

QUÉBEC'S VENTURE CAPITAL MARKET IN Q2 2008: AN OVERVIEW

Deal activity in the Québec venture capital (VC) market declined in the second quarter of 2008. A total of \$68 million was invested, or less than half of the \$153 million of Q2 2007. Activity was also down 21% from three months earlier, when \$86 million was invested.

Slower market conditions were apparent across North-America. Canada-wide, VC disbursements totaled \$302 million, which is down 31% from one year ago. In the United States, US\$7.4 billion was invested in the second quarter, which is effectively flat on a year-over-year basis.

Consequently, Québec accounted for 22% of total Canadian dollars invested between April and June. Relatively few large-sized deals contributed to these results, with the amount invested per company in Québec averaging \$2.1 million between April and June.

Most Québec VC activity in Q2 2008 was situated in IT and life sciences sectors. IT-related activity reflected \$31 million invested, or 46% of all disbursements, though activity dropped sharply in real terms, year-over-year. Life science saw \$28 million invested, or a 42% share, and was largely unchanged from the year before.

The slower pace was apparent across all key investor groups. LSVCC and other retail funds led with \$18 million invested in Québec, though this was less than half of their \$47 million in Q2 2007. The same held true for American VC funds and other foreign investors, which brought \$17 million to Québec deals in the second quarter. Private funds accounted for \$15 million invested, down 22%.

In contrast, levels of new commitments to Canadian VC funds grew in Q2 2008, with \$356 million raised in total, up 31% from \$272 million one year ago. Private fund-raising accounted for 73% of the total, and retail fund-raising the balance. VC fund managers focused on Québec deals captured over one-quarter of new resources.

Notice of Data Changes

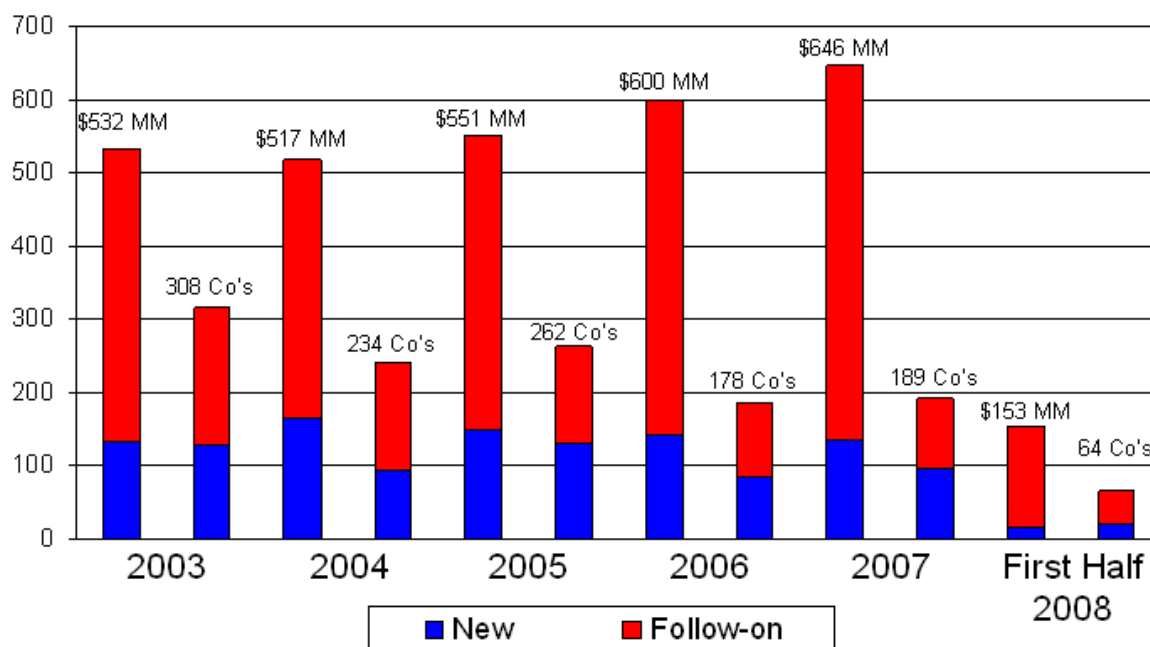
In their mandates for investing risk capital in Québec small businesses, LSVCC and other retail funds have been undertaking a diverse range of private equity activity. Thomson Reuters Canada is working closely with fund managers to ensure that the full range of this activity is captured and advises that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

QUÉBEC VC ACTIVITY SLOWS FURTHER IN Q2 2008

On the heels of a slow first quarter, deal activity in the Québec venture capital (VC) market again fell in the second quarter of 2008. A total of \$68 million was invested, or less than half of the \$153 million invested in Q2 2007. Activity was also down 21% from three months earlier, when \$86 million was invested.

Québec companies financed were also fewer on both a year-over-year and quarter-over-quarter basis. In all, 32 firms received VC between April and June, as compared to 72 firms the year before, and 40 firms in Q1 2008.

New vs. Follow-On Activity: Québec



© Thomson Reuters. All rights reserved.

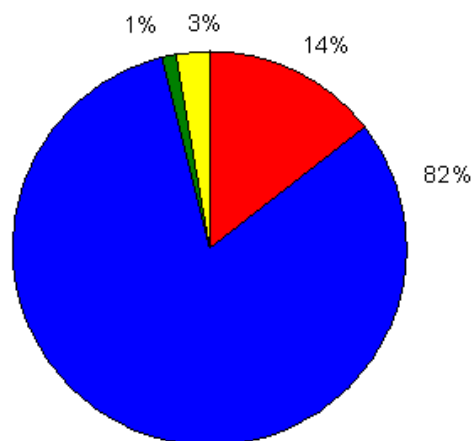
Québec market results to date in 2008 also point to the slower rate of deal making. In the first six months, \$153 million has been invested in 64 companies, or less than half of the \$324 million invested during the same six-month period in 2007.

Lower levels of activity were also apparent in the rest of Canada and in the United States. Across the country, VC disbursements totaled \$302 million in the second quarter, which is down 31% from the \$436 million of one year ago. The number of Canadian companies financed, totaling 105 in Q2 2008, also reflected a substantial drop.

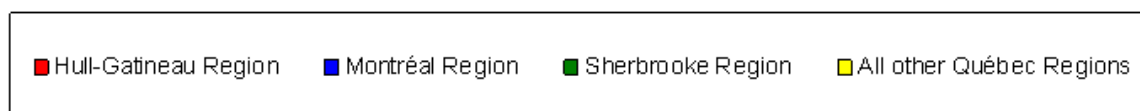
In the American VC market, disbursement levels were largely flat between April and June. A total of US\$7.4 billion was invested in 986 companies in the United States, effectively matching the total of one year ago.

Québec VC activity also lost significant domestic market share. Dollars invested in Québec reflected 22% of the Canada-wide amount in the second quarter, as compared to the 31% share of 2007 as a whole. In contrast, Ontario gained market share, with dollars invested totaling \$155 million, or 51% of the total.

Dollars Invested by Québec Region; Q2 2008



Québec \$68 Million



© Thomson Reuters. All rights reserved.

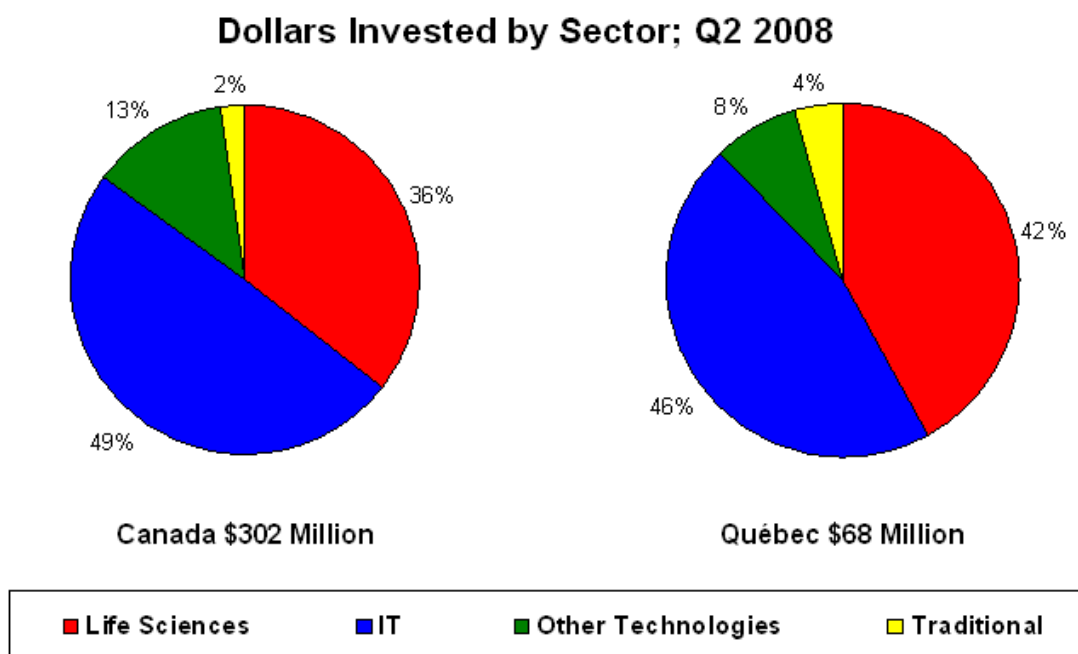
Relatively few major transactions contributed to the slower conditions in Québec. The average amount invested per company was \$2.1 million this time around, as it was in the first quarter. While the average was no larger at the same time in 2007, 2008 trends contrast with what has mostly been growth in VC deal capitalization in Québec in recent years.

Follow-on deal activity was even more influential in Québec trends in Q2 2008, accounting for 92% of all disbursements. This share exceeds the 79% of 2007 overall, which represented a high as compared to previous years. First-time activity accounted for a mere \$5 million invested in 4 firms, versus the \$40 million invested in Q2 2007.

Montréal based activity was predominant in this environment, consuming 82% of all disbursements in Québec in the second quarter, or \$55 million. The only other Québec region taking a relatively large share was Hull-Gatineau, with 14%.

QUÉBEC IT, LIFE SCIENCES SHARE Q2 2008 VC

VC activity in Québec between April and June was once again led in IT sectors. However, while IT-related activity increased year-over-year in the first quarter, it decreased in the second. In total, \$31 million was invested in 14 companies, or 46% of all disbursements, but also roughly one-third of the \$89 million invested in Q2 2007.



© Thomson Reuters. All rights reserved.

In the IT space, 3 electronics and semiconductor firms attracted \$10 million, which is actually twice the \$5 million of one year ago. Montréal's WideSail Technologies was among 6 telecom firms that also consumed \$10 million, though this is well down from the previous \$29 million. Four internet-related firms including Montréal's MediaScrape, took \$8 million in Q2 2008, which is also down from \$29 million.

Canada-wide, activity in IT sectors as also at the forefront in the second quarter, accounting for close to half of all disbursements. However, real activity, totaling \$150 million, declined 32% as compared to the year before.

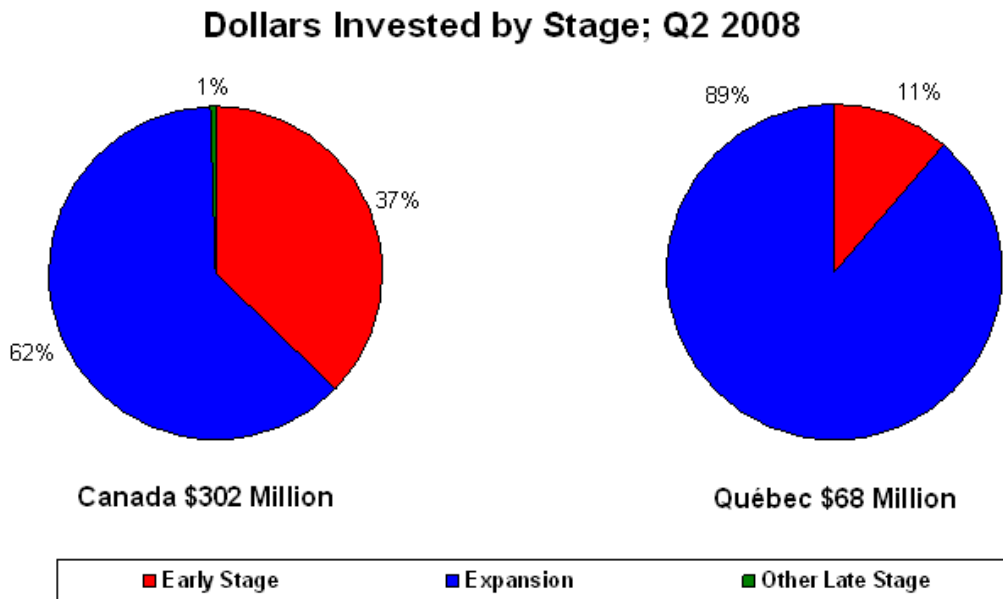
Not far behind IT-related activity in Québec was activity in biopharmaceuticals and other life sciences sectors. These sectors saw \$28 million invested in Q2 2008, or 42% of total VC activity, and which effectively matches the \$27 million of the same period in 2007. Alethia Biotherapeutics of Montréal was among 9 life sciences companies financed with VC this time around.

In contrast, activity in life sciences sectors across Canada was reduced, with \$107 million invested, or 17% shy of the dollar amount of one year ago. This gave life sciences activity 36% of all disbursements in the second quarter.

Activity in other Québec sectors was below par on a year-over-year basis. Other technology sectors garnered \$5 million in between April and June, and non-technology sectors, \$3 million, as compared to a respective \$10 million and \$26 million the year before.

QUÉBEC EXPANSION DEALS TAKE MOST DOLLARS

Expansion transactions accounted for an especially large share of VC activity in Québec in the second quarter. In total, 25 expanding firms captured \$60 million, or 89% of all disbursements. This compares against the 60% share in the whole of 2007, itself substantial relative to prior years.



© Thomson Reuters. All rights reserved.

This being said, expansion-related activity was reduced 37% in real terms, given the \$95 million invested during the same time last year. Also in contrast with Q2 2007, there was no other late-stage activity reported in Q2 2008.

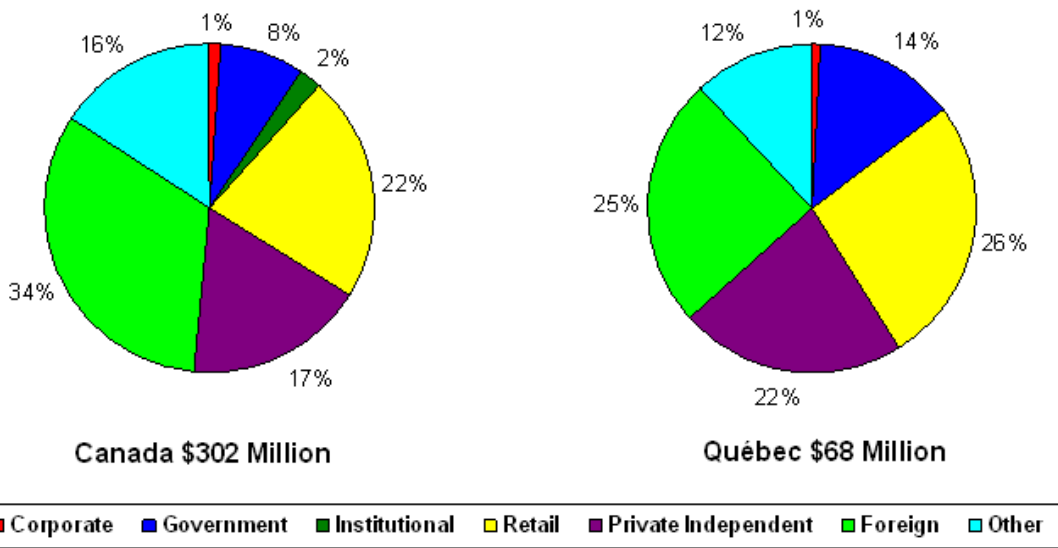
As in the first quarter, Québec seed, startup, and other early-stage activity declined precipitously between April and June. Total activity reflected \$8 million invested in 7 firms, which is at some distance from the \$51 million invested the year before. Consequently, early-stage deals accounted for a mere 11% share of all disbursements, versus 36% in 2007 overall.

Across Canada, expansion activity also led in the second quarter, with \$188 million invested, or 62% of total activity. Early-stage activity fared somewhat better than in Québec, taking \$112 million and a 37% share, though down 12% in real terms from Q2 2007.

ACTIVITY OF ALL QUÉBEC-FOCUSED VC FUNDS SLOWS

With respect to key investors, the slower pace of VC activity in Québec in the second quarter was apparent across the board. LSVCC and other retail funds led the pack, with \$18 million invested in 18 companies, or 26% of all disbursements. However, the Q2 2008 activity of retail funds was less than half the \$47 million they accounted for one year ago.

Dollars Invested by Investor Type; Q2 2008



© Thomson Reuters. All rights reserved.

American VC funds and other foreign investors occupied second spot, bringing \$17 million to Québec deals, or one-quarter of the total. However, this activity was down 47% from the \$31 million of Q2 2007. To date in 2008, foreign disbursements have totaled \$30 million, which is well shy of the \$108 million they brought to Québec in the first half of last year.

Private-independent funds took third spot, investing \$15 million in 10 companies, down 34% from the \$23 million of the year before. Consequently, private funds reflected 22% of all disbursements in Québec in the second quarter, which is comparable to their above average Q1 2008 share.

Government funds contributed \$9 million to Québec activity between April and June, or roughly half of their \$20 million of one year ago. The activity of other VC funds was also sub-par on a year-over-year basis.

The activity of both domestic and foreign investors was also reduced Canada-wide. American and other foreign investors brought \$106 million to Canadian deals, or 14% less than in Q2 2007. However, this activity proved somewhat steadier than that of other key investors.

VC FUND-RAISING PICKS UP IN Q2 2008

In contrast with deal activity, levels of new commitments to Canadian VC funds increased in the second quarter. A total of \$356 million in new funds was raised, up 31% from the \$272 million raised at the same time last year. Activity was also up slightly from Q1 2008.

Most of the growth was accounted for by new commitments to private funds, which raised \$259 million between April and June, or 73% of the total. LSVCC and other retail funds made up the balance, raising \$97 million. Over one-quarter of new commitments, Canada-wide, went to VC fund managers focused on Québec deals.

However, year-over-year comparisons of trends in the first six months indicate 2008 fund-raising activity is still lagging. Between January and June, a total of \$690 million in new resources was committed to domestic VC funds. This is 7% below the \$739 million raised during the comparable period in 2007.