

QUÉBEC'S VENTURE CAPITAL MARKET IN Q1 2009: AN OVERVIEW

Despite continuing decline in global venture capital (VC) activity, activity in the Québec market actually grew in the first quarter of 2009. A total of \$156 million was invested in Québec, up 33% from \$118 million invested in Q1 2008. The number of Québec VC-backed firms, totaling 50, was unchanged.

Québec-based trends contrasted with Canada-wide VC activity, which experienced a year-over-year drop of 25%, with \$275 million invested between January and March. Activity in the United States fell even further, with US\$3.0 billion invested this time around, down 61% from the year before.

Consequently, Québec accounted for 57% of all disbursements across the country in the first three months, which significantly improves on its 28% share in the whole of 2008. Québec also continued to reflect the largest proportion of VC-backed firms, or 49% of the Canadian number.

A key variable in Québec's Q1 2009 results was larger deal sizes, supported in part by enhanced cross-border activity. Due to a handful of major transactions, amounts invested per company averaged \$3.1 million, as compared to an average of \$2.3 million one year ago.

Increased levels of Québec VC activity in the first quarter were located primarily in communications and other IT sectors, which saw \$82 million invested, up 82% from the year before, and reflecting over half of total activity. Traditional sectors also made gains, attracting \$60 million, which is up 52%. In contrast, life sciences activity was down in both real and relative terms, given a mere \$5 million invested.

After being substantially reduced in 2008, American and other foreign VC activity in Québec was revived in Q1 2009, with \$49 million brought to deals, or 31% of all disbursements. Overall, domestic VC activity also rose, with \$107 million invested, up 8% from one year ago. Among those contributing to this trend were Québec labour-sponsored and other retail funds, and institutional and other investors participating in major deal syndicates.

Canadian VC fund-raising activity was especially tepid in the first three months, with new commitments totaling \$149 million. This is at some distance from the \$418 million committed during the same period last year. VC fund managers based in Québec accounted for 29% of the Q1 2009 total.

NOTICE OF DATA CHANGES

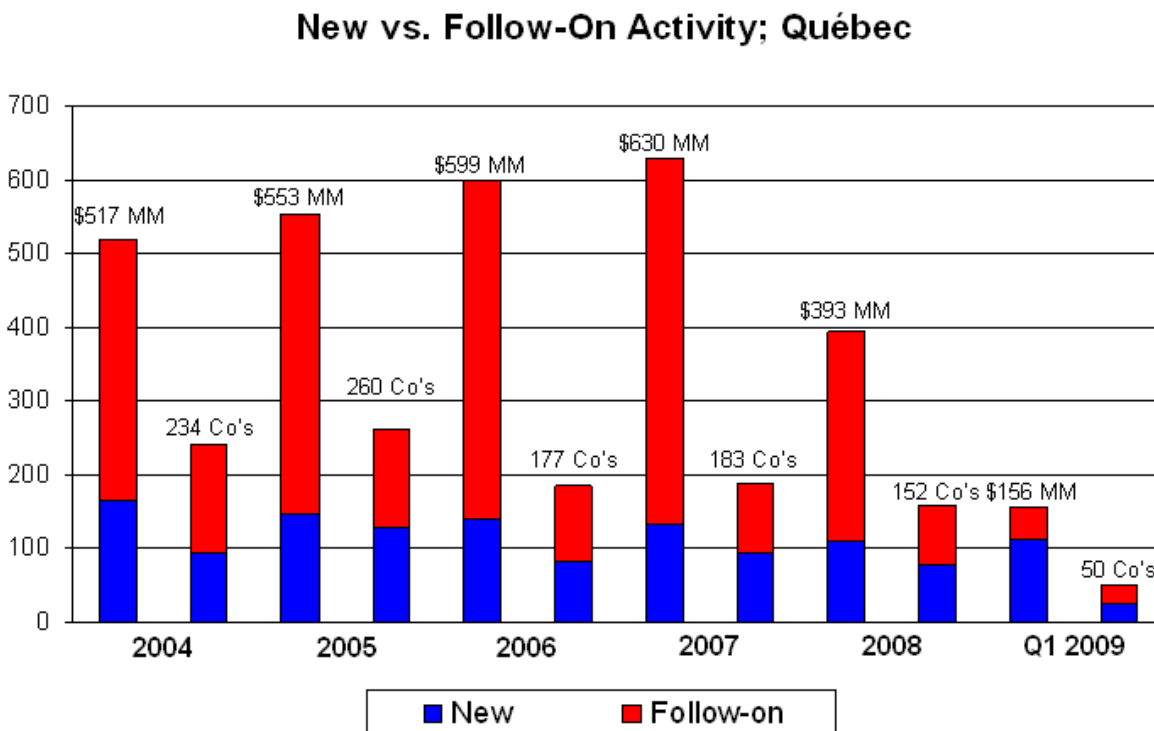
In 2008, Thomson Reuters undertook a major survey of the Canadian venture capital industry, intended to account for the supply impact of consolidation in recent years. This has resulted in a comprehensive restatement of supply statistics effective in Q1 2009.

Following extensive consultations, Thomson Reuters has also introduced changes to its data methodology to account for specific supply issues pertaining to retail funds. The most important of these address: (1) data distortions caused by statutory reserves requirements, and; (2) adjustments to the supply data of Québec labour-sponsored and other retail funds to better reflect their diverse private equity activity over time.

Thomson Reuters believes restated statistics will provide a more accurate picture of market supply conditions in quarterly reports of venture capital activity across Canada and in Québec. For more information, please go to www.canadavc.com and see Glossary/Capital Supply Methodology.

QUÉBEC VC GROWS IN SLOW MARKET

Despite continuing, widespread decline in global venture capital (VC) activity, activity in the Québec market actually grew in the first quarter of 2009. A total of \$156 million was invested in Québec, up 33% from \$118 million invested during the same period in 2008. Q1 2009 activity also surpassed that of three months earlier, when \$90 million was invested.



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Increased dollars went to an unchanged number of Québec firms. Companies financed with VC totaled 50 between January and March, which is the same number of companies financed in Québec one year ago.

Québec-based activity contrasted sharply with trends at the Canada-wide level, where disbursements fell 25%, from \$367 million in Q1 2008 to \$275 million this time around. Key to this result was a plunge in VC activity in Ontario, which saw a year-over-year drop of 62%.

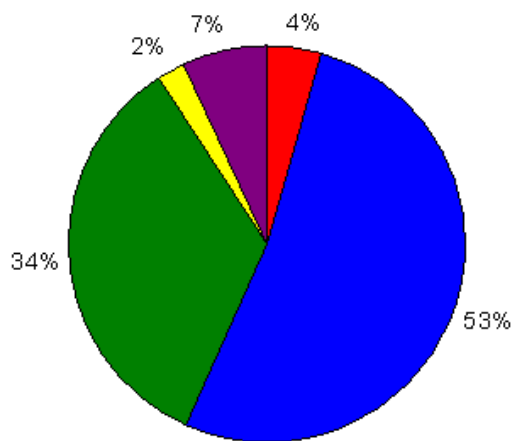
Consequently, Québec accounted for a whopping 57% of all disbursements across the country in the first quarter, which significantly improves on its 28% share in the whole of 2008. Québec also continued to reflect the largest proportion of VC-backed firms, or 49% of the overall Canadian number.

Québec trends were also at odds with those in the American market, where the decline in VC activity was especially pronounced in Q1 2009. A total of US\$3.0 billion was invested in 558 companies in the United States, or 61% below the US\$7.7 billion of the year before.

A key variable in Québec's first quarter results was larger deal sizes, supported in part by enhanced cross-border activity. A handful of major deals, including the US\$30 million financing of Zoom Media of Montréal, contributed to amounts invested per firm in Québec averaging \$3.1 million, up from \$2.3 million one year ago, and \$1.7 million in Q4 2008.

New deal activity in Québec also experienced growth in the first three months. Half of the companies financed were seeking VC for the first time, and these secured \$111 million, or better than double the \$43 million of Q1 2008. This gave new activity 71% of all disbursements, which greatly exceeds its 28% share in the entire of last year.

Dollars Invested by Québec Region; Q1 2009



Québec \$156 Million

■ Hull Region ■ Montréal Region ■ Québec Region ■ Sherbrooke Region ■ All other Québec Regions

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Montréal once again dominated Québec VC activity, though not to the same degree as in past. Between January and March, Montréal accounted for over half of total dollars invested, or \$82 million, followed by Québec City with a more than one-third share, or \$53 million.

QUÉBEC IT DRIVES Q1 2009 TRENDS

Increased levels of Québec VC activity in the first quarter were located in several technology and non-technology industry sectors. The primary source was communications and other IT sectors, which in combination saw \$82 million going to a dozen companies, up 82% from the \$45 million invested the year before.

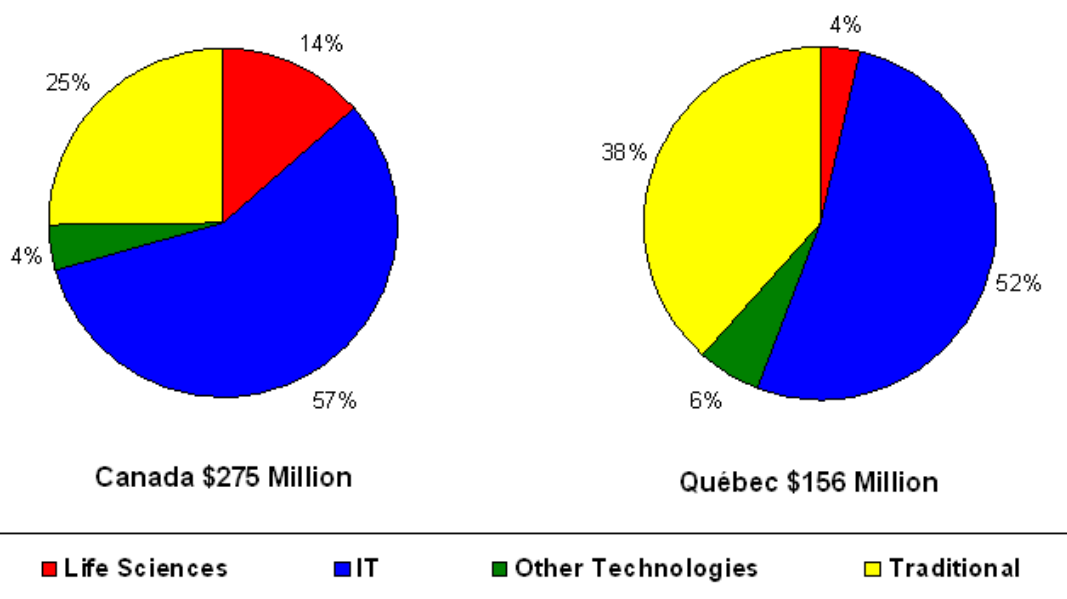
As a result, IT-related activity accounted for over half of all disbursements in Québec in Q1 2009. This compares against its 41% share in 2008 overall.

Telecom led this trend, as 2 firms, including Montréal's Airborne Mobile, consumed \$54 million, which greatly improves on the \$17 million of one year ago. Dorval's Wavesat Wireless and 4 other semiconductor firms also made year-over-year gains, garnering \$14 million, as compared to a prior \$2 million. Similarly, Trellia Networks of Montréal and 2 other software firms took \$10 million this time around versus \$1 million in Q1 2008.

IT sectors also led activity on a Canada-wide basis between January and March, with \$157 million invested, or 57% of all disbursements. However, in real terms, this activity was down 9% from the same time last year.

Unlike IT-related activity, activity in biopharmaceuticals and other life sciences sectors in Québec was sharply reduced in the first quarter. A mere \$5 million went to 4 life sciences companies, or roughly one-quarter of the \$21 million invested the year before. As a result, life sciences activity obtained only 4% of total VC activity, which is one of its lowest shares on record.

Dollars Invested by Sector; Q1 2009



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The theme was similar across Canada, with \$37 million invested in life sciences sectors in Q1 2009, down 40% from Q1 2008. Consequently, these sectors accounted for a sub-par 14% of all disbursements.

Despite a major deal involving Montréal-based Vertal, activity in environmental and other technology sectors in Québec also declined between January and March. Just over \$9 million was invested in 2 companies, or 24% below the \$12 million of the same period last year.

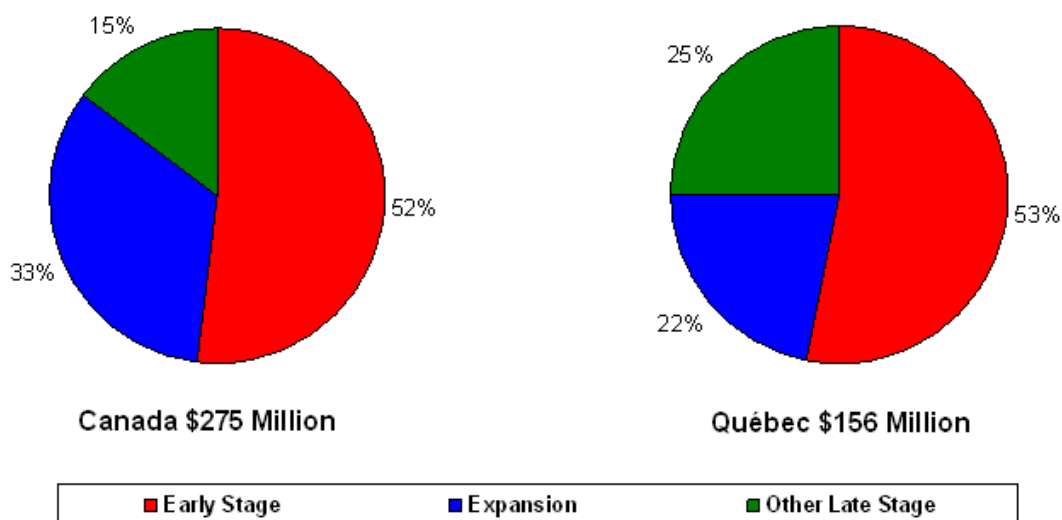
Like IT sectors, non-technology sectors in Québec had some momentum in the first quarter. Due mostly to Zoom Media and other business and consumer services-related activity, these sectors reflected \$60 million going to 32 companies, up 52% from the \$39 million of Q1 2008. Traditional activity thereby took 38% of total dollars invested this time around, which improves on its one-fifth share during the entire of last year.

QUÉBEC STARTUPS POWER EARLY-STAGE GAINS

After a steady decline over the course of 2008, early-stage VC activity in Québec had something of a comeback in Q1 2009. While early-stage firms, totaling 18, were in the minority, they attracted over half of the dollars, or \$83 million. Real activity was also way up in the first quarter, given the \$35 million that went to early-stage deals at the same time last year.

Leading these trends was company startups, 8 of which captured \$65 million between January and March, or better than triple the \$21 million of Q1 2008. Startups alone accounted for 42% of total activity in Québec, as compared to an 11% share during the whole of last year. Other early-stage activity also increased 63%, with \$18 million invested. However, no seed activity was reported this time around.

Dollars Invested by Stage; Q1 2009



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In contrast, Québec late-stage deal activity lost ground in the first three months. A total of \$73 million was invested in 32 late-stage companies, or 47% of all disbursements, and down 11% from \$82 million one year ago.

This trend was linked with an especially sharp drop in VC going to expanding firms, which saw \$34 million invested in Québec in Q1 2009, or less than half of the \$74 million registered in the same period in 2008. Substantial year-over-year growth in other late-stage activity, which obtained \$39 million, failed to offset this result.

Across Canada, early-stage activity also led in the first quarter, accounting for 52% of all disbursements, or \$143 million, though this was down 5% from the year before. With \$132 million invested, late-stage activity fell an even greater 39%.

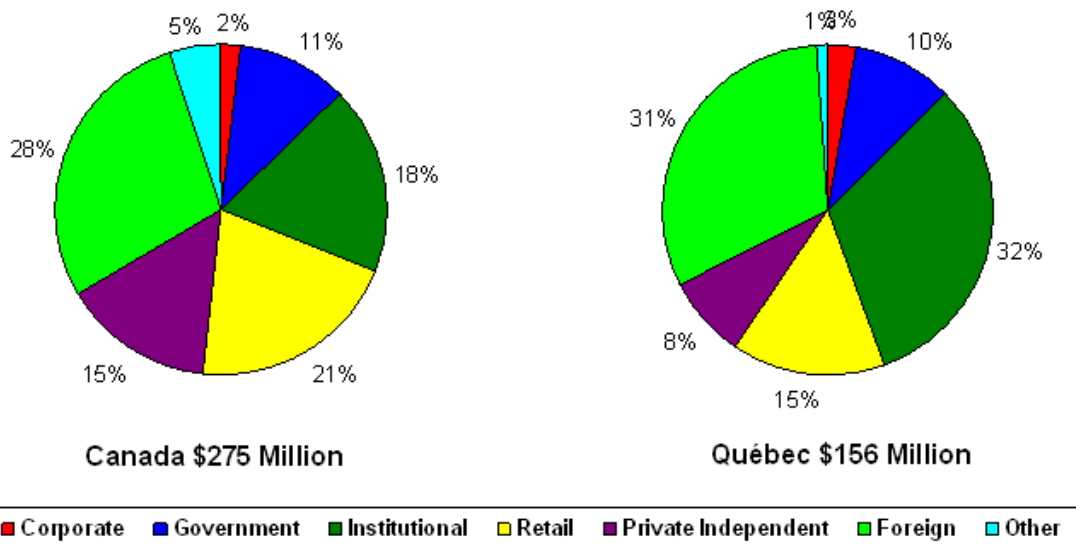
FOREIGN VC ACTIVITY RETURNS IN Q1 2009

The activity of American VC funds and other foreign investors in the Québec market, which fell precipitously last year, was revived in the first three months of 2009. Cross-border activity brought a total of \$49 million to Québec deals, or better than double the \$18 million of Q1 2008. This activity was key to several major financings, including that of Zoom Media.

Consequently, foreign investors were responsible for 31% of all disbursements in Québec between January and March. This share is well above the 21% accounted for in 2008 overall, and approximates the peak level reached in 2007.

The activity of locally-based VC funds and other Canadian investors active in Québec also rose in the first quarter, with \$107 million invested, up 8% from \$99 million during the same period last year. Close to half of domestic dollars came from institutional investors and other sources that participated in a handful of deal syndicates.

Dollars Invested by Investor Type; Q1 2009



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Québec labour-sponsored and other retail funds also increased their activity slightly on a year-over-year basis, with \$24 million invested in 34 companies, as compared to \$23 million one year ago. As a consequence, retail fund activity reflected 15% of total VC activity in Québec in Q1 2009.¹

Government VC funds also increased their activity 17%, putting \$15 million to work between January and March. In contrast, the activity of private-independent funds in Québec was sub-par, with \$12 million invested, or 32% below activity recorded the year before.

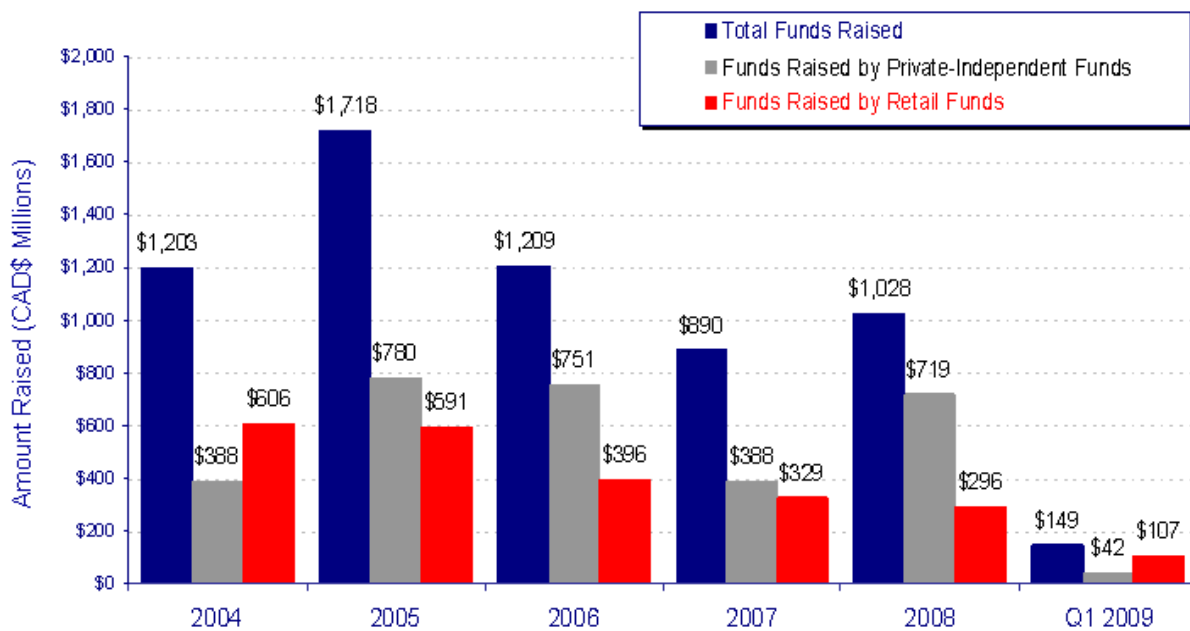
Canada-wide, the majority of investor groups slowed their VC activity in the first quarter. The activity of foreign investors proved relatively steady, with \$79 million invested, while domestic investors accounted for \$196 million, down 31% from Q1 2008.

VC FUND-RAISING PLUNGES IN Q1 2009

Fund-raising activity reported in the Canadian market was especially tepid in the first three months of 2009. New commitments of capital going to VC funds totaled a modest \$149 million, which is at some distance from the \$418 million committed at the same time last year. VC fund managers based in Québec accounted for 29% of the Q1 2009 total.

¹ Québec labour-sponsored and other retail funds are increasingly doing a mix of direct VC activity and limited partner activity (i.e., making commitments to private funds – see next section). Both roles are relevant to reports of market trends.

New Capital Commitments; Canada



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Across the country, LSVCC and other retail funds were responsible for the largest share of new commitments, taking 72% of the total, or \$107 million. The balance was raised by private funds. In both cases, new resources brought into the market in the first quarter were sub-par as compared to one year ago.

As part of their broad market role, Québec-based labour-sponsored and other retail funds continued to commit new supply to private funds between January and March. Related commitments were reported as totaling \$27 million.