

eVENTURE newsletter

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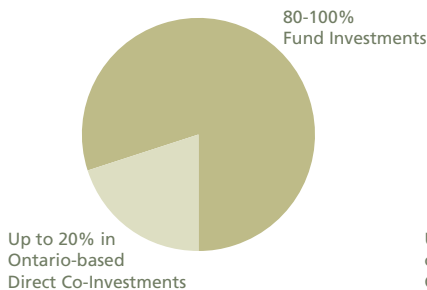
About OVCF

The Ontario Venture Capital Fund (OVCF) is a joint initiative between the Government of Ontario and leading institutional investors to invest primarily in Ontario-based and Ontario-focused venture capital and growth equity funds that support innovative, high growth companies. OVCF is structured as a fund of funds.

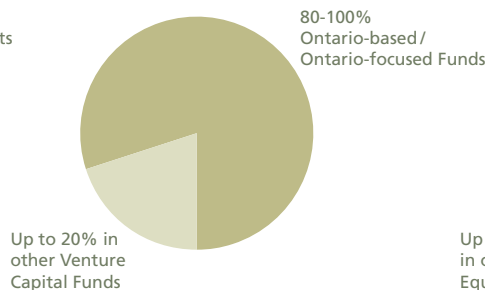
Through a disciplined focus on generating superior returns for its Lead Investors and fostering the development of best-in-class fund managers, OVCF will serve as a new and important catalyst in ongoing efforts to create a profitable, globally competitive and self-sustaining venture capital industry in Ontario.

The portfolio guidelines of the Fund are as follows:

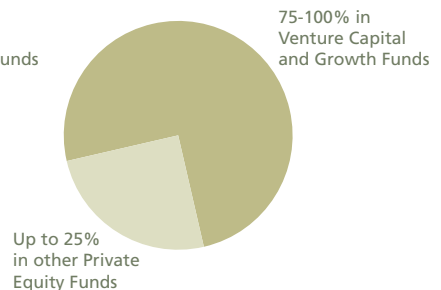
Investment Type



Geographic Focus



Sector Focus



IN THIS ISSUE

[OVCF leads first closing of XPV Water Fund](#)

[XPV discusses their new fund](#)

[Ontario Venture Capital Fund makes commitment to Lumira Capital II](#)

[Lumira Capital discusses their investment strategy and outlook on the life sciences sector](#)

[OVCF makes direct co-investment in BlueCat Networks](#)

[Bluecat CEO discusses future growth prospects for the company](#)

[TD Capital Private Equity Investors has become Northleaf Capital Partners](#)

[Record turn-out at OVCF's recent Lunch and Learn!](#)

[Building an Innovation Nation](#)

[OVCF in the News](#)

LEAD INVESTORS



FUND MANAGER



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making a difference in water

OVCF leads first closing of XPV Water Fund

XPV Capital Corporation (XPV), an Ontario-based venture capital and growth equity fund focused exclusively on investments in the growing water sector, has recently announced an initial close of its XPV Water Fund LP. The Fund will invest in water technology companies seeking to take advantage of global water trends affecting municipal, industrial, agricultural, and commercial water users. XPV will focus on high growth companies and platform investments within their current areas of focus: demand destruction, wastewater to product, wastewater reuse, infrastructure renewal and desalination.

As a lead investor, the Ontario Venture Capital Fund (OVCF) committed \$20 million to the Fund. “We are delighted to support XPV’s strategy of investing in and building companies that use technology to ensure water is used, managed and processed more efficiently and effectively,” said Melissa McJannet, Managing Director of Northleaf Capital Partners, the manager of OVCF. “Our commitment to XPV fits squarely within OVCF’s long-term strategy of investing in high-potential managers with the networks, expertise and resources to execute their plans and deliver world-class returns.”

The partners of XPV will leverage their relationships with industry experts, associations, governments and co-investors, as well as their strong technical knowledge in water, to identify opportunities and help drive growth in high-potential companies. XPV plans to continue using an active investment approach whereby it will work with its investee companies to accelerate growth beyond providing capital. “We are thrilled to have gained the support of a strong group of international investors for our first institutional fund,” said David Henderson, Managing Director of XPV Capital. “This investment will further our objective of capitalizing on the unprecedented investment opportunities we are seeing as water transitions from a simple life-sustaining substance taken for granted by many, into one of the most economically and socially valuable resources of the 21st century.”

For more information on XPV’s investment strategy and team, visit www.xpvcapital.com.

Northleaf Capital, the manager of OVCF, recently sat down with XPV Capital to discuss their new fund:

Why focus only on water technology investments?

The greatest time to make venture or growth investments is when a sector is undergoing dramatic change. This is exactly what is now taking place with water. The enormous demands that are being placed on our current water systems are not sustainable. The colliding global macro trends of population growth, urbanization, industrialization, aging infrastructure and climate change are creating a new economic reality for water. We now face a growing freshwater water supply/demand imbalance and the input costs to produce clean water are also rapidly rising. Water is transitioning from an essentially free commodity and what was thought to be an unlimited resource to a scarce and highly valued resource that is impacting corporate balance sheets, profits and our personal pocket books. This new economic reality for water is creating a

healthy investment environment for new technologies and solutions as governments, industry and consumers seek ways to cost effectively manage 21st century freshwater water scarcity and pollution challenges.

How is the team structured to take advantage of this opportunity? The XPV team has a unique blend of technical, operating and investment experience. For example, XPV Managing Director John Coburn has spent over 30 years in the water industry as both a technologist and an entrepreneur. The knowledge and experience he gained in helping to build ZENON Environmental from start-up to a global water technology leader is invaluable when assessing and supporting our portfolio investments. John's skills and experience are then complemented with the venture and growth equity discipline of Managing Directors Khalil Maalouf and David Henderson. Our experience, knowledge and industry connections will help our companies hire the best talent, raise additional capital, develop key strategic partnerships and ultimately maximize shareholder value.

What type of opportunities are you seeing in the Ontario market? Ontario has an incredible opportunity to be a global leader in the development and commercialization of water technology. We have already created some of the leading global companies in the sector such as ZENON Environmental, Trojan Technologies and Glegg Industries. Some of the key employees that helped grow these companies are now looking for their next challenge and could play a key role in building the next generation of global leaders in water. We have leading university and government water research facilities and direct access to the largest water market in the world, the United States, which is now facing severe water scarcity and pollution challenges. Ontario has a diverse infrastructure base in both urban and rural settings which is ideal for demonstrating and testing new technologies. Finally, Ontario's core industries of manufacturing, food and beverage, chemicals, agriculture and metals are all very water intensive industries making for excellent technology development partners and for reference customers – all essential ingredients in building world class water technology companies.



Ontario Venture Capital Fund makes commitment to Lumira Capital II

The Ontario Venture Capital Fund (OVCF) has made a commitment of \$20 million to Lumira Capital II (Lumira), an Ontario-based venture capital fund focused on late-stage life sciences companies. Lumira Capital (formerly known as MDS Capital Corp) is the oldest Canadian-based venture capital firm to focus exclusively on life sciences and healthcare-related investing. In 2005, after having invested approximately \$1 billion of capital in Canada and the US via multiple fund entities, the retirement of the firm's founder facilitated a generational change within the investment team and the firm was re-branded as Lumira Capital. Today, Lumira Capital has six partners, who are based in Toronto, Boston, San Francisco and Montreal. The team has successfully worked together an average of nine years building on an average of 20 years of operating and investment experience in the sector, and has invested in more than 100 life sciences companies. As the lead investor in Lumira Capital II, OVCF's commitment will assist the fund in reaching its target fund size. For more information on Lumira's strategy and team, visit www.lumiracapital.com.

Northleaf Capital, the manager of OVCF, recently caught up with Lumira Capital to discuss their investment strategy and outlook on the life sciences sector:

What is Lumira's investment focus? We target investments in companies within both the biotherapeutics area and the device sector that are "in the clinic" and that offer a clear proof of concept. We are not generalists – as a result, we target companies that fit the skills of our team (where we can be

a value-add partner) and core investment thesis. These companies' products or technology platforms generally share some common characteristics: they are truly innovative, they address meaningful markets (but do not have to be blockbusters) and they target the existing or emerging "white spaces" in the portfolios of industry leaders. At the same time we look to back management teams that have deep domain-expertise and have a proven ability to build strong industry relationships. Our goal is to invest around what we think are valuation inflection points, with investment partners and management teams that have a shared vision, highly complementary skills and a commitment to building successful and sought-after companies within a four-year time frame.

Why focus only on life sciences? We believe this is an especially attractive time to invest in later-stage life sciences for a number of reasons including: rapid sector growth with aging populations; newly affluent global markets; and growing rolls of insured patients expected to drive worldwide pharmaceutical sales from \$750 billion in 2009 to over \$1.3 trillion by 2015. At the same time selected sub-sectors targeted by Lumira, such as biologics-based therapies, are growing at 3-5x the rate of the industry overall. There is an ability to achieve high-value exits independent of the IPO market as cash-rich established companies look to replace almost \$100 billion of lost revenues due to patent expirations primarily through the acquisition of next-generation companies. In fact, in 2008 these kinds of products already accounted for 68% of the product pipeline for the established leaders in the market, and all indications are that this trend will accelerate in the coming years.

How is the firm structured to take advantage of this opportunity? Our partners all have deep domain expertise and have been engaged in the sector as scientists, business development managers, academics, consultants, investors and entrepreneurs for an average of 20 years before joining Lumira. This experience allows us to add value in areas such as clinical trials which represent the largest single use of capital for life science companies. Our team's deep experience and longstanding focus on reviewing, designing and executing clinical trials represents a

distinctive advantage which we believe results in a more efficient use of capital and better outcomes. At the same time, the team's deep understanding of sub-sectors like biologics-based therapies, the fastest-growing segment of the pharmaceuticals industry, allowed us to pro-actively focus on this area five years ago and, as a result, to gain tremendous experience and establish a successful track record that now makes us an "investor of choice" for management teams and syndicate partners. With offices in key markets in Canada and the US, our partners have a tremendous network of relationships with leading scientists, medical practitioners, management teams and investors (both VC and strategic) that gives us an outstanding ability to identify the best opportunities and to build the kind of investment syndicates required to help these companies succeed.

What type of opportunities are you seeing in the Ontario market? Ontario has a fantastic scientific core centred on institutional partnerships like the University Health Network and the MaRS Innovation Centre. During the first half of this decade, Ontario enjoyed a tremendous amount of investment in life sciences companies and medical innovation, but much of that activity was focused on early-stage and pre-clinical companies. Now, almost five years later, we are seeing the best of those companies emerging and entering the clinic with more fully developed technologies and more seasoned management teams. This represents an outstanding opportunity for us to work with these companies to put together the kind of highly experienced value-added investment syndicates that we believe will help them successfully push past the key valuation inflection point and thereby position them to achieve the kinds of liquidity events and partnerships necessary for their ultimate success.



OVCF makes direct co-investment in BlueCat Networks

The Ontario Venture Capital Fund (OVCF) has made a direct co-investment in BlueCat Networks, a leading provider of enterprise-class IP Address Management (IPAM) platforms. Also participating in the round of financing was Bridgescale Partners, a California and Toronto-based investment firm, providing equity to high growth information technology companies. The investment round totalled US\$11 million.

In today's world, almost all devices need an IP address. It's a crucial form of communication. Without an IP address, VoIP phones will not work, medical devices can stop, RFID tags fail and emails won't send. How does an enterprise or an ISP manage their IP addresses to ensure that all devices run accurately – always? BlueCat Networks is a market leader in IP Address Management (IPAM). The value proposition is simple: No IP Address = No Business. It takes IPAM to solve this and BlueCat is the best of breed in this space.

Today, BlueCat's technology is used by organizations that process highly sensitive data, including national security agencies and financial services companies. The company boasts a diverse list of clients including Apple, UPS, the US Postal Service, Ernst & Young, George Washington University, and General Motors, to name a few.

BlueCat Networks was founded in 2001 by brothers Richard and Michael Hyatt. Today, the company has over 140 employees and is cash positive. The duo also previously started Toronto's Dyadem International Inc. in 1995, a risk and quality management software company that works with 85% of the Fortune 500 companies.

Northleaf Capital, the manager of OVCF, recently sat down with BlueCat CEO, Michael Hyatt and Rob Chaplinsky, Managing Director of Bridgescale Partners, to discuss the future growth prospects for BlueCat Networks:

Describe the BlueCat product. BlueCat offers enterprises of all sizes, ISPs and government organizations a broad range of IPAM solutions. Our flagship product named The Proteus IPAM Platform is used by hundreds of large companies to command and control their IP space.

What are the key trends that are driving the growth of your business? There's an exponential jump in the need for IP addresses. Basically put, the Internet is growing and every new medical device, application, smart phone, VoIP phone, elevator / bay door, car, military device and hotel room needs many IP addresses to work. No IP address means failure. Truly, this is the first time where there has been an explosion of demand for IP addresses and "management" has become the main problem. BlueCat solves this.

What has sales growth been like? Sales growth has been very strong, especially considering this is the first time BlueCat has ever raised professional venture capital – historical growth was funded through operations. We've seen growth of about 500% over the past 4 years. We are also a 4 time winner of Deloitte's Fast 50 Award.

Why did you decide to take venture funding at this point? It takes a war chest to fight a war. It's certainly BlueCat's time to shine. There's never been a better time to win an emerging market – it's all about IP growth. The cash infusion allows us to significantly scale sales and marketing efforts to push for a very significant jump in next year's revenue. It also allows us to invest heavily in R&D to ensure that we have "the next best thing" cooking.

Why is BlueCat an attractive opportunity for Bridgescale? BlueCat is an attractive investment for Bridgescale because the company has enormous return potential due to the fact the company has technology leadership in a rapidly growing market. Obviously, if we didn't believe that, we certainly would not have invested. However, what is less obvious is that I believe working with this management team is going to be super fun because there are so many options for growth. In front of that, figuring out which roads to choose is going to be challenging, but a lot of fun.

What are Bridgescale's plans to help the company achieve its growth targets? A big part of our investment strategy is to leverage our Silicon Valley and international network to help some of Canada's most promising technology start-ups scale. In other words, Bridgescale is helping companies "scale" by "bridging" them to some of Silicon Valley's leading technology partners. In regards to BlueCat, that opportunity to add value is easy for us since there are so many strategic partners and customers in Silicon Valley, who fit naturally with BlueCat's product offering. We have already introduced the management team to a number of strategic partners and customers that we hope will manifest into significant revenues in 2010.

For more information on BlueCat Networks, visit www.bluecatnetworks.com. For more information on Bridgescale Partners, visit www.bridgescale.com.

Northleaf

Capital Partners

TD Capital Private Equity Investors has become Northleaf Capital Partners

On November 1, 2009, Northleaf Capital Partners completed its transition to an independent global private markets investment firm. Northleaf's predecessor, TD Capital Private Equity Investors, was the private equity fund of funds and co-investment arm of TD Bank Financial Group. As Canada's largest independent global private equity fund manager and advisor, Northleaf's 40-person team will continue to manage over \$3.2 billion in private equity fund commitments on behalf of institutional investors, including TD. Northleaf will also continue its management of the \$205 million Ontario Venture Capital Fund (OVCF).

For more information, please visit www.northleafcapital.com.

Record turn-out at OVCF's recent Lunch and Learn!

On December 8, 2009, OVCF partnered with Teralys Capital and Canada's Private Equity and Venture Capital Association (CVCA) to host approximately 100 venture capital fund managers across Canada at OVCF's second "Lunch and Learn" – "**Limited Partners' Perspectives from across the Country**". Heenan Blaikie, our satellite sponsor, graciously provided video-conference capability in Ottawa, Montreal, Calgary and Vancouver. The successful panel discussion in Toronto included Ian Carew, Director, Northleaf Capital Partners (manager of the Ontario Venture Capital Fund), Eric Legault, Managing Partner, Teralys Capital, Michael Machabee, Senior Portfolio Manager, EDC Equity, Todd Tessier, Vice President, BC Renaissance Capital Fund and Rod Charko, CEO, Alberta Enterprise Corporation. Ilse Treurnicht, CEO, MaRS Discovery District moderated the session. The panel provided details on the workings of each respective venture capital program and insights into the future of venture capital in Canada. To view a re-play of the event, please visit www.ovcf.com.

Building an Innovation Nation

Entrepreneurs know that the future of their businesses depend on innovation and government leaders understand that the long-term growth prospects of cities and nations are tied to it. McKinsey & Company has partnered with the World Economic Forum to create an "Innovation Heat Map" by identifying factors common to successful innovation hubs. Hundreds of innovation clusters around the world were examined and over 700 variables were analyzed along with proxies for innovation output in order to identify trends among the success stories. In the process, patterns were found that suggest the critical ingredients required to grow, nurture and sustain innovation hubs. [Click here](#) to read more about the study and launch the interactive "Innovation Heat Map".

OVCF IN THE NEWS

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