

Québec's Venture Capital Market in Q3 2009

Deal activity in Québec's venture capital (VC) market further contracted in the third quarter of 2009, as \$87 million was invested in total, or 21% below the \$110 million invested at the same time last year. Dollars flowed to 47 companies based in Québec, down 15% year-over-year.

However, levels of Québec VC activity appeared fairly steady in comparison to activity elsewhere in the North American market. Across Canada, a total of \$191 million was invested between July and September, down 51% from the year before, while disbursements in the United States fell 31% over the same period.

At the end of the first nine months of 2009, Québec-based activity was also running ahead of the Canadian market as a whole. To date, a total of \$308 million has been invested in Québec, which is actually up 2% from the \$303 million invested one year ago. Over the same time, VC activity across Canada declined 36%.

Despite a handful of major deals done in Québec in the third quarter, including the US\$50 million financing of Montreal's Enobia Pharma, amounts invested per firm continued to slide. VC injections averaged \$1.8 million, down from \$2.0 million in Q3 2008, and from \$2.4 million in Q3 2007.

Québec IT and life sciences firms largely divided Q3 2009 VC activity between them. Despite a year-over-year drop of 32% in dollars invested, companies in IT sectors led with 45% of all disbursements, while life sciences activity rose 11%, and secured a 39% market share. In contrast, non-technology activity lost ground in both real and relative terms.

American VC funds and other foreign investors returned in force to the Québec market between July and September, bringing \$50 million to deals, or 57% of the total, and triple the \$16 million of Q3 2008. In contrast, the Québec activity of domestic VC funds fell 61% over the same period, following two quarters of consecutive growth.

Fund-raising in Canada's VC market was considerably slower in Q3 2009, as new commitments totaled \$65 million, or half of the \$131 million committed the year before, though private funds made some year-over-year gains. Just under half of all new resources flowed into the coffers of Québec fund managers.

Notice of Data Changes

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

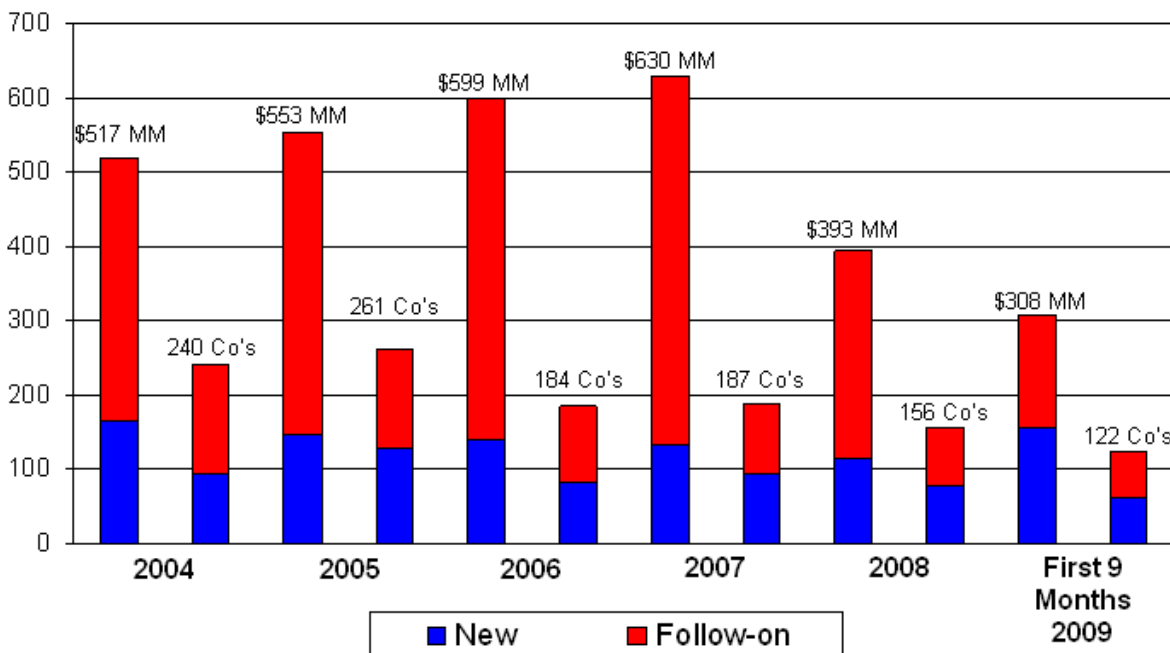
Following extensive consultations, Thomson Reuters has also introduced changes to its data methodology to account for specific supply issues pertaining to retail funds. The most important of these address: (1) data distortions caused by statutory reserves requirements, and; (2) adjustments to the supply 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.

Pace of Québec VC Activity Continues to Slow

Deal activity in Québec's venture capital (VC) market further contracted in the third quarter of 2009, as \$87 million was invested in total, or 21% below the \$110 million invested at the same time last year. However, activity showed some improvement as compared with Q2 2009, with disbursements rising 25%.

New vs. Follow-On Activity; Québec



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VC dollars also flowed into slightly fewer Québec-based companies, 47 of which were financed in total between July and September, down 15% from the 55 companies financed the year before. As compared to three months earlier, the number was unchanged.

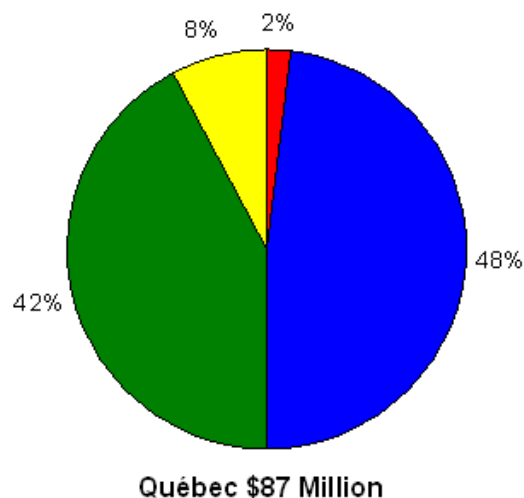
However, levels of Québec VC activity in Q3 2009 appeared fairly steady in comparison to activity elsewhere in the North American market. Across Canada, a total of \$191 million was invested in this period, down 51% from \$388 million in Q3 2008. Key to this trend was an 87% drop in Ontario-based disbursements. In addition, VC activity in the United States fell 31% year-over-year, with US\$4.9 billion invested.

Consequently, Québec accounted for 45% of all disbursements made in Canada in the third quarter, which is well above its traditional market share. In contrast, Ontario accounted for a mere 13% share. As in past, Québec also reflected close to half of all domestic firms in receipt of VC financing.

At the end of the first nine months of 2009, Québec-based activity was also running ahead of the Canadian market as a whole. To date, a total of \$308 million has been invested in Québec, which is actually up 2% from the \$303 million invested one year ago. Over the same time, activity throughout Canada declined 36%.

Despite a handful of major deals done in Québec between July and September, including the US\$50 million financing of Montreal's Enobia Pharma, amounts invested per firm continued to slide. VC injections averaged \$1.8 million, down from \$2.0 million in Q3 2008, and from \$2.4 million in Q3 2007.

Dollars Invested by Québec Region; Q3 2009



■ Hull Area ■ Montréal Area ■ Québec Area ■ Rest of Québec

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In the third quarter, Québec companies seeking VC for the first time were once again paid less attention by the market than companies already residing in fund portfolios. New deals saw \$23 million invested, or 27% of all disbursements, and 39% shy of activity the year before in real terms.

Montréal was home to the largest proportion of VC-backed firms in Québec, but not to the same degree as in prior quarters. In Q3 2009, the region accounted for very nearly half of total dollars invested, but this time had strong competition from Québec City, which registered a 42% share.

Québec IT and Life Sciences Vie for Top Spot

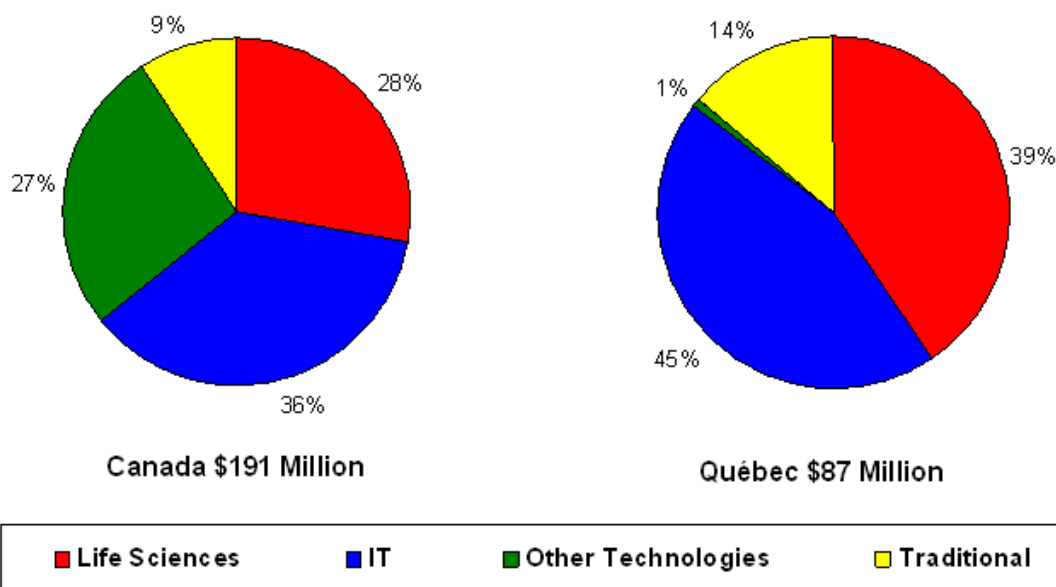
Québec VC activity in the third quarter witnessed a contest for first place finish between the two highest profile technology sectors. On balance, IT edged out life sciences with respect to dollars invested, however, it was that latter that experienced year-over-year gains.

IT sectors led primarily on the strength of deal activity involving communications and networking firms, such as Vantrix of Montréal, which attracted \$29 million in Q3 2009, or better than triple their \$8 million in Q3 2008. In addition, Gatineau's PCI Geomatics and 3 other electronics and hardware firms took \$8 million, or twice the \$4 million invested one year ago.

These trends brought IT-related activity to an overall total of \$39 million invested in 9 companies between July and September, or a 45% share of all disbursements made in Québec. However, as compared to the \$57 million invested during the same period last year, real activity posted a decrease of 32%.

Not far behind, VC activity in life sciences sectors comprised \$35 million going to 8 companies, or 39% of the Québec total in the third quarter, and up 11% from \$32 million invested the year before. Activity was driven by financings of biopharmaceutical firms, including Montréal's Enobia and Allosteria Pharma, and Myca Health of Québec City.

Dollars Invested by Sector; Q3 2009



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Non-technology activity in Québec lost in Q3 2009 some of the momentum shown earlier in the year. A total of \$12 million went to 28 companies, or 39% below the \$20 million of the same time last year. Consequently, after absorbing over one-third of all disbursements in the first half of 2009, traditional sectors held only 14% this time around.

Canada-wide, IT-related activity was also at the forefront, with 36% of total VC activity, followed by life sciences activity, with 28%. Both sectors saw year-over-year declines in real terms that was not made up by increased clean-tech activity.

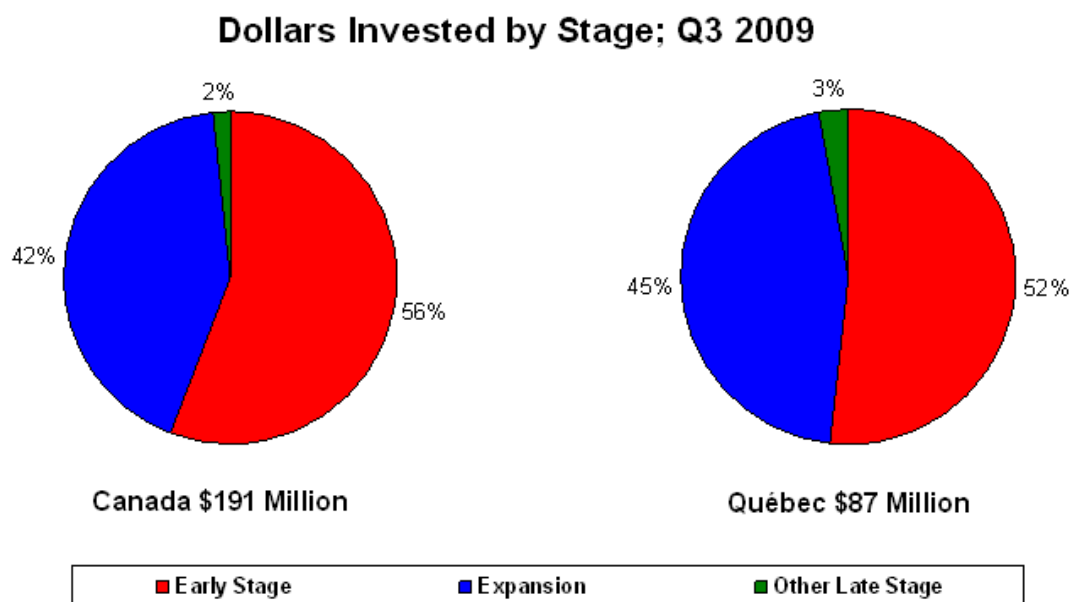
Few Early-Stage Deals Grab Most Cash

While the vast majority of Québec companies financed with VC in the third quarter were later stage in development, it was a small few early-stage companies that picked up most of the dollars. Thirteen firms involved in early-stage deals accounted for 52% of total activity, or \$45 million.

A half dozen company startups led this trend, capturing \$29 million, or 34% of all disbursements, and better than double the \$12 million invested in Q3 2008. Indeed, it was this startup activity that spurred 16% growth in early-stage activity as a whole in Q3 2009, given the \$39 million that was invested at this end of the spectrum one year ago.

Expanding firms, totaling 27 between July and September, continued to dominate late-stage trends in Québec, with \$39 million invested, though this was 17% below the \$47 million of the year

before. Obtaining just over \$2 million this time around, the year-over-year drop in other late-stage deal activity was even sharper.



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Across Canada, early-stage financings also garnered the largest share of all disbursements in the third quarter, or 56%. However, in contrast with Québec market outcomes, this occurred despite a 43% shortfall in real activity from the same time in 2008.

Foreign VCs Supply Fuel to Québec Deals

Following a quiet second quarter, American VC funds and other foreign investors returned in force to the Québec market in Q3 2009, bringing \$50 million to deals. This level of activity is three times greater than the \$16 million invested during the same period in 2008.

As a result, foreign activity provided 57% of all disbursements in Québec, which well exceeds its average market share in recent years, and certainly the 25% recorded in the first half of the year. Moreover, Québec accounted for 64% of total cross-border activity in Canada in the third quarter.

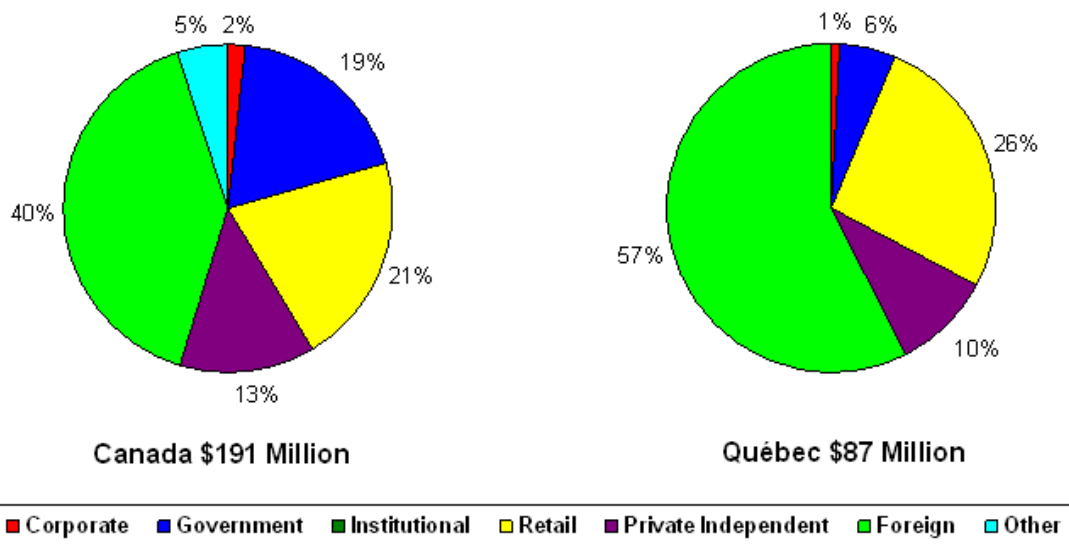
Local VC funds and other Canadian investors instead slowed the rate of their Québec activity between July and September. Combined activity totaled \$37 million, down 61% from the \$94 million invested one year ago. This trend also contrasts with trends in Q1 2009 and Q2 2009, which saw consecutive, year-over-year increases in domestic disbursements.

Québec labour-sponsored and other retail funds led among local investors, putting \$23 million to work in 34 companies, though this is less than half of their \$54 million invested at the same time last year. Retail fund activity consequently accounted for over one-quarter of total VC activity in the third quarter.¹

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). Both roles are relevant to reports of market trends.

The activity of private-independent funds fell even further, from \$28 million invested in Q3 2008 to \$8 million invested this time around. This gave private funds a sub-par 10% share of all disbursements in Québec.

Dollars Invested by Investor Type; Q3 2009



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Reduced VC activity was apparent among both domestic and foreign investors in the Canadian market in the third quarter. Due chiefly to VC deals done in Québec, cross-border activity nonetheless assumed 40% of total activity country-wide.

VC Fund-Raising Shows Little Life in Q3 2009

Fund-raising in Canada's VC market was considerably slower in the third quarter of 2009, as new supply going to fund managers totaled \$65 million, or half of the \$131 million committed the year before. On the plus side, partnership closings accounted for 53% of total commitments, or \$35 million, which is up 40% from the \$25 million that went to private funds in Q3 2008.

At the end of the first nine months of the year, \$504 million in new resources have flowed into the coffers of domestic VC fund managers. This level of activity indicates a drop of 48% as compared to one year ago, when the total was \$970 million.

Just under half of new commitments made in the Canadian market between July and September went to fund managers based in Québec. Québec-based VC funds have also absorbed a comparable 48% share of all inflows reported since January.