

VenGrowth Advanced Life Sciences Fund Investor Q&A

What has happened?

The VenGrowth Advanced Life Sciences Fund ceased redemptions and moved to an annual distribution policy for all shareholders effective November 26, 2009. This means that all shareholders in this Fund are no longer able to redeem their investments on a weekly basis, but instead will receive returns from their investments in the form of annual payments from the Fund as portfolio companies are exited and surplus cash is generated for the Fund. The Board of Directors for the Fund will determine the surplus cash available to be distributed to shareholders at the end of each fiscal year after the annual audit is completed, starting November 2010, and any distribution will be paid on a pro-rata basis shortly thereafter. This distribution will be overseen by independent members of the Board of Directors for the Fund, and could occur more than once a year if warranted.

Distributions will continue to be made until the Fund is eventually wound down and all the proceeds from exits are returned to shareholders. This is in keeping with VenGrowth's institutional approach to operating venture funds.

Why are you taking this action now?

It is important for us to protect shareholder value in what is currently a very challenging time for venture investments. Although a difficult decision to make, we believe the move is in the best interest of all shareholders. As the Fund winds down, this measure will help us to avoid liquidity problems and return surplus cash equitably to all shareholders. As well, the move allows us to sell promising investments in a time frame that will optimize the value received.

What has caused this situation?

The Fund invests in innovative, earlier-stage Canadian life sciences companies. Beginning with small companies, we invest our time and shareholders' capital, and strive to develop medical innovations that possess global potential. Once these companies have matured, we seek to "exit" them in order to convert our ownership stake into cash for the Fund. The time frame to invest in a company, and mature it to a point where it is sufficiently mature enough to begin contemplating an exit event normally takes several years. There are two main ways to exit a mature investment. The first is to take the company public on a stock exchange (referred to as an initial public offering or "IPO"). Typically, after a portfolio company has gone public, there is a readymade market where we can sell our shares.

The second approach is to sell the company to a larger strategic industry player (typically referred to as a merger and acquisition transaction or "M&A"). The ability to exit smaller private companies is very much influenced by the health of the overall stock market. During times of stock market volatility, there is little investor appetite to purchase shares in IPOs of smaller companies, as investors typically retreat to guaranteed investments and the perceived safety of larger capitalization stocks. Similarly, during times of volatility, larger companies tend to put acquisitions temporarily on hold as strategic growth plans are replaced with cost cutting and downsizing tactics. The deep global recession that has characterized much of the last 24 months has had a profound impact on the ability of the Fund to sell

promising investments. In over 24 months, not a single venture-backed Canadian life sciences company has gone public, and merger and acquisition transactions involving venture-backed Canadian life sciences companies have decreased dramatically.

Why does capping the Fund and moving to a periodic distribution model protect shareholder value?

If we didn't cap the Fund, the only way we would be able to meet redemption requests would be to liquidate investments now. For the last two years, we have experienced the worst exit market for private companies that we have witnessed in 27 years. With the IPO market closed to private companies, and merger and acquisition activity off more than 80% over the past two years, portfolio companies would have to be liquidated at prices far and below what their fair value is, and certainly what could be realized if we waited for a more conducive exit environment.

In addition to selling mature portfolio companies at significantly discounted values, we would also be required to stop providing much-needed additional funding to promising portfolio companies. If we don't continue to financially support those portfolio companies that are progressing well, we would be walking away from years of hard work and millions of dollars of invested capital into those companies.

The Manager and the Board of Directors believe that shareholder value can be maximized by waiting for better market conditions to exit portfolio investments.

So will you be able to exit portfolio companies at all?

The exit market for venture capitalists typically rises and falls as the broader stock markets move through their cycles. During our 27 years as a manager of venture capital funds we have witnessed many cycles, but none have been as bad as the recent downturn we experienced. Market conditions will eventually improve. As they do, the exit market will again be active, but first and foremost investor confidence must be restored. Initially, as has been the case over the last few months, shares of larger capitalization companies are typically the first to rebound. This often signals a recession is near its end, and companies will start to consider strategic growth opportunities, including the acquisition of promising smaller companies. Similarly, once investors have renewed confidence in the larger cap stocks, they tend to turn their attention to higher growth, emerging companies, which again opens up the IPO market.

Public markets have started to stage a comeback. How long will it take for that to spur a stronger exit market?

Yes, it's true that the major public markets in North America have regained on average about half of their losses from their peaks, and there is a growing belief that the global recession is nearing its end. While this certainly helps to set the stage for a rebound in the exit market for small and medium sized businesses, historical market data indicates that we should expect anywhere from a 6-18 month lag from the end of a recession to when the exit markets for venture-backed companies should improve. The speed with which an IPO market is able to recover for emerging technology or life sciences companies largely depends upon the level of economic recovery, and both institutional and retail investors' appetite to take on more risk in their portfolios. Similarly, as large companies feel that they have sufficient predictability and sustainability in their business outlook, and thus the confidence to

pursue strategic growth opportunities, they will start to buy up promising smaller companies to help achieve their goals. In the current climate, and given the severity of the global economic recession and the general consensus for a slow, drawn-out recovery, we believe that the exit market has the potential to take longer than normal to recover.

How are the Funds' portfolio companies performing in this environment?

Despite this difficult environment, the growing maturity of the Fund's portfolio of venture-backed Canadian life sciences companies was highlighted over the year by a string of important milestones met in the development of both drug candidates and medical devices. Many investee companies have entered into, or are currently negotiating new partnering agreements with larger companies that are interested in drug therapies and other medical technologies being developed by the Funds' investee companies. These partnerships help spread risk, provide an important funding source, and provide a ready distribution channel for the product if it passes through the various clinical trials and regulatory approval processes. These strategic partnering alliances help validate the potential of the products of the Fund's portfolio companies, and often accelerate a company's ability to go public, or increase its attractiveness as a possible acquisition target.

We are confident and proud of the accomplishments and progress made by our portfolio companies, as evidenced below:

Zelos

- Drugs for osteoporosis
- At time of first investment Zelos was a preclinical Company with a license from the National Research Council of Canada
- Currently, Zelos is in Phase 2 trials for both an injectible version and a nasal spray version of their osteoporosis drug
- If Zelos' drug successfully passes all clinical trials, it will be going after Eli Lilly's Forteo drug (with annual sales exceeding \$1 billion). In its current formulation, the Forteo drug is only available to be administered via injections
- Zelos' nasal spray version is expected to greatly increase the size of the osteoporosis drug market

Visual Sonics

- Devices for pre-clinical imaging (used to conduct research)
- At time of first investment Visual Sonics was a pre-commercial Company with first generation ultrasound imaging technology
- Currently Visual Sonics has revenues approaching \$30 million and positive earnings before interest, taxes and depreciation
- Visual Sonics has developed new clinical applications (for general radiology applications such as neo-natology and urology) with significant market potential

Aegera

- Drugs for cancer (leukemia, lymphoma and liver) and diabetic pain
- At time of first investment, Aegera was a pre-clinical company with a program for oncology
- Aegera is currently expecting completion of a number of Phase 2 trials throughout 2010
- If Aegera's drugs successfully pass clinical trials, they will be addressing a market opportunity which is currently in excess of \$1 billion.

Cytochroma

- Drugs for chronic kidney diseases
- At time of first investment Cytochroma had two pre-clinical assets for cancer and dermatology
- Cytochroma currently has three Phase 2 trials underway (with one expected to be completed in the near term)
- Previously entered into a partnership deal with Mitsubishi-Tanabe (5th largest pharmaceutical company in Japan)
- Has received \$35 million in upfront cash and equity from Mitsubishi in a deal that could be worth up to \$105 million (plus royalties)

Interface Biologics

- Develop biomedical polymers that enhance the safety and effectiveness of implantable medical devices
- Interface Biologics' biopolymers can be designed to deliver pharmaceuticals and biologics, to stop blood clotting, or to release drugs from a device in a controlled manner
- At time of first investment Interface was a pre-commercial company with in-vitro proof-of-concept with one type of biopolymer
- Interface recently completed their first deal with a large medical device Company which provides a great validation for its scientific and business model

Isn't there an incentive to sit on either investments or cash instead of making distributions to shareholders?

VenGrowth is one of Canada's oldest venture capital managers, with a track record that spans over 27 years. Our longevity in this business is based upon key guiding principals founded on integrity and putting investors' interests first.

First and foremost, we are committed to returning capital back to shareholders as quickly as possible. Our investment team has a single-minded focus to drive exit events within the portfolio. Our objective is to achieve "optimal" exit values for the portfolio, balancing the desire to maximize distributions to shareholders, while ensuring that fair value for investments are obtained in the context of the market.

Additionally, we have instituted an independent oversight process. The independent members of the Board of Directors are responsible for overseeing the distribution process and for ultimately deciding the amount and timing of distributions.

VenGrowth's future ability to raise new capital is also dependent upon our investment track record, which is directly impacted by the speed of exiting portfolio investments. For 27 years, VenGrowth has been managing venture capital funds for institutional investors including banks, insurance companies and family foundations. As the Government phases out the labour sponsored fund program, our ability to raise institutional funds becomes increasingly important. When an institutional investor looks to invest in VenGrowth, they scrutinize the investment track record of our labour sponsored investment funds. Our ability to drive exits quickly enhances the rate of return, and therefore our ability to raise future institutional funds.

How long will it take to distribute all the capital?

The speed and timing of distributions is difficult to predict as they will be largely dependent upon a stock market, sectoral, and economic recovery. Nevertheless, our best estimate is that a significant amount of the value of the Advanced Life Sciences Fund can be distributed within 3 to 6 years. The distribution amounts will likely be different each year because M&A activity and IPO windows tend to move in cycles and is often times company-specific.

What are you doing to ensure investors get their money back as soon as possible?

We are dedicated to returning capital to investors in the Fund. We are striving to strike an appropriate balance between optimizing the proceeds on the dispositions of investments versus maximizing the speed of dispositions. To that end, we will leave no stone unturned and are also exploring other options to accelerate distributions or provide alternative liquidity measures to investors.

**For more information, contact your advisor or VenGrowth
client services at 1.800.461.4814**

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus of the Fund before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.