
VenGrowth-I and VenGrowth-II Fund Investor Q&A

What has happened?

The VenGrowth Investment Fund Inc. (“VenGrowth I”) and the VenGrowth II Fund Inc. (“VenGrowth II” and, together with VenGrowth I, the “Funds”) ceased redemptions and moved to an annual distribution policy for all shareholders effective Monday December 8, 2008.

This means that all shareholders in these Funds 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 dividends from the Funds. The Board of Directors for each 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 2009; and any dividend distribution will be paid on a pro-rata basis shortly thereafter. The dividend distribution process will be overseen by independent members of the Board of Directors for the Funds, and could occur more than once a year if warranted.

As described in the Information Circular and Proxy being mailed to all shareholders this month, in order to facilitate the payment of periodic dividends, the shareholders of the Fund must vote in favor of the Funds continuing their incorporation under the Business Corporations Act (British Columbia). The day-to-day operations of the Funds, including each Fund’s management will remain in Ontario.

Dividend distributions will continue to be made until the Funds are 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 has this action been taken?

It is important for us to protect shareholder value at 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 Funds wind down, this measure will help us to avoid liquidity problems and return surplus cash equitably to all shareholders. As well, the move allows the Manager to sell promising investments in a time frame that will optimize the value received for the investment.

What caused this situation?

Both Funds invest in innovative, early-stage Canadian companies. Beginning with small companies, we invest our time and shareholders’ capital, and strive to grow these companies into larger, global leaders in their respective fields. Once these companies have matured, we seek to “exit” them in order to convert our ownership stake into cash for the Fund. The timeframe to invest in a company, and mature it to a point where it is sufficiently large to begin contemplating an exit event normally takes several years.

There are two main ways to exit an 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 ready-made market where we can sell our shares. The second approach is to sell the company to a large 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 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. Since December, 2007, not a single Canadian technology company has been able to complete an IPO. Merger and acquisition activity involving Canadian technology companies plunged 80% in 2008. Excluding the creditor-mandated sale of Nortel business units, year-to-date merger and acquisition activity has decreased a further 23%.

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 year, 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 border stock markets move through their cycles. During our 26 years as a manager of venture capital funds we have witnessed many cycles, and none have been as bad as the current environment. Both Funds have mature portfolio holdings ready to be liquidated when exit market conditions improve. When the market dramatically dropped in the Fall of 2008, the Fund was in discussions to sell select portfolio holdings. Unfortunately, these discussions were put on hold as prospective purchasers focused their intentions on managing through a recession. The Manager believes that as the global economy and financial markets continue to improve, this will translate into increased opportunities to exit portfolio holdings.

Recently, both Canada and the US have shown mixed economic data, contributing to uncertainty about the strength and speed of a recovery. Market conditions are improving. As this continues to happen, the exit market will again become active, but first and foremost investor confidence must be

restored. Initially, as investors re-enter the market, shares of larger capitalization companies will typically be the first to rebound. This often signals that a recession is almost over, and these companies will start to pursue strategic growth opportunities, including the acquisitions of promising smaller companies with leading technologies. Similarly, once investors have renewed confidence in the larger cap stocks, they tend to turn their attention to higher-growth, emerging technology companies, which again opens up the IPO market. A more bullish sentiment amongst investors and corporations alike is required before stronger exit markets will prevail for private companies.

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 have the economic conditions impacted the companies held in VenGrowth I and II?

The economic slowdown proved to be much deeper and protracted than most analysts had predicted, affecting virtually all industry sector and geographies. Though we have seen financial markets recover somewhat, and the economic environment has stabilized to a degree, there are lasting consequences that are affecting the availability of credit and other sources of capital to businesses. The severity of the impact on the future operating results of portfolio companies remains to be seen.

Despite the difficult conditions our companies faced during the fiscal year, many portfolio companies have been able to demonstrate significant progress including the following;

BelAir Networks Inc. ("BelAir") builds the infrastructure for wireless Internet access. The company has deployed hundreds of its networks worldwide. It has been declared by Dell'Oro Group as the number one company by market share worldwide in service provider WLAN/Wi-Fi mesh, according to the recently released Dell'Oro Group Wireless LAN quarterly report. The growing number of dual mode smartphones, such as the iPhone™, and other Wi-Fi enabled devices has driven demand for Wi-Fi access in high-traffic areas. Working with cable and cellular operators to address this demand has helped BelAir Networks achieve eight consecutive quarters of market share growth and leadership. BelAir saw its revenues grow 60% between 2006 and 2009.

SiGe Semiconductor Inc. (SiGe”) produces radio chips that enable wireless connections, which are found in most of the world’s fastest growing consumer electronics such as leading laptops, cell phones, and game consoles. SiGe products are designed specifically for these applications, providing the unequalled performance that is necessary for high-quality, user-focused applications on the go. The company has shipped more than 375 million semiconductor chips to leading consumer device manufacturers such as Apple Inc., Cisco Systems Inc., Dell Inc., Nintendo Co. Ltd and Samsung Electronics Co. Ltd.

GreenField Ethanol Inc. (“GreenField”) has grown to be Canada’s largest fuel ethanol company, producing 450 million litres a year, and generating in excess of \$500 million of annual revenues. Sold at 1,300 gas stations, the Company’s ethanol reduces fill-up costs and cuts harmful greenhouse gas emissions. GreenField recently announced that its Johnstown facility will receive investments of up to \$117.5 million over seven years from the Government of Canada in support of biofuels development.

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. And several of the portfolio companies held in the labour sponsored funds are also investments held in the institutional funds. Therefore, 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 recovery. Nevertheless, our best estimate is that, for VenGrowth I, a significant amount of the value of the Fund can be distributed with in two years, with a larger distribution likely in the second year. It will probably take another two years beyond that to fully distribute all the proceeds to shareholders.

For VenGrowth II, which has both mature holdings as well as some slightly younger companies, our best estimate is that a significant amount of the value of the Fund can be distributed within three years, again

with larger distributions likely in the second and third year. It will probably take another two years beyond that to fully distribute all the proceeds to shareholders.

The distribution amounts will likely be different each year because M&A activity and IPO windows tend to move in cycles. Our objective is to achieve optimal exit values for the portfolio of private companies.

This means we have to balance our desire to generate annual distributions to shareholders with ensuring that fair value for investments is obtained in the context of the market.

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VenGrowth has been managing venture capital funds for institutions for 27 years. Our current institutional investors include all 5 of the largest Canadian banks, pension funds companies and family foundations. Therefore, we are held accountable not only to our 140,000 retail investors but also to leading Canadian institutions. These relationships have always been a core part of our business but they will become increasingly important beyond 2010 as the Government withdraws its support from the retail venture capital program in Ontario. In fact, many of the portfolio companies held in the VenGrowth I and II Funds are also investments held in the institutional funds. Our ability to continue to raise institutional funds in the future will be dependent upon the speed with which we exit portfolio companies, which enhances rate of return.

The entire process of generating exits and making distributions within the labour sponsored funds is overseen by the independent members of the Board of Directors.

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 generate high annual distributions to shareholders and maximize the speed of dispositions, all while ensuring that fair value for invests are obtained in the context of the market.

When will the 2009 VenGrowth I and VenGrowth II Fund dividends be paid?

We are pleased to announce that, subject to shareholder approval, shareholders of the VenGrowth I Fund and the VenGrowth II Fund will be receiving their first dividend distribution from the Fund on or about December 18th, 2009. The exact amount to be distributed will be decided at a meeting of the Board of Directors for each Fund in early December and announced publicly shortly thereafter, subject to shareholder approval.

How will the 2009 VenGrowth I and VenGrowth II Fund dividends be paid?

Assuming the special resolution is approved by shareholders, the dividend will be processed as follows:

- If a client holds their VenGrowth I Fund or VenGrowth II Fund shares in a nominee or intermediary account, then we will pay a cash dividend to the dealer firm for deposit into the client's account.
- For client name registered accounts, we will make the dividend payment in cash into the account where the VenGrowth Fund shares are currently held.
- For client name non-registered accounts, we will be issuing cash by way of a cheque mailed to the client.

There will be no tax credit claw-back on this dividend regardless of the length of time a shareholder has held their investment. There is no action required by the investor to participate in the dividend, and should you choose to transfer the cash at a later date, there will be no transfer out fees.

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

We remain dedicated to aggressively and diligently pursuing exit opportunities for portfolio investments so that we can return capital as quickly as possible to investors. To that end, we will leave no stone unturned and are also exploring other options to accelerate distribution or provide investors with alternative liquidity options.

**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.