Dear Advantage shareholders,

We write to update you on progress at BC Advantage Funds over the past year. While financial markets for emerging technology companies in Canada and internationally remain extremely challenging, our portfolio of companies has generally performed well, with many of our companies achieving significant progress against their strategic business objectives. We continue to work to drive these companies toward successful divestment transactions (referred to as "exits") and thereby achieve liquidity for the fund. As significant shareholders of Advantage ourselves, we fully understand the distress caused by the ongoing suspension of redemptions, and we are committed to achieving exit transactions in the portfolio for fair value and reinitiating redemptions as quickly as possible. In the meantime, we have substantially reorganized our business and dramatically reduced costs so that we are able to maximize the capital returned to our shareholders.

North American venture capital markets continue to be challenging. The pace of VC fundraising today is substantially less than pre-2008 levels. Canadian venture firms outside of Quebec and Ontario raised $157 million of new capital in 2011 whereas more than double that amount ($386 million) was raised in 2008. A similar slowdown has been seen in the United States. However, the biggest impact of the financial crisis and ongoing turmoil in financial markets (e.g., European debt crisis, choppy US financial markets, and economic slowdown in China) has been on the number of exit transactions. Returns on our portfolio can only be crystallized by the fund when a company goes public via an Initial Public Offering (IPO) or when it is acquired by another company.

The market for IPOs of technology companies has been severely affected and private purchases of venture-backed companies by financial and industry investors are also significantly down. In the first half of 2012, there were no IPO exits of venture backed companies in Canada and only five such transactions over the prior three years (2009 – 2011). Acquisitions of venture backed companies are also down significantly but not as acutely as IPOs. In 2011, there were 26 acquisitions of venture-backed companies in Canadian markets. While still a better path to liquidity than IPOs, this is substantially off the pace of acquisitions seen pre-2008 when acquisitions of venture backed companies averaged 38 per year for the period 2004 – 2007.

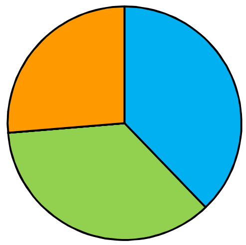
In late 2011, we made the decision to substantially reorganize BC Advantage Funds. Earlier in the year, we had closed our funds to further capital raising thereby eliminating all marketing and selling costs. At that time, we also voluntarily reduced management fees from 2.75% to 1.25% on shares eligible for redemption and waived our performance fees until redemptions are reinstated. Then at year-end 2011, we eliminated management fees altogether by terminating our management contract with Lions Capital Corp. and transferring management responsibilities directly to the fund itself. We reduced partners from five to three (which will be further reduced to two at the end of this year) and reduced our support and accounting staff from six to three. We also materially reduced the remaining fund managers' salaries and moved to smaller offices in North Vancouver which reduced our office overheads substantially. Together with terminating trailer fees on matured shares, these actions reduced our administrative costs by more than $1 million per annum.

While reducing costs is useful for maximizing the amount of capital that can be returned to shareholders, what it is critical is that we continue to actively manage our portfolio investments through to successful exits. Redemptions can only be reinstated when we achieve significant exits within the Advantage investment portfolio. To that end, it is important that our portfolio of emerging technology companies have continued access to capital and continue to achieve their strategic business objectives and milestones. By and large, our companies have continued to be successful in raising growth capital despite the challenging financial market conditions. In fact, in life sciences, some of the largest venture financings in Canada (e.g., Aquinox Pharmaceuticals: $25 million, Sophiris Bio: $35 million, MSI Pharma: $19 million) over the past 2-3 years have been achieved by Advantage portfolio companies. We did have one company (NxtGen Emission Controls) that had to close its doors due to a failure to raise additional growth capital but otherwise the remaining portfolio holdings have continued to have good access to capital to fund their continuing development.

Over the past year our portfolio companies have continued to make substantial progress, recording a number of milestones against business objectives. Among our life science investments, Allon Therapeutics completed enrolment of its pivotal Phase 2/3 clinical trial in dementia (PSP) and raised $10 million to fund the trial through to completion and data analysis. If successfully commercialized, market studies show this drug could have sales of $750 million to $1.2 billion per annum. Aquinox Pharmaceuticals is developing new drugs for inflammation and in the past quarter completed two Phase 2 studies in asthma and COPD, both showing statistically significant indications of efficacy. MSI Pharma completed a $19 million financing in late 2011 led by Inventages, a large European venture fund, and selected its lead drug candidate to go into further studies in depression. Finally, Sophiris Bio completed a bridging study in BPH or enlarged prostate and appointed US biotech industry veteran, Randy Woods, as CEO. Woods sold one of his prior companies, NovaCardia, to Merck in 2007 for $350 million. An exception to this progress in our life science companies, however, was Sirius Genomics which in September 2012 completed a large Case Matching Study to validate its biomarkers for the treatment of sepsis. Unfortunately, the study did not show a statistically significant improvement in 6-month survival and as a result we have written down our $2.1 million investment in Sirius.

Our clean technology investments also made good progress over the past year. Wind turbine manufacturer and independent power producer, Endurance Wind Power, continued to see very strong sales with revenues of $25.5 million in 2011 and projected sales of $65 million in 2012. Endurance closed a $4.2 million private placement in June 2012 with Advantage investing a further $1 million in this financing round. Contech Enterprises, a manufacturer and marketer of environmentally friendly products for the home and garden, increased its sales to over $13 million in fiscal 2012 (up 46% from the previous year) and achieved significant profitability. EBITDA was $678,000 for the year which was $300,000 better than budget. Another cleantech company in the portfolio, Redlen Technologies, achieved sales of $7.3 million in 2011 and in 2012 completed a strategic alliance with Philips in CT medical imaging. Philips is one of the largest medical imaging companies in the world.

SECTOR ALLOCATION



	Fair Value *	%
Life Science	$ 15,565,684	37.8%
Clean Technology	14,772,693	35.9%
Information Technology	10,838,004	26.3%
	$ 41,176,381	100.0%

* As at October 26, 2012.

Our remaining portfolio companies are Information Technology (IT) companies. Contigo is a vehicle and personnel tracking company which achieved revenues of $3.8 million in fiscal 2011 (a 31% increase over 2010 levels). Contigo's year to date results for 2012 show the company ahead of its 8-month revenue target and with positive earnings. In Motion Technology markets a proprietary mobile gateway for all commercially available wireless networks and achieved revenues of $12.3 million for fiscal 2012. The company has a large sales funnel which is expected to yield substantial revenue growth in fiscal 2013. Our third IT investment, Mobidia Technology, provides optimization technologies and products to wireless carriers. Its app *My Data Manager* was launched last year for Android and iPhone platforms and has already achieved more than 2,000,000 downloads. Multiple discussions for deployment of MDM are ongoing with a number of large carriers such as AT&T, T-Mobile and Vodafone.

In summary, we believe that the significant progress achieved by our portfolio companies over the past year bodes well for future exit transactions and liquidity. We are actively working with the management and boards of our portfolio companies to drive them toward liquidity events in a manner that maximizes exit values. We are committed to returning capital to our shareholders as soon as we have the cash on hand to do so.

We wish to acknowledge and thank shareholders for your continued support and for your patience as we work through difficult financial markets to achieve liquidity in our portfolio in a manner that maximizes exit values and allows us to reinitiate redemptions.

Yours sincerely,
The BC Advantage Funds management team

Frank Holler	Jim Heppell	Ambrose Hong
Chairman & CEO	President	Chief Financial Office

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