

QUÉBEC'S VENTURE CAPITAL MARKET IN Q1 2008: AN OVERVIEW

Venture capital (VC) market activity in Québec declined in the first quarter of 2008, as a total of \$86 million was invested, or roughly half of the \$171 million invested one year ago. The number of Québec based companies financed with VC, totaling 41, was also reduced on a year-over-year basis.

Lower levels of deal activity in Québec appeared to be part of a broader North America-wide trend. Across Canada, VC disbursements totaled \$323 million in the first three months, or 47% below the \$610 million of the year before. In the United States, US\$7.4 billion was invested, which was also down slightly from Q1 2007.

The slower pace of activity in Québec and across Canada was due in part to fewer large sized VC transactions. In Québec, the average amount invested per company was \$2.1 million between January and March, versus \$3.2 million at the same time last year.

The only major source of growth in Québec in the first quarter was IT-related activity. A total of \$44 million was invested in IT companies, or 82% more than in Q1 2007, and accounting for 51% of all disbursements. In contrast, activity in all other industry sectors was down sharply. This included life sciences sectors, which saw \$21 million invested in Q1 2008, or only a fraction of the amount recorded the year before.

The activity of private-independent funds led in Québec in the first three months, with 23% of all disbursements, or \$19 million. However, the activity of other major VC funds was down in real and relative terms. This included LSVCC and other retail funds, which contributed \$16 million to Québec deals in Q1 2008, as well as foreign investors, which contributed \$14 million. One year ago, these investors accounted for \$52 million and \$76 million, respectively.

Levels of new commitments going to Canadian VC funds also declined between January and March, as they typically have since 2001. A total of \$334 million in new resources was raised in the market, down 28% from the \$467 million raised in Q1 2007. Québec based VC fund managers accounted for 59% of new commitments.

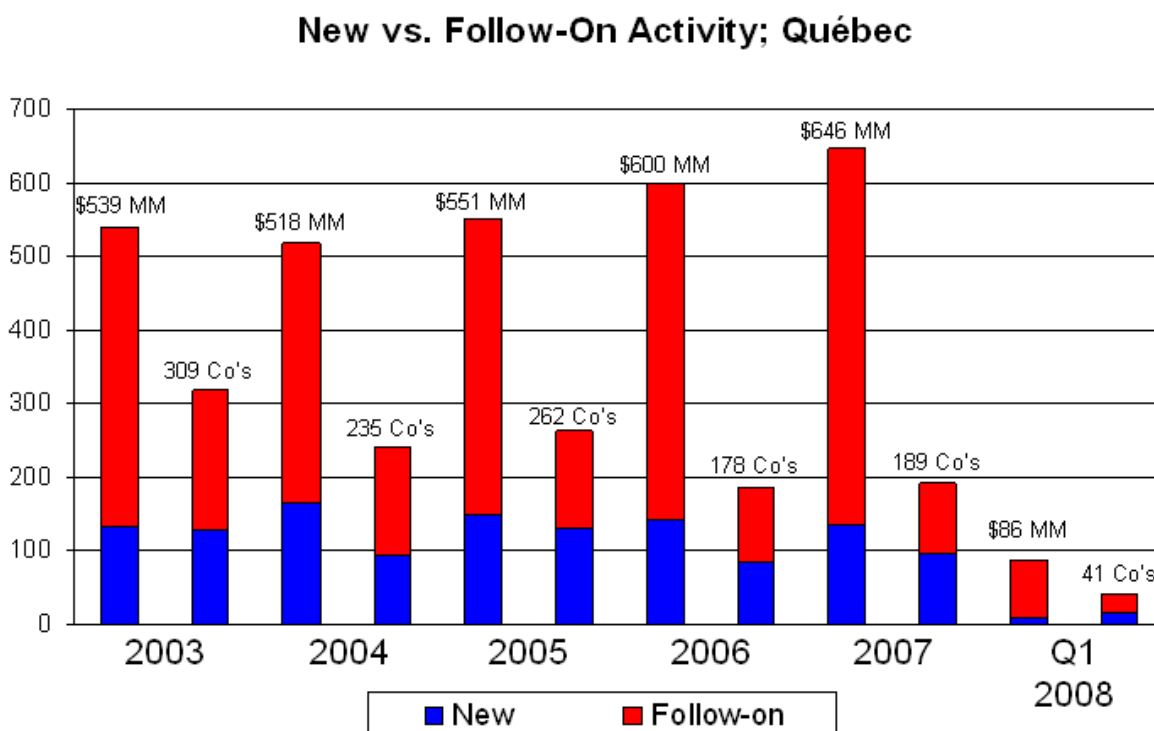
Notice of Data Changes

In their mandates for investing risk capital in Québec small businesses, LSVCC and other retail funds have been undertaking a diverse range of private equity activity. Thomson Reuters Canada is working closely with fund managers to ensure that the full range of this activity is captured and advises that related data changes may impact annual and quarterly reports on venture capital activity in Québec.

QUÉBEC VC ACTIVITY DECLINES IN Q1 2008

Venture capital (VC) market activity in Québec declined in the first quarter of 2008 as compared to one year ago. A total of \$86 million was invested, or roughly half of the \$171 million invested in Q1 2007. Q1 2008 activity was also down 56% from three months earlier, when \$196 million was invested.

The number of Québec based firms receiving VC was also reduced on both a year-over-year and quarter-over-quarter basis. In all, 41 companies were financed between January and March, versus 54 firms in Q1 2007, and 56 firms in Q4 2007.



© Thomson Reuters. All rights reserved.

Lower levels of deal activity in Québec appeared to be part of a broader North America-wide trend in the first quarter. Across Canada, VC disbursements totaled \$323 million, or 47% below the \$610 million of the same time in 2007. The number of Canadian companies financed, totaling 128 in the first three months, was mostly unchanged from prior periods.

The same year-over-year decline in dollars was evident in American VC market activity. A total of US\$7.4 billion was invested in 946 companies in the United States in the first quarter, down slightly from US\$7.5 billion invested the year before.

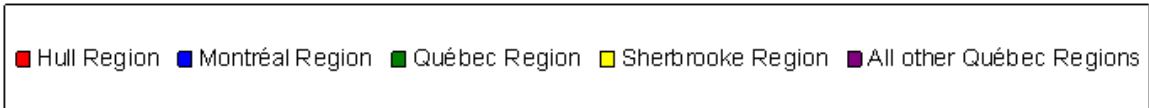
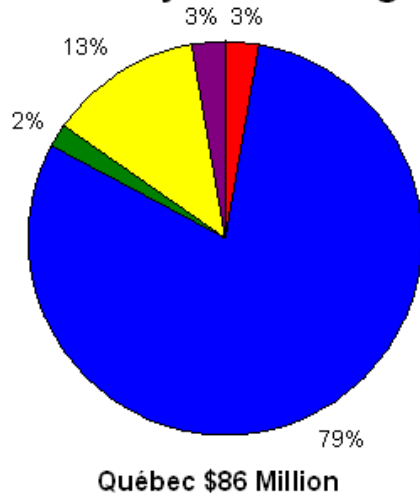
Québec VC activity also lost some ground in relative market terms in Q1 2008. Dollars invested in Québec reflected 27% of the Canada-wide amount, as compared to the near one-third share

averaged in recent years. At 32% of the total, the Québec share of companies financed was also sub-par this time around.

The slower pace of activity in Québec and across Canada between January and March was due in part to fewer large sized VC transactions. For instance, in Q1 2007, there were 3 disclosed deals sized \$50 million or greater recorded for the entire Canadian market, including the US\$70 million financing of Targanta Therapeutics of Saint-Laurent, Québec.

Deals like Targanta’s helped push last year’s average amount invested per company to \$3.2 million in Québec, and to \$4.7 million across Canada. In the absence of similar transactions in the first quarter of 2008, these averages were \$2.1 million and \$2.5 million, respectively.

Dollars Invested by Québec Region; Q1 2008



© Thomson Reuters. All rights reserved.

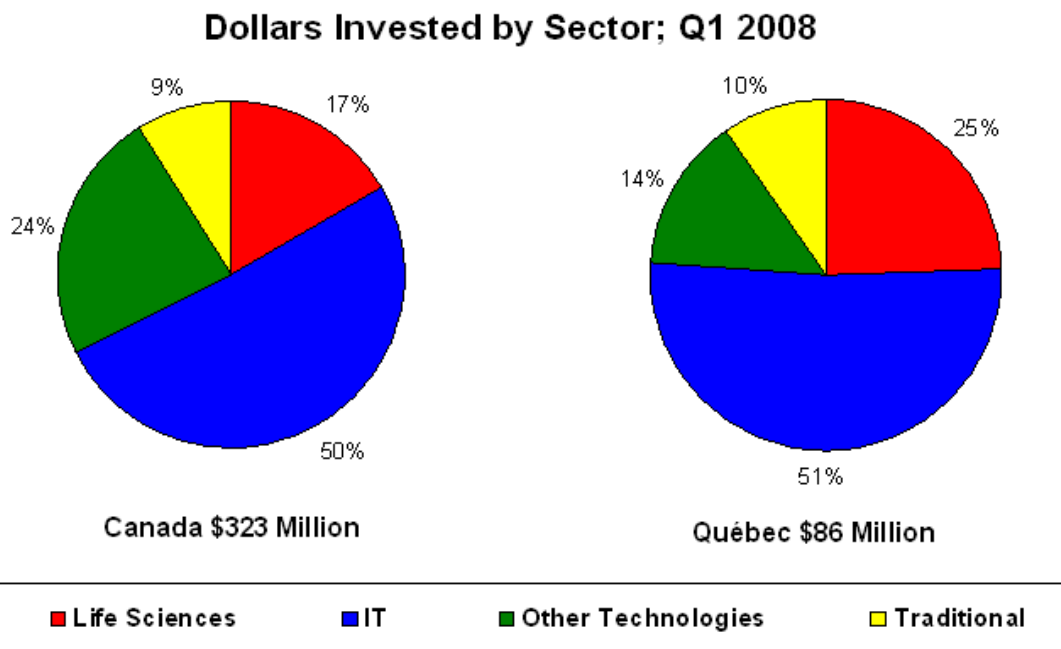
Follow-on activity once again dominated the Québec landscape in Q1 2008, accounting for 88% of all disbursements. This share is even higher than the 79% of 2007 overall, which itself was up from previous years. First-time activity was also down in real terms, given the \$10 million invested in 15 companies, or less than half the \$23 million invested one year ago.

Montréal based activity continued to hold sway in the slower market, accounting for almost 80% of all disbursements in Québec in the first quarter, which exceeds its 2007 share of 74%. The Sherbrooke region took second spot with 13%, followed by Hull-Gatineau with 3%.

QUÉBEC IT SECTORS TAKE OVER HALF OF THE CASH

In contrast with recent VC trends in Québec, IT-related activity was at the forefront in the first three months. Indeed, levels of activity in IT sectors proved to be the only major source of year-over-year growth this time around.

A total of \$44 million flowed to a dozen IT companies, or 82% more than the \$24 million that flowed to the same number of companies in Q1 2007. Given the decrease in activity involving other Québec industry sectors, this increase afforded IT a disproportionately large share of total activity in Q1 2008 – 51% of all disbursements. In the whole of last year, this share was 32%.



© Thomson Reuters. All rights reserved.

Growth was evident in several IT sectors, including electronics and hardware, as 2 firms captured \$18 million, or better than triple the \$5 million of Q1 2007. Saint-Laurent’s Accedian Networks, Montréal’s Vantrix and 3 other telecom firms also took \$18 million, or double the \$9 million of one year ago. A deal involving Standout Jobs of Montréal ensured that internet-focused activity was also up slightly, with \$2 million invested.

IT-related activity also continued to drive Canada-wide trends in the first quarter, with \$164 million invested in 62 companies, or around 50% of all disbursements. However, in real terms, activity was close to half of the amount recorded the year before.

In contrast with activity in Québec’s IT sectors, life sciences activity dropped sharply between January and March. A total of \$21 million went to 11 companies, or only a fraction of the \$106 million that went to a comparable number of companies in the same period in 2007.

As a consequence, life sciences activity accounted for approximately one-quarter of all disbursements in Québec in Q1 2008. This is at some distance from the near 40% share life sciences sectors have been averaging since the market renewal of 2004.

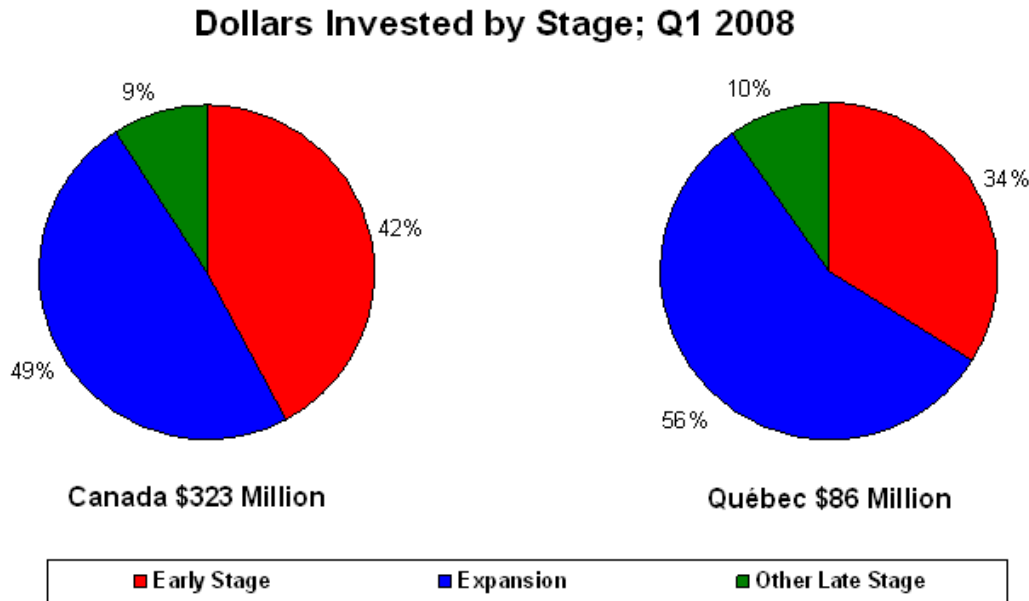
Across Canada, life sciences activity was also well short of the mark, with \$54 million invested in 31 companies, or almost one-quarter of the \$208 million of Q1 2007. This resulted in an equally sub-par 17% of all disbursements.

Other technology sectors in Québec also reflected lower VC activity in the first quarter. This included energy and environmental technology sectors, which saw 4 companies securing \$12 million, down one-third from the \$18 million of the year before.

In addition, non-technology sectors witnessed significantly reduced activity, with \$8 million invested in 13 companies, or less than half of the \$19 million invested in 22 companies at the same time in 2007.

LATE-STAGE RULES IN QUÉBEC, BUT STARTUP ACTIVITY UP

VC trends in Québec in the first quarter continued to prefer expansions and other late-stage deals. Indeed, late-stage activity consumed two-thirds of all disbursements in Québec, which is consistent with its above average take in the whole of last year.



© Thomson Reuters. All rights reserved.

Also like 2007, expansion activity stood out in its share of the dollars in Q1 2008, as \$49 million was invested in 21 companies, or 56% of the Québec total. However, in real terms, expanding

firms received 25% less than in Q1 2007, when \$65 million was invested. A further \$8 million went to other late-stage activity, which is up from one year ago.

Early-stage activity in Québec registered a substantial year-over-year drop, with \$29 million going to 16 companies in Q1 2008, or less than one-third of the previous \$102 million. Most of this decline involved other early-stage deals, which garnered only \$5 million, as compared to \$90 million the year before.

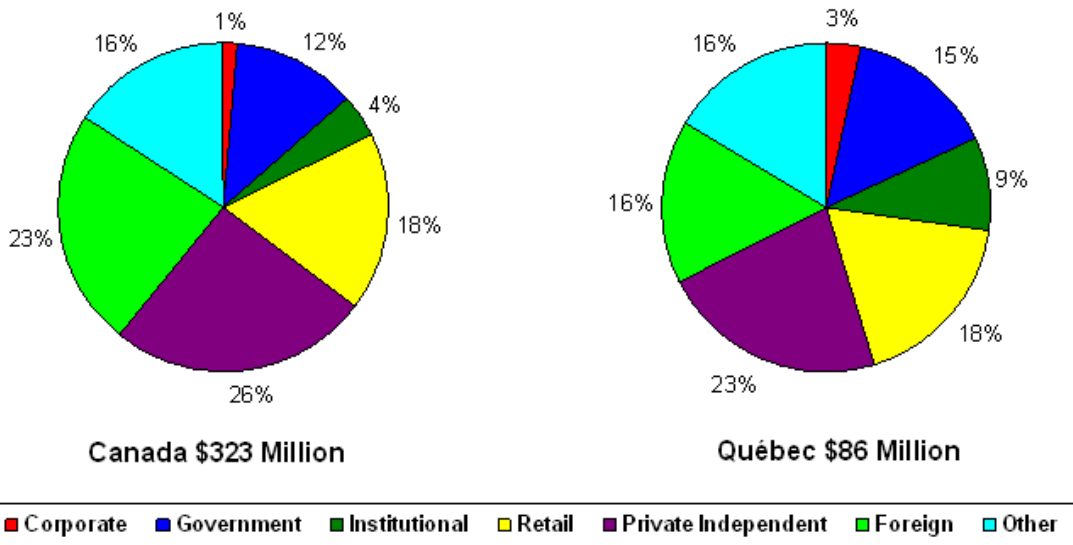
One bright spot in early-stage trends in Québec between January and March was found in startup activity. Company startups, totaling 11, absorbed \$23 million, or approaching three times the \$8 million of Q1 2007. In contrast, seed activity was down, with just over \$1 million invested.

Canada-wide, VC activity gave more emphasis to early-stage firms in the first three months, with \$136 million invested, or 42% of all disbursements, though real activity was down across-the-board from one year ago. As in Québec, expansions captured the largest individual share – 49%.

PRIVATE VC FUNDS LEAD QUÉBEC TRENDS IN Q1 2008

Private-independent funds have been capturing a comparatively greater proportion of total market activity in Québec in recent years, as evidenced in their 15% share in 2007. Prior to 2005, private funds have more often averaged around 10% or less.

Dollars Invested by Investor Type; Q1 2008



© Thomson Reuters. All rights reserved.

In the first three months of 2008, private funds established a milestone by leading VC activity in Québec, with 23% of all disbursements. This translated into \$19 million invested in 13 companies, which is almost unchanged from the year before.

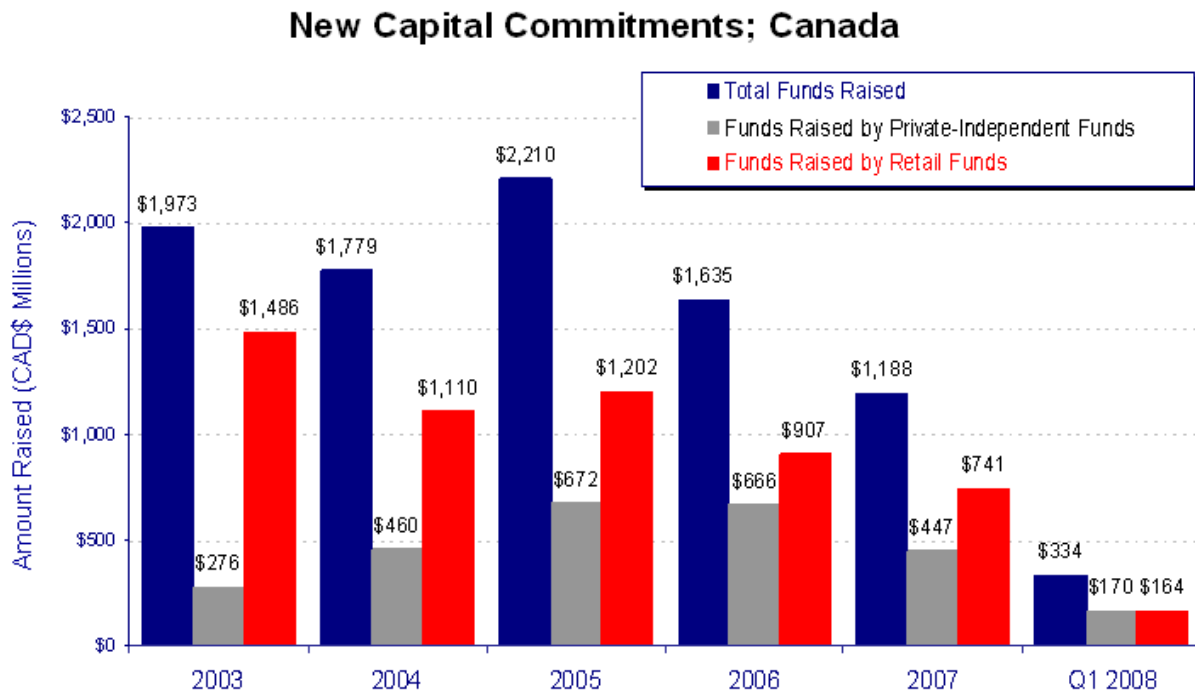
In contrast, the Québec based activity of several other prominent VC funds declined sharply year-over-year. This included American VC funds and other foreign investors, which accounted for one-third of all disbursements during 2007 overall, and brought \$76 million to Québec deals in Q1 2007. This time around, foreign investors brought \$14 million, or a 16% share.

In addition, LSVCC and other retail funds invested \$16 million in 22 companies in Québec in the first quarter, versus \$52 million invested at the same time last year. Consequently, retail fund activity accounted for 18% of the total, which stands below the one-quarter share averaged in recent years.

Government funds contributed \$13 million to Québec activity between January and March, which is up slightly from one year ago, while institutional funds contributed \$8 million, which is also up.

As in Québec, a major variable in slower activity across the Canadian market in Q1 2008 was the significantly reduced presence of American and other foreign investors. In total, foreign activity brought \$76 million to Canadian deals, or a fraction of the \$303 million of Q1 2007. The activity of domestic investors was also sub-par.

VC FUND-RAISING CONTINUES DOWNWARD SLIDE



© Thomson Reuters. All rights reserved.

Between January and March of 2008, levels of new commitments going to Canadian VC funds declined as compared to one year ago, as they typically have since 2001. A total of \$334 million in new resources was raised in the market, down 28% from the \$467 million raised in Q1 2007.

This year-over-year drop was primarily reflected in new commitments to LSVCC and other retail funds, which totaled \$164 million in Q1 2008, or less than half of the \$396 million recorded previously. In contrast, private-independent funds brought in \$170 million, which is already 38% of the way to the total amount raised by them in the whole of 2007.

Of total new commitments across Canada in the first three months, 59% went to VC fund managers based in Québec, in part due to retail activity. In addition, Québec accounted for a share of the new iNovia Investment Fund II LP, one of the largest early-stage partnerships closed to date in Canada.