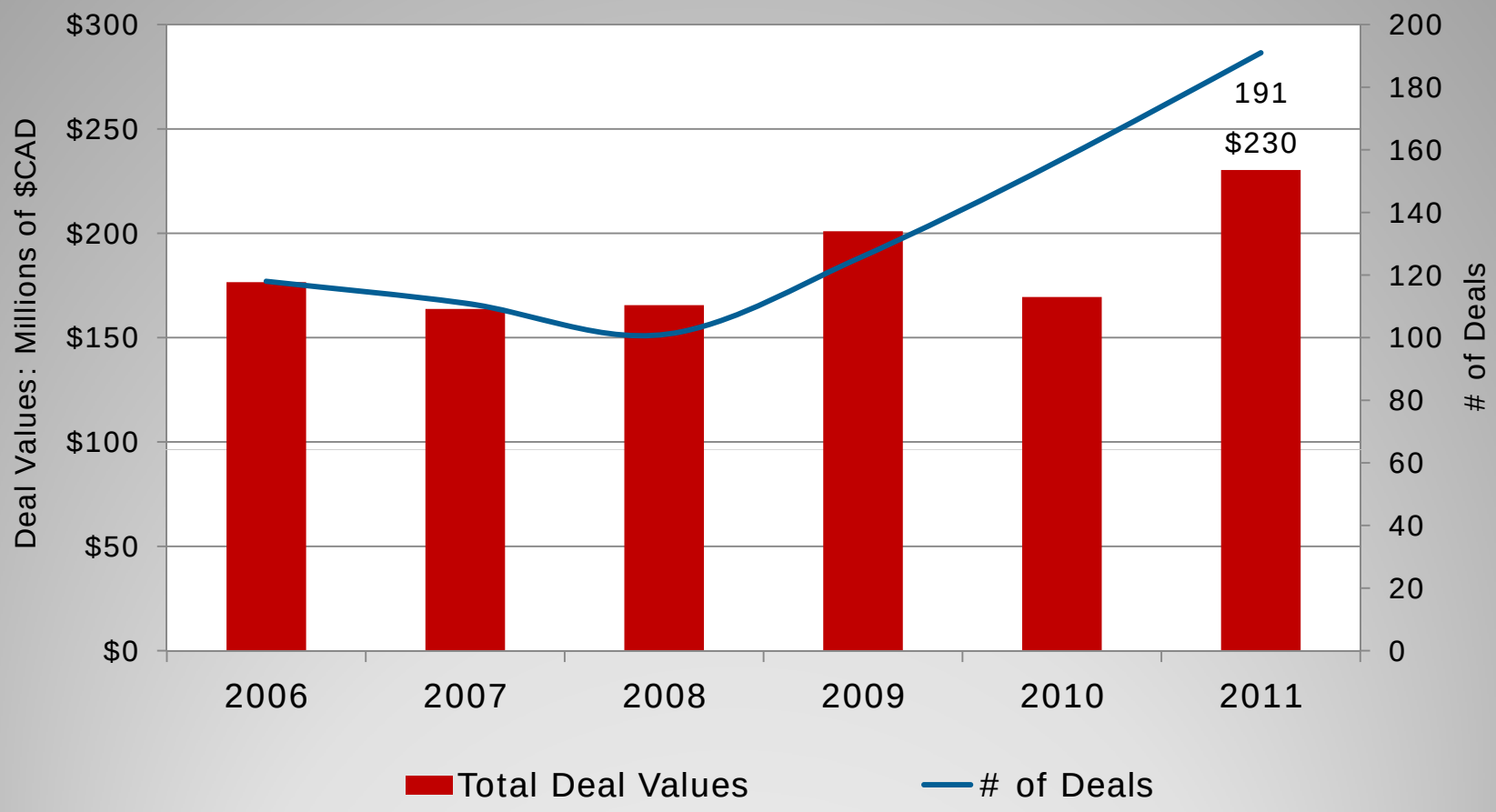
LIFE SCIENCES SECTOR

DOLLARS INVESTED AND NUMBER OF FINANCINGS



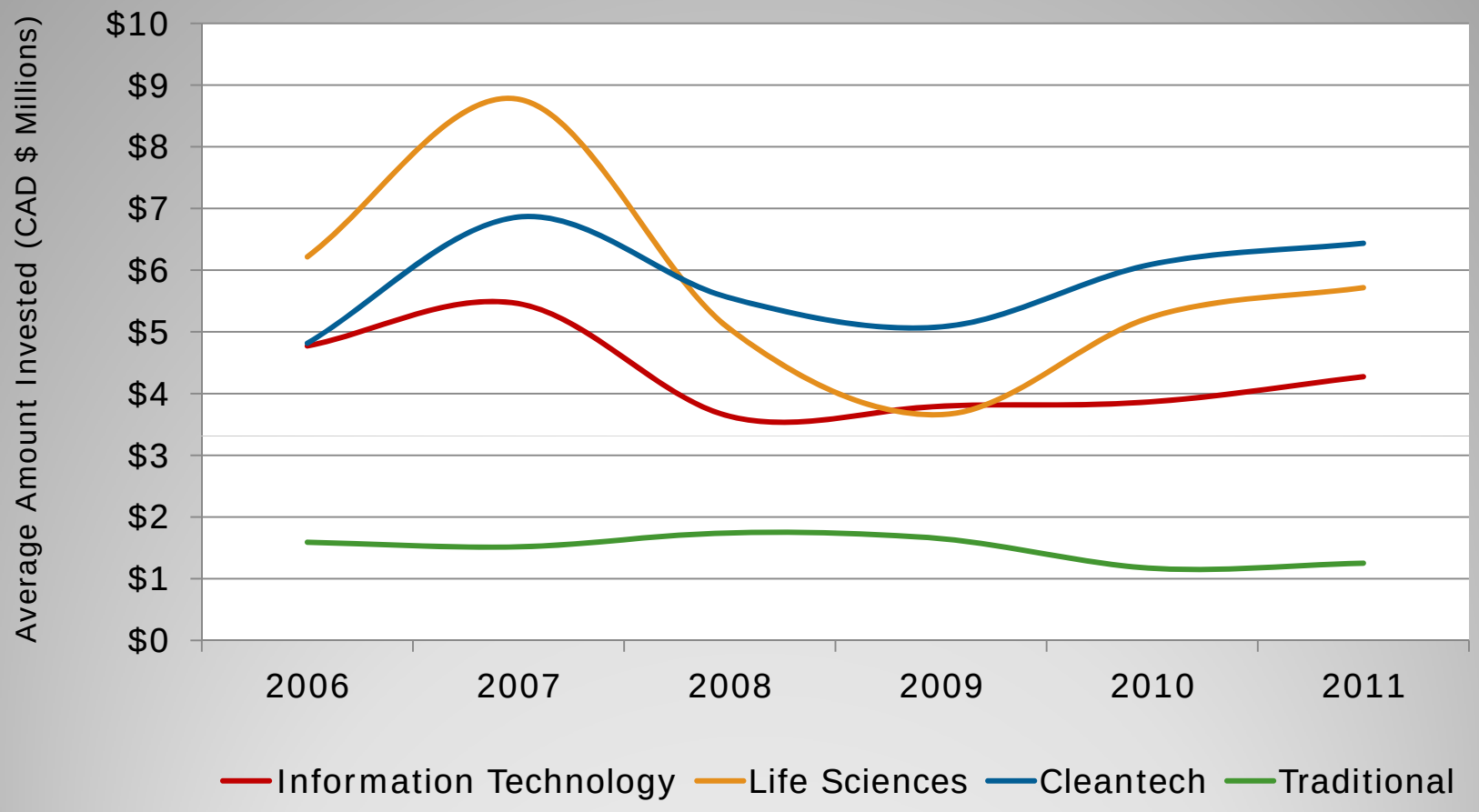
Cleantech Sector Investment Increases by 43%

CLEAN TECHNOLOGIES SECTOR
DOLLARS INVESTED AND NUMBER OF FINANCINGS



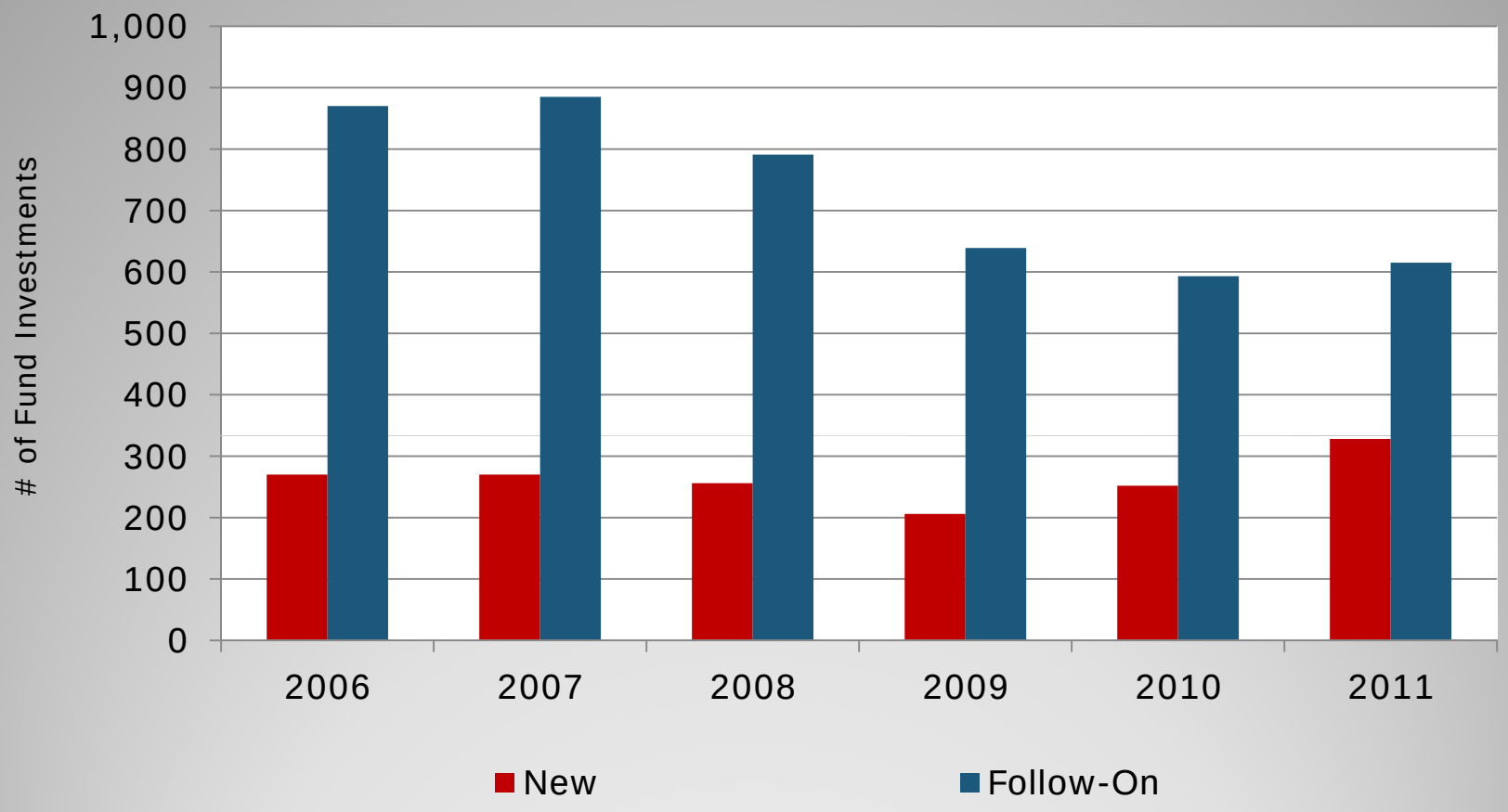
Traditional Sector Investment Increases by 36%

TRADITIONAL SECTOR
DOLLARS INVESTED AND NUMBER OF FINANCINGS



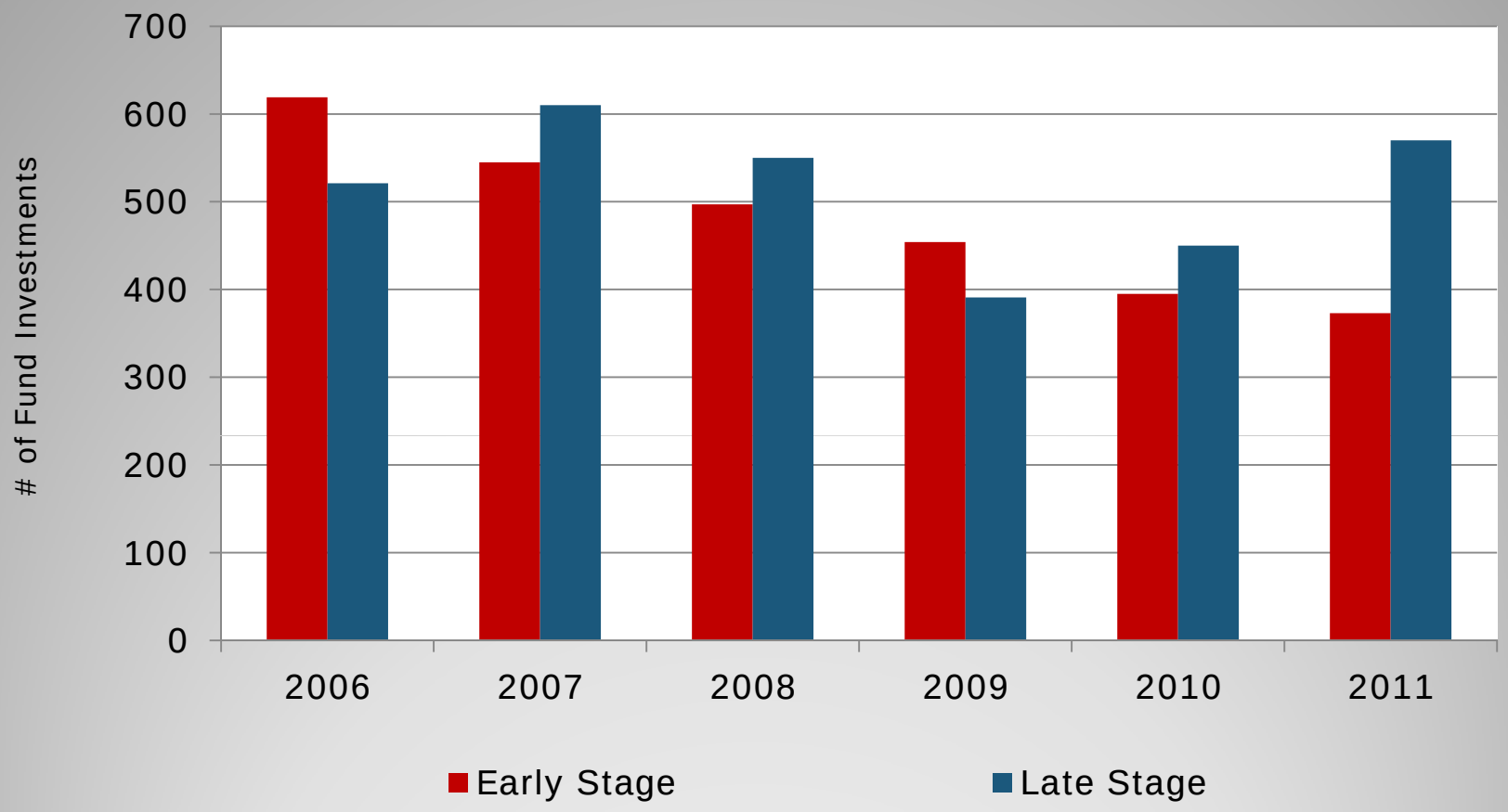
Average Deal Sizes Holding Steady Across All Sectors

AVERAGE AMOUNT INVESTED PER COMPANY, BY SECTOR



Number of New Investments Increasing

OF FUND INVESTMENTS, NEW VS. FOLLOW-ON



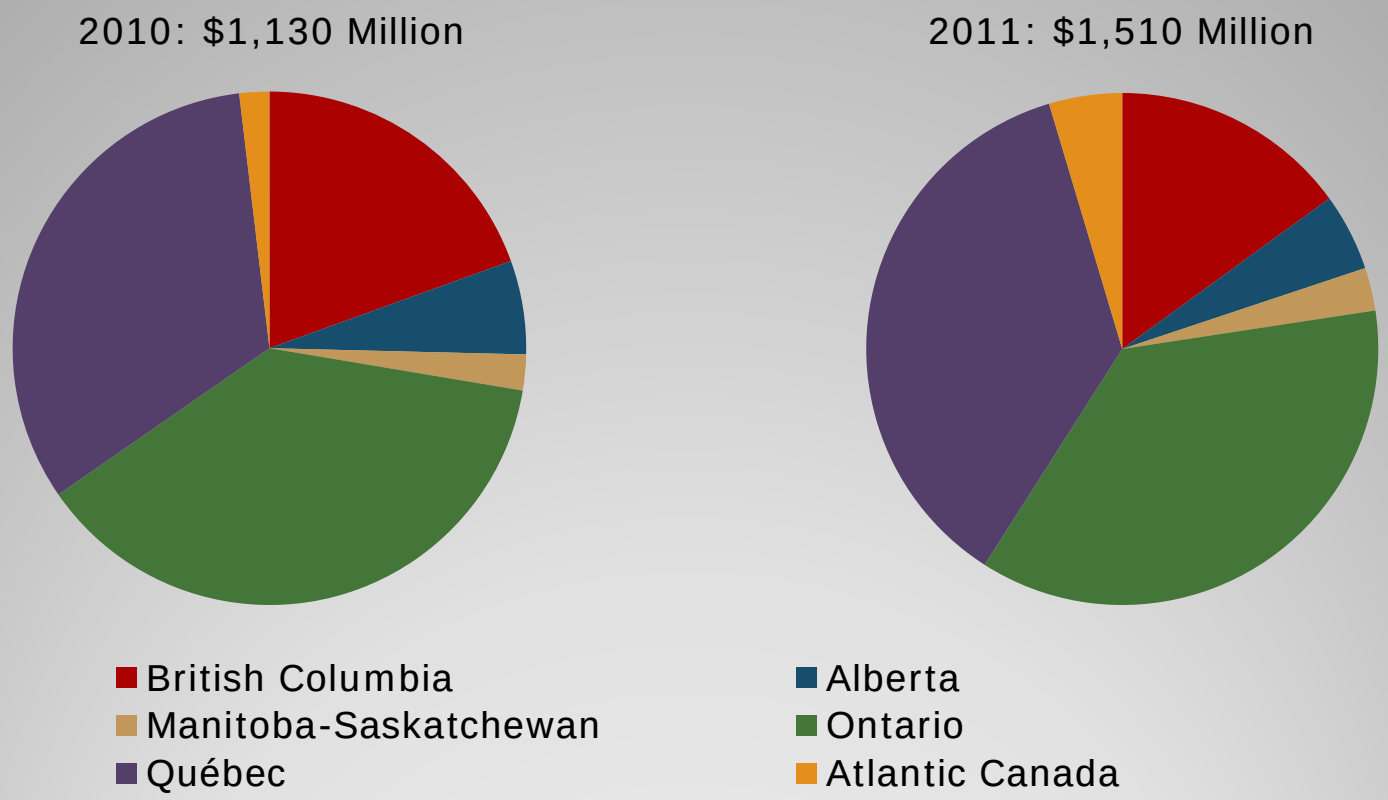
Late Stage Investments Increase in 2011

OF FUND INVESTMENTS, EARLY VS. LATE STAGES

Company	Prov.	Value	Disclosed Investors
Enerkem Technologies, Inc.	QC	$59.0	Rho Canada, Braemar Energy Ventures, BDR Capital, Cycle Capital Management
Enobia Pharma, Inc.	QC	$38.0	Desjardins Venture Capital, CTI Capital, Solidarity Fund FTQ, Lothian Partners, OrbiMed Advisors
Beyond The Rack, Inc.	QC	$35.7	BDC Venture Capital, EDC Equity Fund, Highland Capital Partners, iNovia Capital, Panorama Capital, Rho Canada, Tandem Expansion Fund
Dealfind	ON	$31.0	Georgian Partners, Insight Venture Partners, Ontario Venture Capital Fund
Unique Solutions Design, Ltd.	NS	$30.0	Northwater Capital Management
Syncapse Corporation	ON	$25.0	ABS Capital Partners

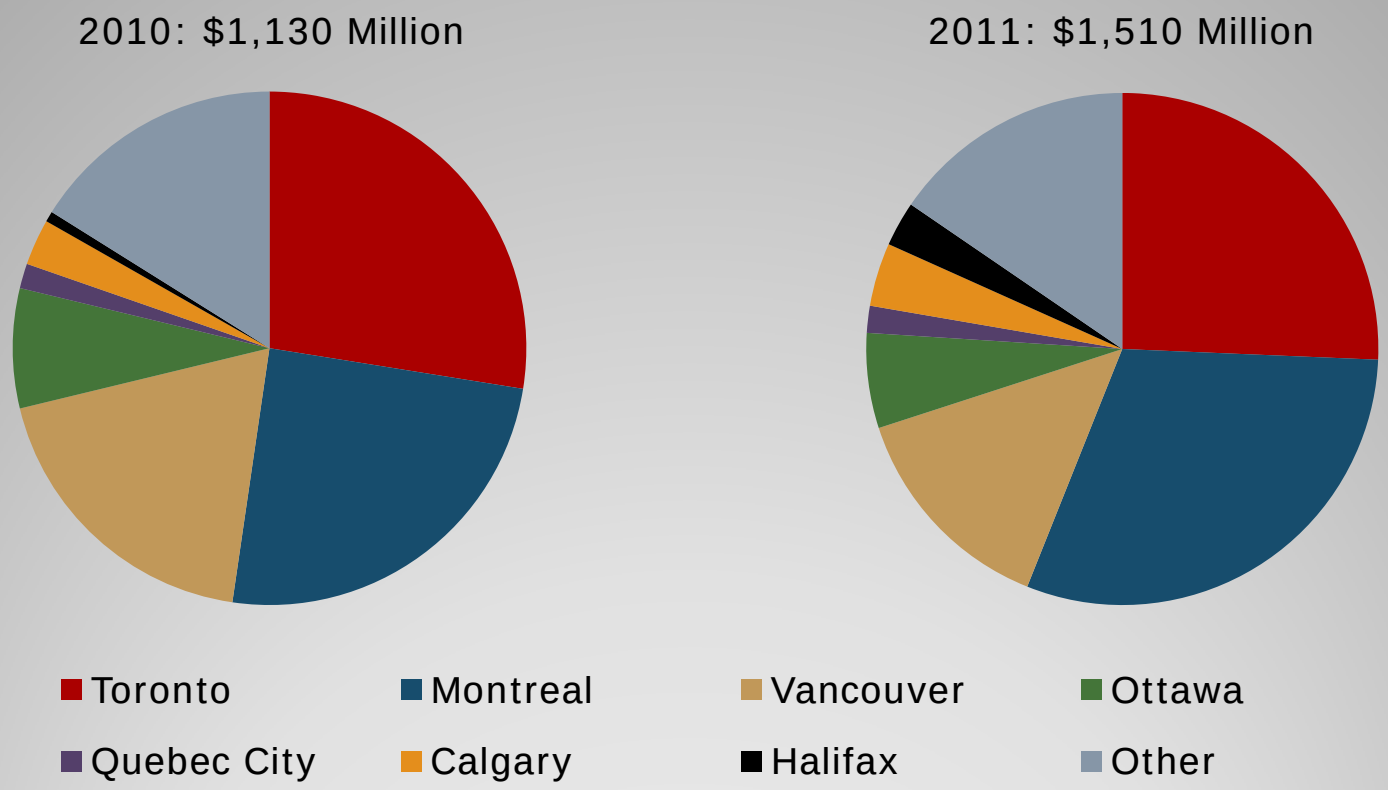
Top Canadian VC Deals (Disclosed) in 2011

DEAL VALUES IN MILLIONS OF CANADIAN DOLLARS



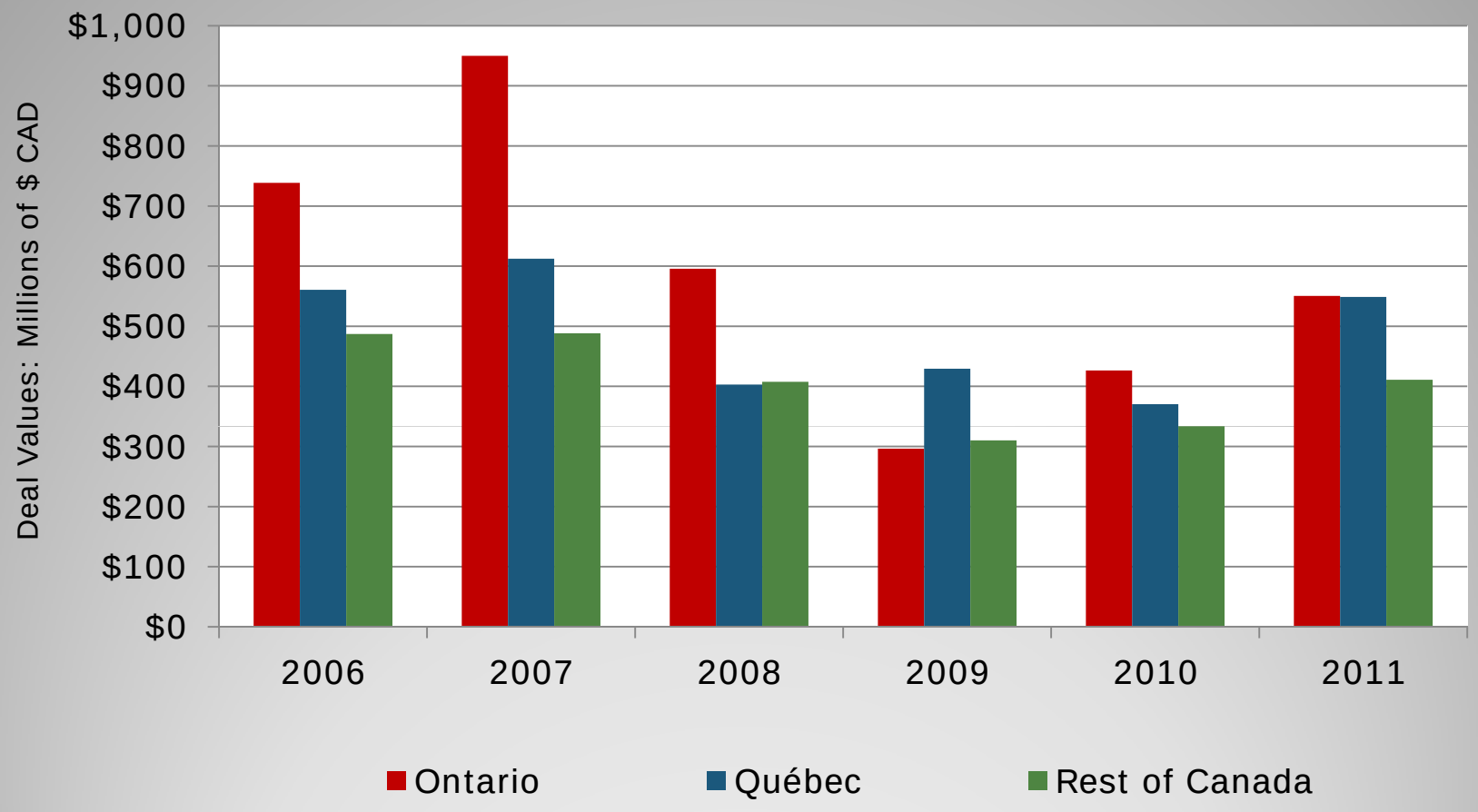
Atlantic Canada Has Best Year On Record With $70 MM Invested

VC DOLLARS INVESTED BY REGION, 2010 & 2011



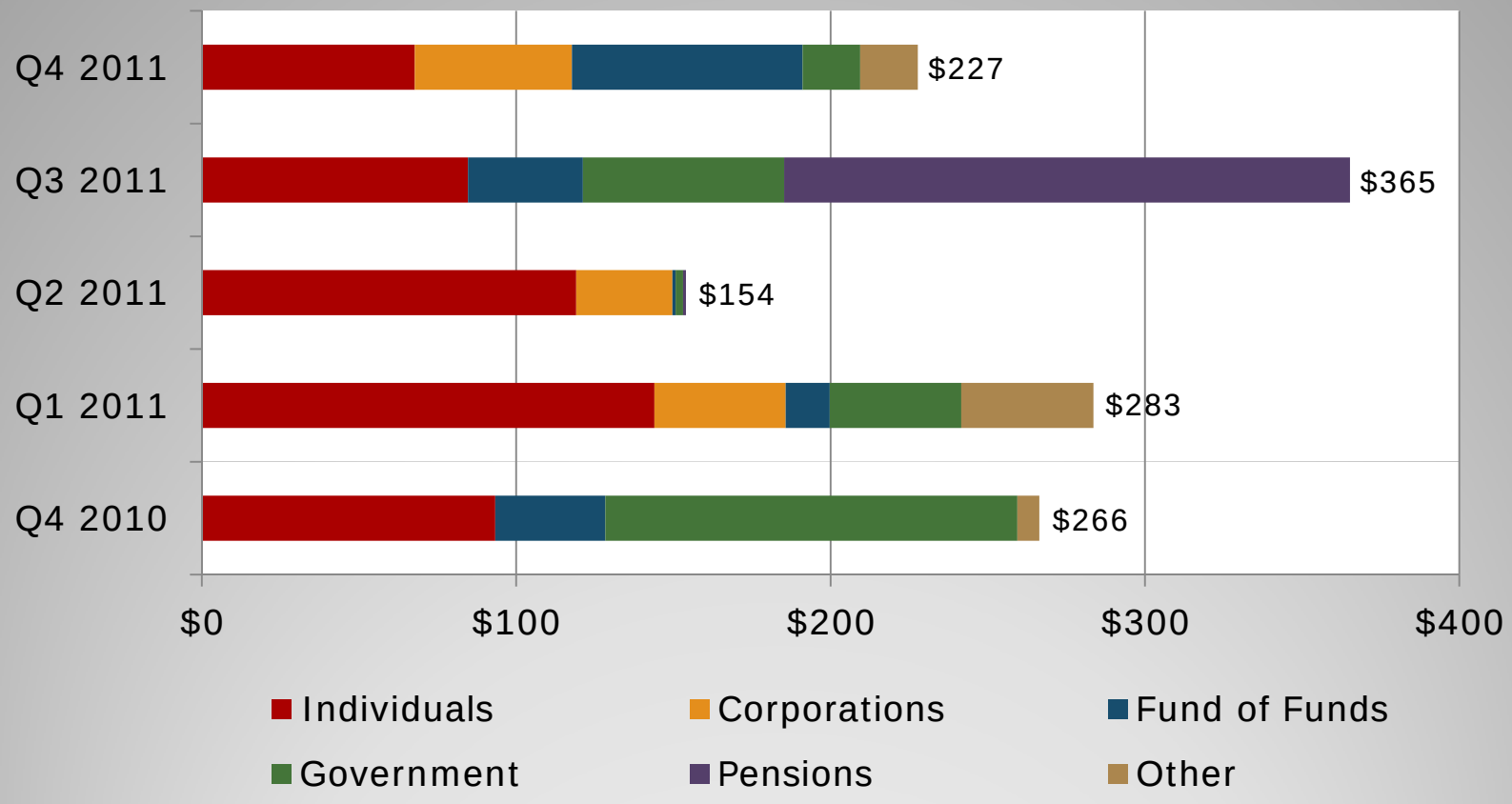
Montreal Sees Biggest Gains Year-Over-Year

VC DOLLARS INVESTED BY MAJOR URBAN CENTRE, 2010 & 2011



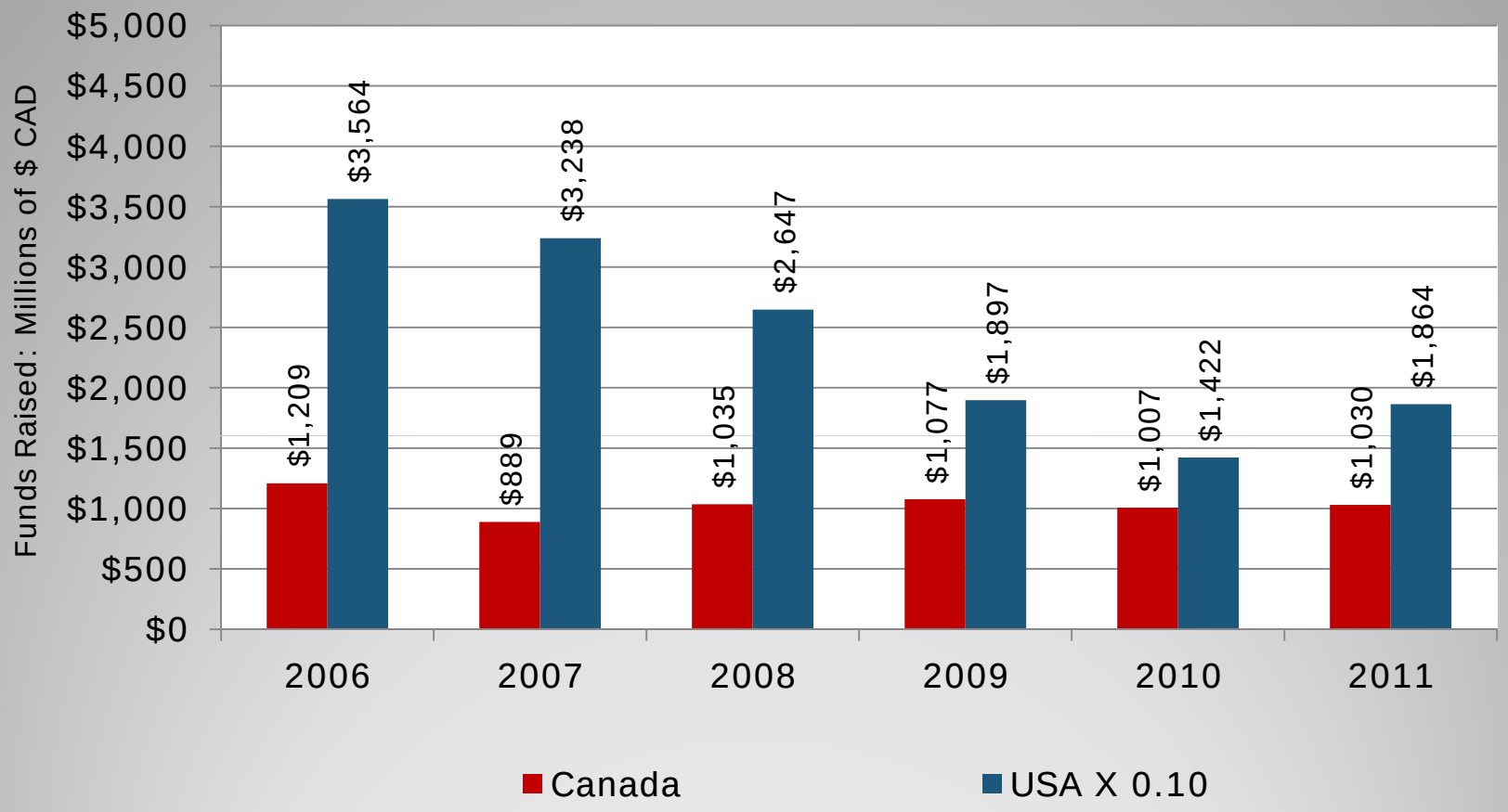
Québec, Ontario Evenly Matched

DOLLARS INVESTED IN ONTARIO, QUÉBEC



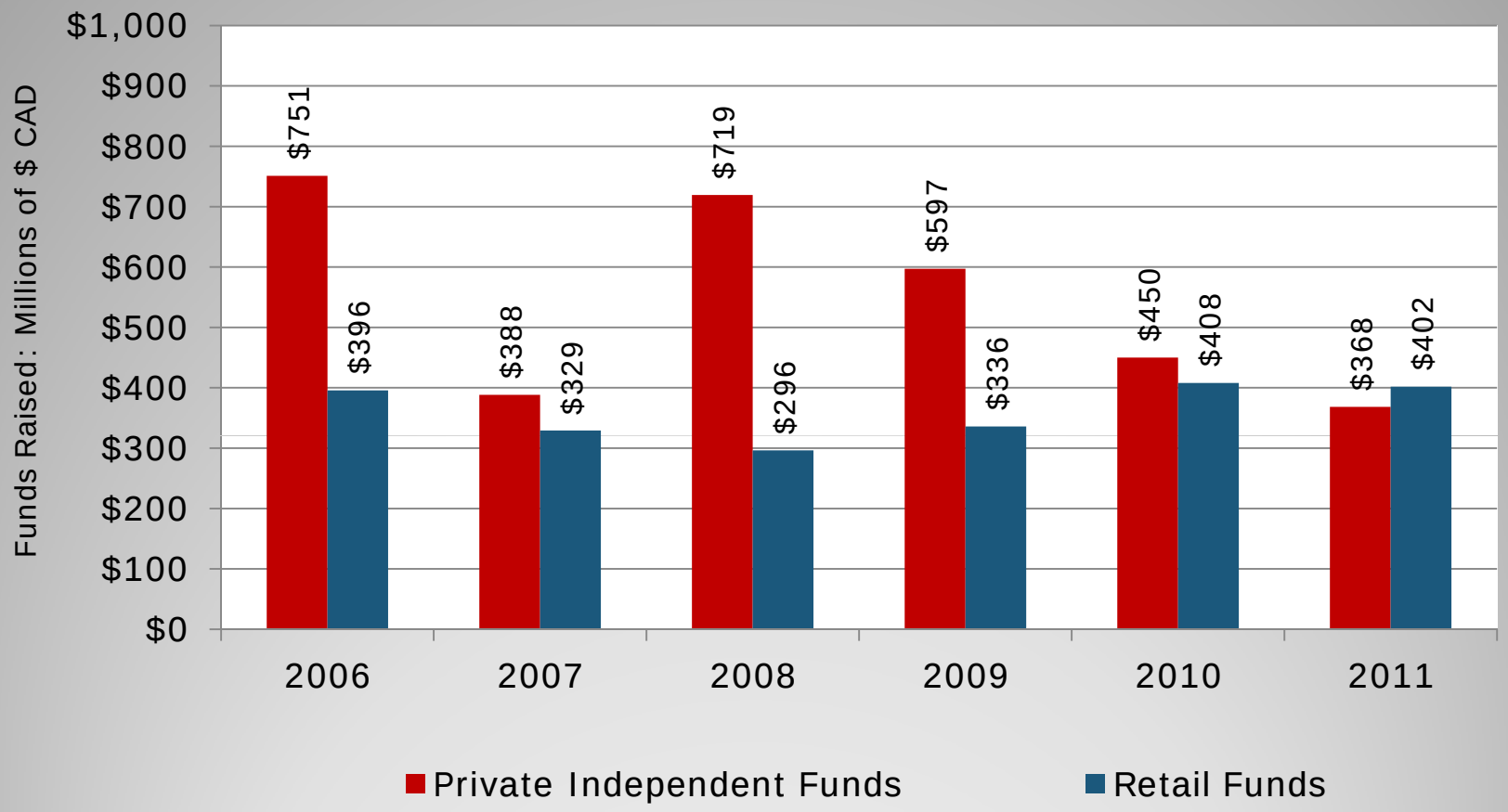
VC Fundraising Totals $1.030 Billion in 2011

FUNDRAISING BY QUARTER, BY SOURCE



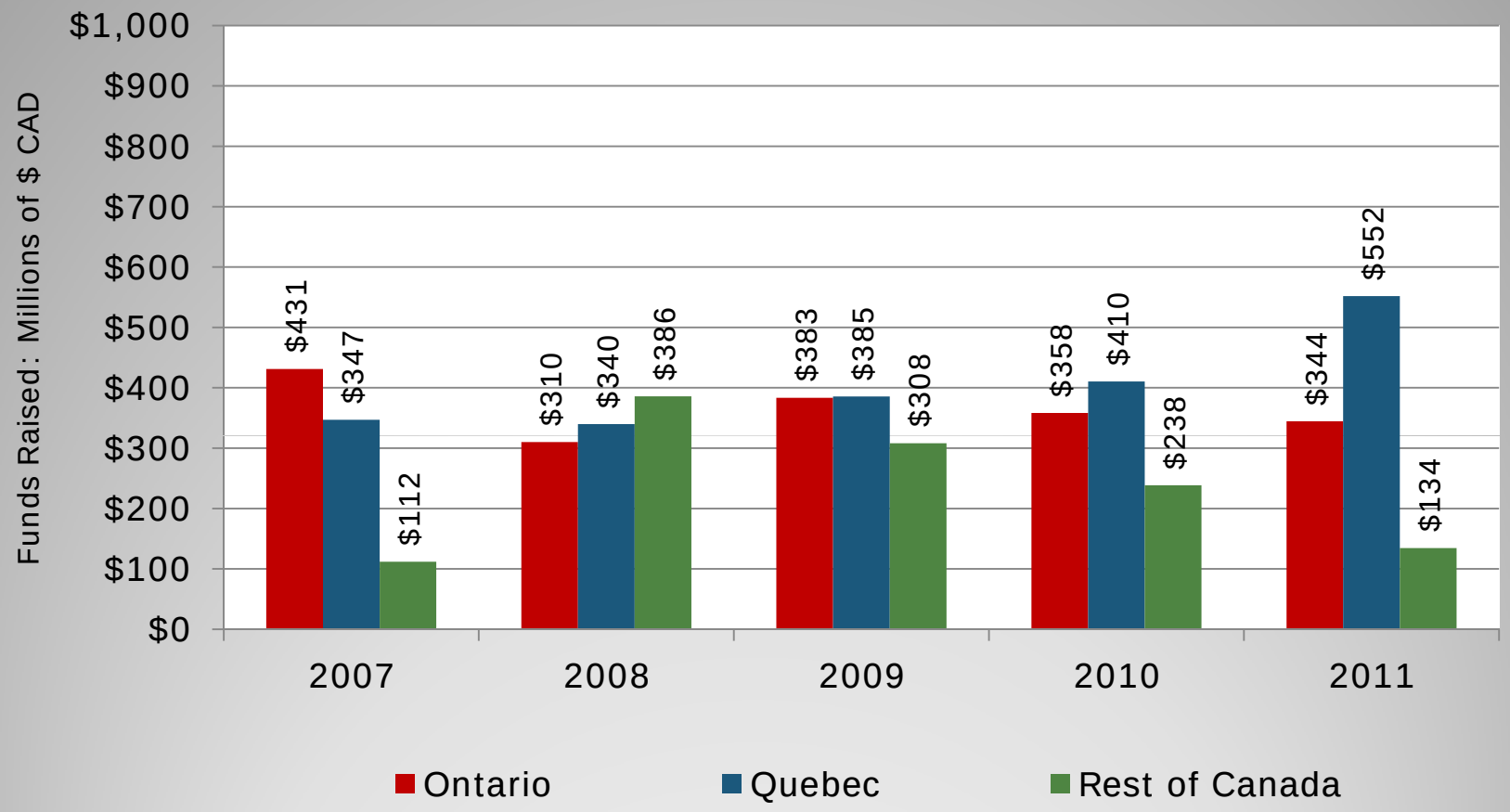
Canadian Fundraising Holding Steady

NEW CAPITAL COMMITMENTS BY NATION



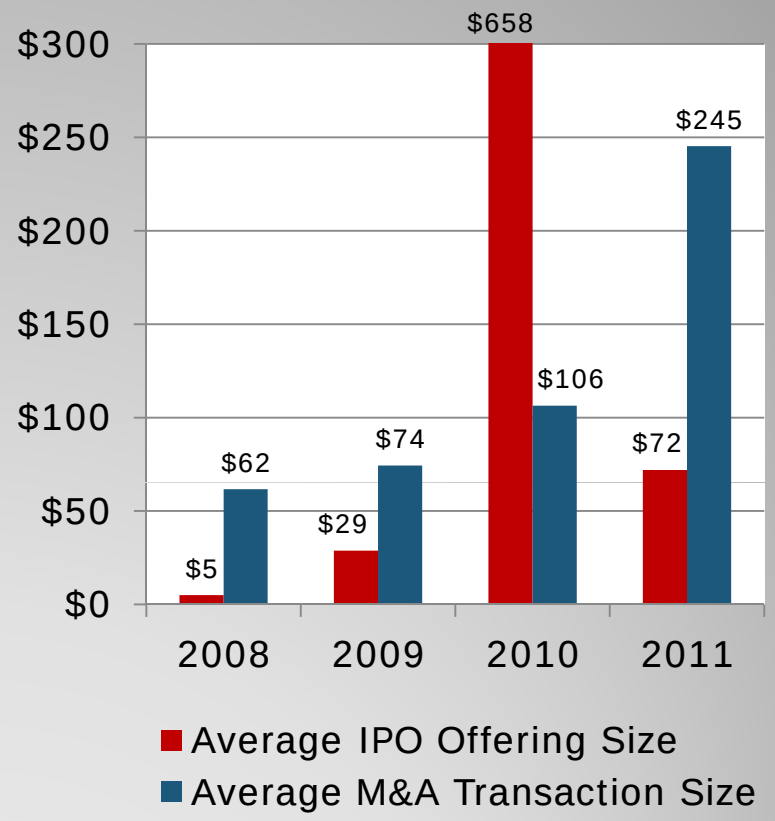
Retail Fundraising Strongly Led by Québec Funds

NEW CAPITAL COMMITMENTS BY FUND TYPE



Retail Funds Account For 55% of Québec Fundraising

NEW CAPITAL COMMITMENTS BY PROVINCE



Trade Sales Increasing in Value, 5 Deals Top $200 MM in 2011

EXITS OF CANADIAN VC-BACKED PORTFOLIO COMPANIES

2011 LED BY SALE OF MONTREAL-BASED ENOBIA PHARMA FOR $1.030 BILLION

THOMSON REUTERS