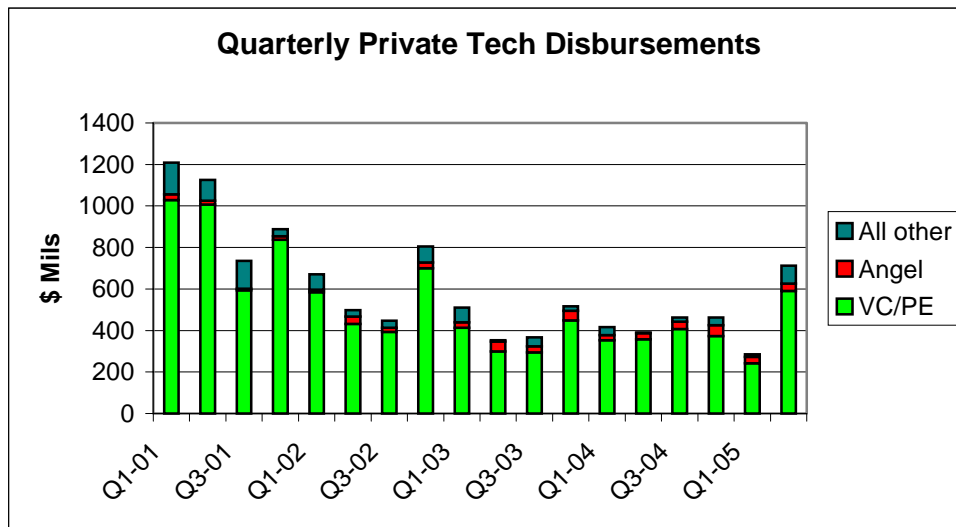


## Q2 2005 Venture Capital Disbursements - Best Quarterly Results Since 2003

2005, however, may continue the downward trend again

Canadian technology venture capital activity increased dramatically in the second quarter of 2005, recording the largest quarterly result since 2003. During the second quarter of 2005, private tech disbursements reached \$712 million overall, \$591 million of which were by venture capital and private equity (VC/PE) firms.

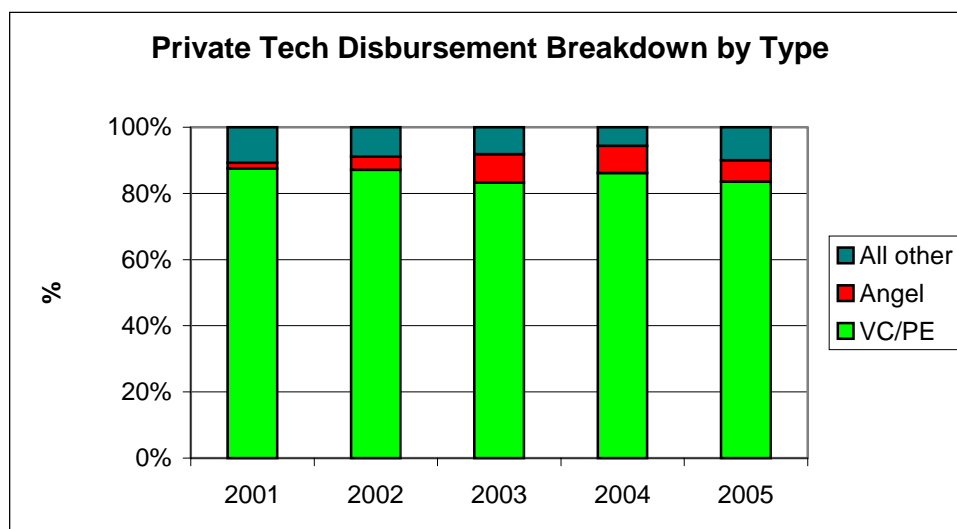
The overall private tech disbursements in Q2 2005 increased by 83% from the \$390 million tech companies received at the same time last year, by 150% from the \$285 million recorded in Q1 2005. The \$591 million VC/PE disbursements in Q2 2005 were up by 65% and 144% respectively from the \$358 million recorded in Q2 2004 and the \$243 million in Q1 2005.



The increase was primarily driven by the ramped up investment activities in the Ottawa region. Ottawa technology companies secured \$315 million overall in private funding and \$241 million from VC/PE firms in Q2 2005, up substantially from \$50 million and \$46 million respectively in overall and from VC/PE sources in Q1 2005.

### Angel Investors Important Tech Finance Participants

The amount invested by angel investors in the first half of 2005 accounted for 6.5% of the overall tech disbursements, down slightly from the 8.2% share in 2004. Since 2003, both the absolute amount invested by angel investors and angel investors' share of total disbursements have been on the increase.



### **IT and Life Science Sectors Dominate Private and Public Tech Financings**

In the first half of 2005, private IT companies secured \$556.6 million while private life science (LS) companies garnered \$362 million.

IT companies have been the favorite targets of private technology funding. Since 2001, private IT companies have raised \$6.96 billion in aggregate, more than twice of the \$2.57 billion received by private LS companies.

Public LS companies raised \$475.8 million, more than half of the \$856 million total amount raised by all technology companies during the first half of 2005. By comparison, public IT companies managed to raise only \$244.6 million during the same period.

With the exception of year 2004, LS companies have consistently raised more capital from public markets than the IT companies did. Since 2001, LS companies have collectively raised \$4.2 billion in aggregate from public markets, comparing to the \$3.5 billion raised by IT companies.

### **Ottawa, Top VC Destination, Greater Toronto and Calgary, Hubs of Angel Investments**

In the first half of 2005, Ottawa tech companies attracted \$286.8 million from VC/PE sources, \$100 million more than the amount received by the tech companies in the Greater Montreal area (514/450 area codes). Toronto (416 only) ranked as third in total amount raised by private tech companies, attracting \$133.6 million in VC/PE money during the same period.

613 Area Code (Ottawa only) has consistently been the top destination of VC/PE funding since 2001. With the exception of the year 2003 and 2004, Ottawa remains as the number one region in attracting VC/PE money. In the years of 2003 and 2004, Greater Montreal replaced Ottawa as the number one destination.

**Top 5 VC/PE Destinations (\$ millions)**

Area Code	2001	2002	2003	2004	2005 H	Total
613 (Ottawa only)	1,159	662	270	238	287	2,616
514	666	352	277	325	186	1,805
416	613	296	218	291	134	1,551
604	326	238	118	145	80	907
905	261	187	123	170	39	781

In the first half of 2005, tech companies in Toronto (416 area code) received \$28.5 million in angel investments while Calgary (403 area code) tech companies secured \$13.8 million from angel investors.

The Great Toronto Area (416 and 905 combined) has been the most active region in attracting angel investments, raising over \$210 million in aggregate since 2001.

**TOP 5 Angel Investment Destinations (\$ millions)**

Area Code	2001	2002	2003	2004	2005 H	Total
403	9.7	29.6	26.9	34.0	13.8	114.0
416	9.0	19.6	26.3	29.7	28.5	113.1
604	23.9	14.7	30.1	20.3	8.3	97.2
905	8.6	6.7	24.0	30.6	1.6	71.5
613	9.6	7.7	13.7	9.2	6.3	46.5

**VC/PE Finances Later Stage Companies While Angel Investors Finance Companies Cross All Stages**

In the first half of 2005, 14%, 28% and 53% of VC/PE disbursements went into seed/1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> or later rounds of financings. The primary focus of VC/PE firms has been later rounds of financings with over 70% of the VC/PE money going into 2<sup>nd</sup> or later rounds of financings.

37%, 31%, and 31% of angel disbursements went into seed/1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> or later rounds of financings respectively, during first half of 2005.

Traditionally, angel investors invested predominately in seed and early rounds of financings. In 2001 and 2002, angel investors poured over 50% of their money into seed and 1<sup>st</sup> rounds of financings.

The pattern however has been gradually shifting since 2003 as angel investors continue to fund some of the tech companies beyond the early rounds.

Excess demand by some of VC/PE firms in 2001 and 2002, such as prohibitive liquidity preference terms, might have played a role in tech companies bypassing VC/PE and continuing to look for financial support from angel investors.

### **Outlook for 2005**

Q2 2005 results appeared to be a one-time phenomenon. Based on the preliminary and incomplete Q3 2005 data, the outlook for the year 2005 is not very promising. So far, Q3 2005 has been an extremely slow quarter with less than \$200 million in disbursements recorded. Unless Q4 2005's investment activities increase drastically, the total number for 2005 will be below the \$1.73 billion reported in 2004. The downward trend in tech disbursements will likely continue.

Note: 2001-2004 and first half of 2005 results can be found under the Stats section.