

Financial Statements of

B.C. ADVANTAGE FUNDS (VCC) LTD.

Six months ended June 30, 2010 and 2009

NOTICE PURSUANT TO NATIONAL INSTRUMENT 81-106

The accompanying interim financial statements of B.C. Advantage Funds (VCC) Ltd. as at and for the period ended June 30, 2010 have not been reviewed by an auditor.

ADVANTAGE VENTURE FUND

Statements of Net Assets

June 30, 2010 and December 31, 2009

	2010	2009
Assets		
Venture investments, at fair value	\$ 48,252,783	\$ 41,721,918
Cash and cash equivalents	3,747,085	4,046,840
Restricted cash (note 5)	3,277,215	2,825,643
Total assets	55,277,083	48,594,401
Liabilities		
Accounts payable and accrued liabilities	86,687	81,593
Due to related parties (note 12)	435,230	316,044
Accrued equity participation (note 10(c))	132,849	132,849
Total liabilities	654,766	530,486
Net assets, representing shareholders' equity	\$ 54,622,317	\$ 48,063,915
Number of common shares outstanding (note 10)	8,363,176	6,554,382
Net assets per common share (note 10(d))	\$ 6.53	\$ 7.33

Commitments (notes 10(c) and 13)
Contingency (note 14)

See accompanying notes to financial statements.

On behalf of the Board of Directors:

"Frank Holler" Director

"Avtar Dhillon" Director

ADVANTAGE VENTURE FUND

Statements of Operations

Six Months Ended June 30, 2010 and 2009

	2010	2009
Investment income:		
Interest	\$ 34,766	\$ 45,622
Other income	2,250	-
	<u>37,016</u>	<u>45,622</u>
Expenses (notes 4 and 12):		
Management fees	702,454	647,427
Administration	151,237	159,155
Trailer fees	119,954	115,035
Transfer agency fees	55,564	47,867
Audit, tax and advisory fees	35,308	50,106
Directors' fees and expenses	18,785	26,500
Shareholder communications	15,720	6,554
Legal fees	10,308	12,245
Brokerage fees	8,290	17,637
	<u>1,117,620</u>	<u>1,082,526</u>
Net investment loss	(1,080,604)	(1,036,904)
Realized gain (loss) on sale of venture investments (see below)	(323,688)	460,498
Change in unrealized appreciation (depreciation) of venture investments	(4,535,651)	3,005,041
Income (loss) from operations before income taxes	(5,939,943)	2,428,635
Income tax (recovery) (note 11(c))	-	-
Income (loss) from operations	<u>\$ (5,939,943)</u>	<u>\$ 2,428,635</u>
Income (loss) from operations per common share	<u>\$ (0.86)</u>	<u>\$ 0.38</u>
Realized gain on sale of venture investments:		
Gross proceeds from sale of venture investments	\$ 449,371	\$ 1,835,719
Cost of venture investments sold:		
Venture investments at cost, beginning of period	43,491,781	41,859,359
Purchase of investments, during the period	16,400,638	3,413,043
Venture investments at cost, end of period	(59,119,360)	(43,897,181)
	<u>773,059</u>	<u>1,375,221</u>
Realized gain (loss) on sale of venture investments	<u>\$ (323,688)</u>	<u>\$ 460,498</u>

See accompanying notes to financial statements.

ADVANTAGE VENTURE FUND

Statements of Changes in Net Assets

Six Months Ended June 30, 2010 and 2009

	2010	2009
Net assets, beginning of year	\$ 48,063,915	\$ 41,760,871
Income (loss) from operations	(5,939,943)	2,428,635
Capital transactions (note 10):		
Issuance of common shares	730,754	2,040,739
Share issue costs including sales commissions	(59,919)	(268,886)
Redemption of common shares	(77,716)	(188,085)
Issued for Advantage Life Science Fund I Shares (note 6)	-	392,018
Issued for Advantage Growth Fund Shares (note 7)	11,905,226	-
	12,498,345	1,975,786
Increase (decrease) in net assets	6,558,402	4,404,421
Net assets, end of period	\$ 54,622,317	\$ 46,165,292

See accompanying notes to financial statements.

ADVANTAGE VENTURE FUND

Statements of Cash Flows

Six Months Ended June 30, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Income (loss) from operations	\$ (5,939,943)	\$ 2,428,635
Realized loss (gain) on sale of venture investment	323,688	(460,498)
Change in unrealized appreciation of venture investments	4,535,651	(3,005,041)
Net change in non-cash operating accounts	85,281	(214,183)
	(995,323)	(1,251,087)
Investments:		
Proceeds from sale of venture investments	449,371	1,835,719
Purchase of venture investments	(2,125,988)	(2,990,668)
Restricted cash	(451,572)	341,921
Cash and restricted cash acquired upon conversion of Advantage Life Science Fund I shares (note 6)	-	306,522
Cash and restricted cash acquired upon conversion of Advantage Growth shares (note 7)	2,230,638	-
	102,449	(506,506)
Financing (note 10):		
Issuance of common shares	730,754	2,040,739
Share issue costs including sales commissions	(59,919)	(268,886)
Redemption of common shares	(77,716)	(188,085)
	593,119	1,583,768
Decrease in cash and cash equivalents	(299,755)	(173,825)
Cash and cash equivalents, beginning of year	4,046,840	5,866,301
Cash and cash equivalents, end of period	3,747,085	\$ 5,692,476

See accompanying notes to financial statements.

ADVANTAGE VENTURE FUND

Statement of Investment Portfolio

June 30, 2010

	Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Publicly-traded investments:				
Allon Therapeutics Inc. 7,580,428 common shares	\$ 7,556,633	\$ 3,259,584	\$ (4,297,049)	7%
CombinatoRx Inc. 431,064 common shares	1,926,399	651,653	(1,274,746)	1
Monexa Technologies Corp. 1,111,110 common shares	500,000	55,556	(444,444)	-
MetroBridge Network Corp. 239,370 common shares	500,000	11,969	(488,031)	-
Neovasc Inc. 279,166 common shares	1,223,250	85,146	(1,138,104)	-
Protox Therapeutics Inc. 15,680,896 common shares	8,534,337	6,350,763	(2,183,574)	13
Urodynamix Technologies Ltd. 51,665,000 common shares	4,999,800	774,975	(4,224,825)	2
Vigil Health Solutions Inc. 8,266,667 common shares	574,684	82,667	(492,017)	-
Total publicly-traded investments	25,815,103	11,272,313	(14,542,790)	23
Privately-held investments:				
Aphrodite Therapeutics Inc. 1,400,000 common shares	-	-	-	-
Aquinox Pharmaceuticals Inc. 7,366,821 preferred shares	4,284,150	4,338,106	53,956	9
Celeres Systems Inc. 2,153,548 common shares	-	-	-	-
Secured debt, non-interest bearing	800,000	-	(800,000)	-
CHR Investment Corp. 701,785 preferred shares	-	51,060	51,060	-
Conasys Consumer Assurance Systems Inc. 4,182,755 common shares	650,000	650,000	-	1
Contech Inc. 25,787,369 common shares	4,162,500	8,282,903	4,120,403	17
Contigo Systems Inc. 4,930,967 preferred shares	2,077,173	2,077,173	-	4
Galeforce Solutions Inc. 1,260,214 preferred shares	1,224,799	604,903	(619,896)	1
Inimex Pharmaceuticals Inc. 751,828 preferred shares	2,107,274	1,962,967	(144,307)	4
In Motion Technology Inc. 2,830,189 common shares	1,500,000	1,500,000	-	3
Methylation Sciences Inc. 1,500,000 common shares	1,500,000	1,500,000	-	3
Convertible debt, secured, bearing interest at 8% per annum, repayable October 31, 2010	225,000	225,000	-	1
Mobidia Technology Inc. 3,655,209 preferred shares	4,020,731	4,020,731	-	8
215,848 common shares	-	237,432	237,432	1
Total carried forward	22,551,627	25,450,275	2,898,648	52

ADVANTAGE VENTURE FUND

Statement of Investment Portfolio (continued)

June 30, 2010

	Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Privately-held investments (continued):				
Total brought forward	\$ 22,551,627	\$25,450,275	\$ 2,898,648	52%
NxtGen Emission Controls Inc.				
6,497,259 preferred shares	3,840,151	3,897,231	57,080	8
488,238 common shares	-	292,943	292,943	1
Paradigm Environmental Technologies Inc.				
77,400 common shares	250,000	212,850	(37,150)	1
Recombo Inc.				
1,923,461 common shares	250,050	634,742	384,692	1
Redlen Technologies Inc.				
4,615,385 common shares	1,500,000	1,500,000	-	3
Sensific Technologies Inc.				
200,000 common shares	100,000	-	(100,000)	-
Sirius Genomics Inc.				
2,200,000 common shares	1,850,000	2,130,000	280,000	5
Vectis Technologies Inc.				
500,000 common shares	100,000	-	(100,000)	-
Zeugma Systems Inc.				
3,813,608 preferred shares	2,862,429	2,862,429	-	6
Total privately-held investments	33,304,257	36,980,470	3,676,213	77
Total investment portfolio	\$ 59,119,360	\$ 48,252,783	\$(10,866,577)	100%

See accompanying notes to financial statements.

ADVANTAGE STRUCTURED FUND I

Statements of Net Assets

June 30, 2010 and December 31, 2009

	2010	2009
Assets		
Venture investments, at fair value	\$ 1,975,000	\$ 675,000
Cash and cash equivalents	518,623	171,549
Restricted cash (note 5)	660,436	372,029
Total assets	3,154,059	1,218,578
Liabilities		
Accounts payable and accrued liabilities	1,389	689
Due to related parties (note 12)	68,275	38,013
Accrued equity participation (note 10(c))	22,222	-
Total liabilities	91,886	38,702
Net assets, representing shareholders' equity	\$ 3,062,173	\$ 1,179,876
Number of common shares outstanding (note 10)	387,578	146,206
Net assets per common share (note 10(d))	\$ 7.90	\$ 8.07

Commitments (notes 10(c) and 13)
Contingency (note 14)

See accompanying notes to financial statements.

On behalf of the Board of Directors:

“Frank Holler” _____ Director

“Avtar Dhillon” _____ Director

ADVANTAGE STRUCTURED FUND I

Statements of Operations

Six Months Ended June 30, 2010

	2010
Investment income:	
Interest	\$ 1,204
	<u>1,204</u>
Expenses (notes 4 and 12):	
Management fees	34,591
Audit, tax and advisory fees	12,046
Administration	6,611
Transfer agency fees	2,452
Trailer fees	2,103
Directors' fees and expenses	1,001
Shareholder communications	998
Legal fees	591
	<u>60,393</u>
Net investment loss	(59,189)
Change in unrealized appreciation (depreciation) of venture investments	(261,111)
	<u>(320,300)</u>
Income (loss) from operations before income taxes	(320,300)
Income tax (recovery) (note 11(c))	-
	<u>(320,300)</u>
Income (loss) from operations	\$ (320,300)
	<u>\$ (1.28)</u>

See accompanying notes to financial statements.

ADVANTAGE STRUCTURED FUND I

Statements of Changes in Net Assets

Six Months Ended June 30, 2010

	2010
Net assets, beginning of year	\$ 1,179,876
Income (loss) from operations	(320,300)
Capital transactions (note 10):	
Issuance of common shares	1,001,492
Share issue costs including sales commissions	(119,868)
Issued for Advantage Structured Fund II shares (note 8)	1,320,973
	<u>2,202,597</u>
Increase in net assets	1,882,297
Net assets, end of period	<u>\$ 3,062,173</u>

See accompanying notes to financial statements.

ADVANTAGE STRUCTURED FUND I

Statements of Cash Flows

Six Months Ended June 30, 2010

	2010
Cash provided by (used in):	
Operations:	
Income (loss) from operations	\$ (320,300)
Change in unrealized appreciation of venture investments	261,111
Net change in non-cash operating accounts	26,437
	<u>(32,752)</u>
Investments:	
Purchase of venture investments	(500,000)
Restricted cash	(288,407)
Cash and restricted cash acquired upon conversion of Advantage Structured Fund II shares (note 8)	286,609
	<u>(501,798)</u>
Financing (note 9):	
Issuance of common shares	1,001,492
Share issue costs including sales commissions	(119,868)
	<u>881,624</u>
Increase in cash and cash equivalents	347,074
Cash and cash equivalents, beginning of year	171,549
Cash and cash equivalents, end of period	<u>\$ 518,623</u>

See accompanying notes to financial statements.

ADVANTAGE STRUCTURED FUND I

Statements of Investment Portfolio

June 30, 2010 (note 9)

	Historical Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Publicly-traded investments:				
Protox Therapeutics Inc. 2,222,223 common shares 1,111,111 warrants	\$ 1,000,000 -	\$ 900,000 -	\$ (100,000) -	46% -
Urodynamix Technologies Ltd. 5,000,000 common shares	250,000	75,000	(175,000)	4
Total publicly-traded investments	1,250,000	975,000	(275,000)	50
Privately-held investments:				
In Motion Technology Inc. 943,397 preferred shares	500,000	500,000	-	25
Redlen Technologies Inc. 1,538,461 preferred shares	500,000	500,000	-	25
Total privately-held investments	1,000,000	1,000,000	-	50
Total investment portfolio	\$ 2,250,000	\$ 1,975,000	\$ (275,000)	100%

See accompanying notes to financial statements.

ADVANTAGE STRUCTURED FUND III

Statements of Net Assets

June 30, 2010 (note 9)

Assets

Cash and cash equivalents	\$ 10
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Liabilities

Due to related parties	-
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Net assets , representing shareholders' equity	\$ 10
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Number of common shares outstanding	1
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Net assets per common share	\$ 10
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See accompanying notes to financial statements.

ADVANTAGE STRUCTURED FUND IV

Statements of Net Assets

June 30, 2010 (note 9)

Assets

Cash and cash equivalents	\$ 10
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Liabilities

Due to related parties	-
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Net assets , representing shareholders' equity	\$ 10
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Number of common shares outstanding	1
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Net assets per common share	\$ 10
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See accompanying notes to financial statements.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

1. Organization:

B.C. Advantage Funds (VCC) Ltd. (the Company) was incorporated under the Company Act of British Columbia on October 1, 2002 and is registered as a venture capital corporation (VCC) under the Small Business Venture Capital Act (the SBVCA). The Company is a venture capital business that focuses its investment activities on early stage technology and life sciences companies that are eligible under the SBVCA.

The Company is comprised of four distinct investment funds: the Advantage Venture Fund, the Advantage Structured Fund I, the Advantage Structured Fund III and the Advantage Structured Fund IV (collectively, the Funds). As of June 30, 2010, with the exception of the Structured Fund III and the Structured Fund IV, all the Funds are active. Since the Structured Fund III and the Structured Fund IV are not active, they are not referred to in the following notes. The Advantage Venture Fund and the Advantage Structured Fund I invest in emerging technology, clean-tech and life science companies. The Company may add additional investment funds in the future.

Investors' funds are invested directly in common shares of one or some combination of the Funds. The various classes of common shares issued rank equally and are identical in all respects, save and except for the net assets ascribed to each class of common shares.

The Funds are managed by Lions Capital Corp. (the Fund Manager), in accordance with the terms of a management agreement dated May 1, 2003, as amended October 31, 2003, September 30, 2006, April 1, 2007, August 8, 2008, June 5, 2009 and July 8, 2009 (the Management Agreement).

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), and specifically Accounting Guideline 18, *Investment Companies*.

(b) Venture investments:

Venture investments are recorded at estimated fair value. Fair value is the value that would be agreed upon between knowledgeable and willing parties dealing at arm's length without constraint. Investment transactions are accounted for on a trade date basis. The resulting gains or losses on such transactions are recorded in operations at that time, and are determined based on the average cost of the respective investment. Changes in unrealized appreciation or depreciation of investments are also recorded in results of operations.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

2. Significant accounting policies (continued):

(b) Venture investments (continued):

(i) Publicly-traded:

The fair values of the Funds' investments in portfolio companies that have quoted market values and that are publicly-traded on a recognized stock exchange are based on the closing bid quotations at the date of the financial statements.

(ii) Privately-owned:

The fair values of the Funds' investments in portfolio companies for which no published market exists are recorded at estimated fair values. Fair values of these investments are determined on the basis of the expected realizable value of the investments if they were disposed of in an orderly manner over a reasonable period of time.

Investments are initially recorded at cost until either there is a substantial arm's length transaction or there is objective evidence that establishes a different fair value. Where there is evidence of a decline in value of an investment as indicated by an assessment of the financial condition of an investee, the carrying value of the investment is adjusted to the estimated realizable value. For investments in more mature companies, fair value may be determined through the use of established valuation models.

The process of valuing investments for which no published market exists is inevitably based on inherent uncertainties, and the resulting values may differ from values that would have been determined had a ready market existed for the investments. These differences could be material.

(c) Cash and cash equivalents:

Cash and cash equivalents consists of cash and highly liquid short-term interest-bearing securities with maturity dates of less than 90 days at inception.

(d) Sales commissions and share issue costs:

Sales commissions and other costs directly related to the issuing of common shares are recorded as a reduction in net assets when the shares are issued.

(e) Income taxes:

Income taxes are accounted for under the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. The effect on future income tax assets and liabilities of a change in tax rates is recognized in operations in the period that enactment or substantive enactment occurs.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

2. Significant accounting policies (continued):

(e) Income taxes (continued):

The Company files an income tax return that encompasses all Funds. Income taxes recorded within each Fund's financial statements are determined on an individual Fund basis as if each Fund were filing a separate income tax return. Where a Fund utilizes tax deductions of another Fund, the transfer of these tax deductions is reflected in each Fund's statement of operations within income tax expense or recovery, as appropriate, and in each Fund's statement of net assets as an inter-fund receivable or payable.

(f) Stock-based compensation:

The Company has issued equity participation shares to its Fund Manager. Value is accreted to these equity participation shares when certain performance conditions are met. The value accreted to equity participation shares is accounted for by the Funds as stock-based compensation and expensed in the respective Fund's statement of operations and recorded as accrued equity participation in the related statement of net assets. However, the equity participation is actually payable only when all performance conditions (see note 10(c)) have been met and the accreted value is therefore realizable by the Fund Manager. To the extent that unrealized gains are not ultimately realized, the related equity participation accrual will be adjusted.

(g) Per common share values:

(i) Net assets for financial reporting purposes:

Net assets per common share is calculated based on the number of common shares outstanding at the year end. Income (loss) from operations per common share is calculated based on the weighted-average number of common shares outstanding during the year.

(ii) Net asset value:

Net asset value (NAV) for purposes of transacting share subscriptions and redemptions adjusts net assets for financial reporting purposes to reflect publicly-traded investments at last sale price rather than closing bid price, consistent with the investment industry and as allowed by Canadian Securities Administrators. NAV is also adjusted for unamortized deferred sales commissions and share issuance costs as disclosed in note 10(d).

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

2. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Fund Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the year. Significant areas requiring the use of management estimates include estimations of the fair value of investments and assessments of the financial condition of investees that might indicate a change in value of a particular investee. Assumptions underlying investment valuations are limited by the availability of reliable data and the uncertainty of predictions concerning future events. Accordingly, by their nature, investment valuations include a subjective element. Financial results as determined by actual events could differ from those estimates and assumptions, and the difference could be material.

3. Changes in accounting standards:

(a) Significant accounting changes:

(i) Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*:

In June 2009, the CICA issued amendments to Section 3862 – *Financial Instruments – Disclosures* to expand the disclosures required in respect of fair value measurements recognized in financial statements. These standards are applicable for annual financial statements in the years ending after September 30, 2009. By adopting these standards, there is no impact on the valuation of financial instruments but will result in enhanced and increased level of disclosure.

(b) Future accounting changes:

(i) International Financial Reporting Standards:

In February 2008, the Canadian Accounting Standards Board announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. As a publicly accountable enterprise, the Company will be required to prepare December 31, 2011 financial statements, including comparative information for 2010, in compliance with IFRS.

The Company is currently assessing the potential impact of the transition to IFRS on its financial statements, disclosures and broader financial reporting systems and controls. This includes analyzing the various elections available upon adoption and assessment of the potential impact of the conversion effort on systems, internal controls over financial reporting, disclosure controls and business activities.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

4. Fees and expenses:

In accordance with the Management Agreement, the Fund Manager is entitled to receive management fees equal to 2.75% per annum of the net asset value of the respective Fund, calculated and paid monthly. Also in accordance with the Management Agreement, separate from the management fee, the Funds reimburse the Fund Manager for expenses incurred by the Fund Manager in connection with its obligations pursuant to the Management Agreement.

Expenses that are the direct responsibility of the Funds include fund administration costs, transfer agency fees, shareholder communications, directors' fees and expenses, accounting fees, audit fees, tax preparation and advisory fees, legal fees, valuation fees, brokerage commissions related to investments, and other miscellaneous costs related to the operations of the Funds.

5. Restricted cash:

Pursuant to the requirements of the SBVCA, a VCC that does not have 80% of its raised equity capital invested in eligible businesses is required to maintain an investment protection account in an amount equal to 30% of the funds raised. As investments in eligible businesses are subsequently made, a drawdown from the investment protection account, equal to 37.5% of the investment amount, is available subject to the consent of the administrator of the SBVCA. At such time as a Fund is fully invested in eligible businesses it will have no balance in its investment protection account.

6. Advantage Life Science Fund I:

On July 29, 2004, the Board of Directors of the Company approved a resolution authorizing a plan of arrangement with Qwest Emerging Biotech (VCC) Fund Ltd. (Qwest), pursuant to which all of the issued and outstanding common shares of Qwest were exchanged for the Company's Advantage Life Science Fund I (at the time named the Life Science Venture Fund) common shares. This plan of arrangement was completed on January 5, 2005, on which date the Company acquired 100 percent of the net assets of Qwest, and exchanged the outstanding common shares of Qwest for Advantage Life Science Fund I common shares. The results of Qwest's operations have been included in the financial statements since that date, up to the financial statements for the year ending December 31, 2008. Qwest was a VCC fund that invested in early stage life sciences companies that were eligible under the SBVCA.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

6. Advantage Life Science Fund I (continued):

Effective April 9, 2009, all Advantage Life Science Fund I shares were exchanged for Advantage Venture Fund common shares based on the relative net asset values per common share of the Advantage Venture Fund and the Advantage Life Science Fund I as of the aforementioned date. Each Advantage Life Science Fund I common share was exchanged for 1.5992 Advantage Venture Fund shares resulting in the issuance of 54,763 Advantage Venture Fund shares. The aggregate consideration received for the issuance of 54,763 Advantage Venture Fund shares was \$392,018 based on the net asset value per common share of the Advantage Life Science Fund I at the time of exchange. See note 10(d) for a discussion of net asset values. The merger was approved by resolution of the Company's Board of Directors. The results of the Advantage Life Science Fund I have been included in the financial statements of the Advantage Venture Fund since April 9, 2009.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of exchange:

Venture investments at fair value	\$	214,586
Cash		306,522
Accounts payable		(23,170)
Accrued equity participation		(105,920)
<hr/>		
Net asset value	\$	392,018

7. Advantage Growth Fund:

On June 25, 2008, shareholders of both the Company and Pender NDI Life Sciences Fund (VCC) Inc., doing business as Advantage Life Science Fund II (ALSFII), approved the amalgamation of ALSFII into the Company. Effective August 8, 2008, the Company and ALSFII amalgamated, continuing under the name of the Company. The results of ALSFII's operations have been included in these financial statements since that date. Existing funds in the Company and ALSFII, continue to be standalone funds within the Company, and as a result, there was no impact on net assets or net asset value per share of the respective Funds.

Aggregate net assets assumed of \$15,820,784 was determined based on the fair value of the net assets of ALSFII at the time of the amalgamation in accordance with GAAP. The following table summarizes the fair value of the assets acquired and the liabilities assumed at the date of amalgamation:

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

7. Advantage Growth Fund (continued):

Venture Investments	\$ 9,274,650
Cash	4,191,424
Restricted cash	2,488,820
Accounts receivable	3,385
Accounts payable and accrued liabilities	(137,495)
<hr/>	
GAAP net assets	\$ 15,820,784

The amalgamation is accounted for in accordance with CICA 1582, Business Combinations. As such, the assets and liabilities of the ALSFII were transferred to the Company at the fair value of those assets and liabilities at the amalgamation date.

Cost in accordance with GAAP following the amalgamation is equal to the fair value at the date of amalgamation, which differs from the historical cost amount originally paid for each investment.

Effective May 10, 2010 all Advantage Growth Fund common shares were exchanged for Advantage Venture Fund common shares based on the relative pricing net asset value per common share of the Advantage Growth Fund and the Advantage Venture Fund as at May 7, 2010. Each Advantage Growth Fund common share was exchanged for 0.5861 Advantage Venture Fund common shares resulting in the issuance of 1,718,158 Advantage Venture Fund common shares. The aggregate consideration received for the issuance of 1,718,158 Advantage Venture Fund common shares was \$12,583,497 based on the net asset value per common share of the Advantage Growth Fund at the time of merger. See note 10(d) for a discussion of net asset values. The exchange was approved by resolution of the Advantage's Board of Directors. The results of the Advantage Growth Fund have been included in the financial statements of the Advantage Venture Fund since May 7, 2010.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of merger:

Venture investments at fair value	\$ 9,713,585
Cash	1,297,071
Restricted cash	933,567
Accounts payable and accrued liabilities	(38,997)
Unamortized share issue costs	678,271
<hr/>	
Net asset value	\$ 12,583,497

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

7. Advantage Growth Fund (continued):

The historical costs of Advantage Growth Fund venture investments that are held by Advantage Venture Fund at the time of merger are as follows:

	Historical Cost
Publicly-traded investments:	
Allon Therapeutics Inc. 3,556,333 common shares	\$ 3,546,150
CombinatoRx Inc. 431,064 common shares	1,926,399
Neovasc Inc. 131,250 common shares	750,000
Protox Therapeutics Inc. 4,714,286 common shares	2,650,000
Urodynamix Technologies Ltd. 25,000,000 common shares	2,000,000
Total publicly-traded investments	10,872,549
Privately-held investments:	
Aphrodite Therapeutics Inc. 378,000 common shares	\$ -
Chromos Investment Corp. 701,785 preferred shares	-
Inimex Pharmaceuticals Inc. 190,172 preferred shares	496,525
In Motion Technology Inc. 2,830,189 preferred shares	1,500,000
Methylation Sciences Inc. 105,000 preferred shares	105,000
Redlen Technologies Inc. 4,615,385 preferred shares	1,500,000
Total privately-held investments	3,601,525
Total investment portfolio	\$ 14,474,074

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

8. Advantage Structured Fund II:

Effective May 10, 2010 all Advantage Structured Fund II common shares were exchanged for Advantage Structured Fund I common shares. Based on the relative pricing net asset value per common share of the Advantage Structured Fund II and the Advantage Structured Fund I as at May 7, 2010. Each Advantage Structured Fund II common share was exchanged for one Advantage Structured Fund I common shares resulting in the issuance of 140,188 Advantage Structured Fund I common shares. The aggregate consideration received for the issuance of 140,188 Advantage Structured Fund I common shares was \$1,442,603. The exchange was approved by resolution of the Advantage's Board of Directors. The results of the Advantage Structured Fund II have been included in the financial statements of the Advantage Structured Fund I since May 7, 2010.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of exchange:

Venture investments at fair value	\$ 1,061,111
Cash	67,741
Restricted cash	218,867
Accounts payable and accrued liabilities	(4,524)
Accrued equity participation	(22,222)
Unamortized share issue costs	121,630
<hr/>	<hr/>
Net asset value	\$ 1,442,603

9. Advantage Structured Funds:

On July 20, 2009, the Company receipted an updated prospectus with the British Columbia Securities Commission to qualify for distributing shares of Advantage Structured Fund I, the Advantage Structured Fund III, and the Advantage Structured Fund IV (collectively, the "Advantage Structured Funds"). The Structured Funds did not exist as of June 30, 2009. The Advantage Structured Fund I commenced operations on July 20, 2009. To date, no shares of the Advantage Structured Fund III or the Advantage Structured Fund IV have been issued to the public.

10. Share capital:

(a) Authorized:

19,000,000,000 common shares divided into 19 classes of common shares; each class having an authorized share capital of 1,000,000,000 common shares
1,000,000,000 equity participating shares

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

10. Share capital (continued):

(b) Issued:

The following table summarizes the issued capital of the Funds:

	Advantage Venture Fund		Advantage Structured Fund I	
	Common shares	Equity participation shares	Common shares	Equity participation shares
Balance, December 31, 2008	6,171,536	4,500,000	-	-
Issued for cash	359,620	-	146,206	-
Redeemed	(31,537)	-	-	-
Issued for Advantage Life Science I Fund shares (note 6)	54,763	-	-	-
Equity participation shares issued upon Advantage Life Science I Fund common share conversion (note 6)	-	1,500,000	-	-
Balance, December 31, 2009	6,554,382	6,000,000	146,206	-
Issued for cash	101,389	-	101,184	-
Redeemed	(10,753)	-	-	-
Issued for Advantage Growth Fund common share conversion (note 7)	1,718,158	-	-	-
Issued for Advantage Structured Fund II common share conversion (note 8)	-	-	140,188	-
Balance, June 30, 2010	8,363,176	6,000,000	387,578	-

(c) Equity participation:

The Company has issued equity participation shares to its Fund Manager for a nominal amount. Pursuant to the Management Agreement, the Fund Manager has agreed that the equity participation shares will not be transferred, sold, exchanged or paid a dividend until an individual venture investment in the respective Fund has returned all of the capital plus a compound rate of return on investment exceeding 10% per year, and the total realized gains, unrealized gains and net investment income from the portfolio of venture investments of the respective Fund have generated a compound rate of return exceeding 8% per year. The value that may be earned by the Fund Manager is 20% of the amount of a realized gain (before income taxes) on an investment. Equity participation shares that have accreted value may be sold or converted to common shares of the respective Fund. Alternatively, the accreted value may be paid as a dividend to the Fund Manager.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

10. Share capital (continued):

(c) Equity participation (continued):

Advantage Venture Fund:

(i) Equity participation paid:

For the period ended June 30, 2010, no equity participation has been paid.

(ii) Equity participation accrued:

For period ended June 30, 2010, the Fund has a remaining accrued equity participation of \$132,849 resulting from the Advantage Technology Fund and the Advantage Life Science Fund I common share conversions (note 6 and 7). This equity participation will be paid when the Fund's investments in Recombo and Protox Therapeutics Inc. (Protox) have been sold to an arm's length party.

In April 2009, all Advantage Life Science Fund I common shares were exchanged for Advantage Venture Fund common shares (see note 6) and based on the net asset value of the Advantage Life Science Fund I as at April 9, 2009, the performance criteria for the equity participation shares were met and its investment in Protox had achieved a compound rate of return exceeding 10% per year. As such, \$3,513 of equity participation was accrued at that time. In addition, the Advantage Life Science Fund I had previously accrued an equity participation amount of \$102,407 resulting from the partial sale of its investments in Protox to the Advantage Venture Fund. Equity participation totaling \$105,920 has been recorded as payable, but will not be paid until the Fund's investment in Protox has been sold to an arm's length party.

Advantage Venture Fund (continued):

(ii) Equity participation accrued:

In December 31, 2009, the Advantage Venture Fund has sold its investment in OncoGenex Pharmaceuticals Inc. for a realized gain of \$460,498, which had achieved an internal rate of return exceeding 10% per year. However, the total realized gains, unrealized gains and net investment income from the Advantage Venture Fund's portfolio of venture investments have not generated a compound rate of return exceeding 8% per year. Accordingly, the Advantage Venture Fund did not accrue any equity participation amount in the current year. This equity participation amount of \$100,637 will be accrued and paid if the total realized gains, unrealized gains, and investment income from the Fund's portfolio of venture investments exceeds a compound rate of return of 8% per year in the future.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

10. Share capital (continued):

(c) Equity participation (continued):

For period ending June 30, 2010, the Advantage Venture Fund has sold its investment in Tekmira Pharmaceuticals Inc. for a realized gain of \$214,972, which had achieved an internal rate of return exceeding 10% per year. However, the total realized gains, unrealized gains and net investment income from the Advantage Venture Fund's portfolio of venture investments have not generated a compound rate of return exceeding 8% per year. Accordingly, the Advantage Venture Fund did not accrue any equity participation amount in the current period. This equity participation amount of \$45,473 will be accrued and paid if the total realized gains, unrealized gains, and investment income from the Fund's portfolio of venture investments exceeds a compound rate of return of 8% per year in the future.

Advantage Structured Fund I:

(i) Equity participation paid:

For the period ended June 30, 2010, no equity participation has been paid.

(ii) Equity participation accrued:

In May 2010, all Advantage Structured Fund II common shares were exchanged for Advantage Structured Fund I common shares (see note 8) and based on the net asset value of the Advantage Structured Fund II as at May 7, 2010, the performance criteria for the equity participation shares were met and its investment in Protox had achieved a compound rate of return exceeding 10% per year. As such, \$22,222 of equity participation was accrued at that time and has been recorded as payable, but will not be paid until the Fund's investment in Protox has been sold to an arm's length party.

(d) Net assets and net asset value per common share:

Subscriptions and redemptions of the Advantage Venture Fund are transacted at the NAV per common share of the respective Fund. NAV is a non-GAAP financial measure that is comprised of the net assets as determined under GAAP plus any unamortized sales commissions and share issue costs, plus, commencing January 1, 2007, an adjustment to revalue publicly-traded investments using last sale prices rather than closing bid quotations. Because NAV per share is a non-GAAP financial measure that does not have any standardized meaning prescribed by GAAP, it may not be comparable to similar measures presented by other funds.

The price of a common share of Advantage Structured Fund I is \$10.00 until the Board of Directors, in its sole discretion, determines a different NAV per common share. Thereafter, the pricing of a common share will be determined by the respective fund's NAV per common share.

The following are reconciliations of net assets and net assets per common share determined in accordance with GAAP to net asset value and net asset value per common share:

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

10. Share capital (continued):

(d) Net assets and net asset value per common share (continued):

	Advantage Venture Fund		Advantage Structured Fund I	
	2010	2009	2010	2009
Net assets per statements of net assets	\$ 54,622,317	\$ 46,165,292	\$ 3,062,173	\$ -
Add:				
Unamortized deferred sales commissions and share issuance costs ⁽¹⁾	1,864,655	1,860,219	344,646	-
Adjustment from bid quotations to last sale prices, net of contingent equity allocation	(45,073)	379,124	-	-
	1,819,582	2,239,343	344,646	-
Net asset value	\$ 56,441,899	\$ 48,404,635	\$ 3,406,819	\$ -
Common shares outstanding at year end (note 10(b))	8,363,176	6,477,353	387,578	-
GAAP net assets per common share	\$ 6.53	\$ 7.13	\$ 7.90	\$ -
Net asset value per common share	\$ 6.75	\$ 7.47	\$ 8.79	\$ -

(1) Deferred sales commissions and share issuance costs are amortized on a straight-line basis over the minimum expected holding period of the related shares of five years.

In accordance with the Company's prospectus, subscriptions and redemptions are transacted weekly by the Funds at the net asset value per share calculated on Friday of the respective week. As the last transaction date for subscriptions and redemptions for the period was June 25, 2010, the net asset values per common share at which shares were actually transacted differs from those presented above, which are as at June 30, 2010, due to the recording of certain tax, accounting and valuation adjustments for GAAP purposes as outlined in the Funds' prospectus.

(e) Distribution of realized gains:

Advantage Venture Fund:

For the six months ended June 30, 2010, no distributions were paid out of the Advantage Venture Fund.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

10. Share capital (continued):

- (e) Distribution of realized gains (continued):

Advantage Structured Fund I

For the period ended June 30, 2010, no distributions were paid out of the Advantage Structured Fund I.

11. Income taxes:

- (a) The components of future income tax balances in each fund at June 30, 2010 and December 31, 2009 are as follows:

	Advantage Venture Fund		Advantage Structured Fund I	
	2010	2009	2010	2009
Future income tax assets related to:				
Tax loss carry forwards	\$ 9,506,881	\$ 4,332,516	\$ 195,652	\$ 21,620
Share issuance costs	674,817	544,148	37,821	43,832
Unrealized losses on venture investments	2,284,935	286,075	61,463	27,938
	12,466,633	5,162,739	294,936	93,390
Future income tax liabilities related to:				
Unrealized gains on venture investments	-	-	-	-
Valuation allowance	\$ (12,466,633)	(5,162,739)	(294,936)	(93,390)
Net future income tax asset (liability)	\$ -	\$ -	\$ -	\$ -

- (b) There is no tax benefit related to deductions that were transferred between Funds during the period and there is no unsettled balance in each Fund at June 30, 2010 and December 31, 2009.
- (c) The provision for income taxes shown in each Fund's statement of operations is different than that obtained by applying statutory tax rates to the income (loss) from operations before income taxes for the following reasons due to amortization of share issue costs, payment of equity participation fees, the non-taxable portion of capital gains, and adjustments for applicable rate changes and changes in valuation allowances
- (d) The Funds have non-capital loss carryforwards available for utilization against taxable income in future years. The Advantage Venture Fund has an allowable capital loss carry forward of \$1,485,127. See the audited financial statements of the Fund for details regarding expiration of non-capital tax-loss carryforwards.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

12. Related party transactions:

The Fund Manager pays certain expenses on behalf of the Funds and is subsequently reimbursed by the Funds. See note 4 for additional discussion.

The following tables summarize the Funds' related party transactions:

Advantage Venture Fund	Six months ended		Amount payable as at	
	June 30, 2010	June 30, 2009	June 30, 2010	December 31, 2009
Fund Manager ⁽¹⁾				
Management fees	\$ 702,454	\$ 647,427	\$ 281,372	\$ 237,241
Reimbursement of administration expenses	271,810	406,936	153,858	78,803
Total related party expenses	\$ 974,264	\$ 1,054,363	\$ 435,230	\$ 316,044
Due to related parties				

Advantage Structured Fund I⁽²⁾	Six months ended		Amount payable as at	
	June 30, 2010	June 30, 2009	June 30, 2010	December 31, 2009
Fund Manager ⁽¹⁾				
Management fees	\$ 34,591	\$ 34,591	\$ 17,072	\$ 5,945
Reimbursement of administration expenses	86,782	86,782	51,203	32,068
Total related party expenses	\$ 121,372	\$ 121,372	\$ 68,275	\$ 38,013
Due to related parties				

⁽¹⁾ Certain officers of the Company have an ownership interest in the Fund Manager.

⁽²⁾ See note 9.

Inter-Fund Sale of Investments:

The Board of Directors of the Company approved resolutions authorizing the Advantage Venture Fund to acquire certain investments from the Advantage Life Science Fund I on March 20, 2008 and October 28, 2008. The purchases were completed, on a pro-rata basis, from the existing investment portfolio at the fair value of each investment held by the Advantage Life Science Fund I. The Advantage Life Science Fund I received gross proceeds of \$1,184,684 and a net realized gain of \$154,402 based on historical costs of the investments. As the performance criteria for equity participation shares were met, a total equity participation amount of \$102,407 has been accrued in the Advantage Life Science Fund I, but will not be paid until the investments purchased by the Advantage Venture Fund have been sold to an arm's length party as discussed further in note 10(c).

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

13. Commitment:

The Company has an investment administration agreement with the Investment Administration Solution Inc. to provide certain transfer agency and back office administration services. The agreement specifies a minimum fee per month of \$10,750 (plus GST or HST starting July 1, 2010 thereon) for three years, which commenced January 1, 2010. The Funds' minimum future payment in accordance with this agreement for 2010 is \$322,500.

14. Contingency:

As a VCC, the Company has to comply with the legislative requirements of the SBVCA, including investing appropriately in eligible businesses and maintaining certain levels of investment for at least five years. The Company has a contingent liability to repay the tax credits granted to its shareholders by the Government of British Columbia if it does not comply with these requirements. As at June 30, 2010, management is not aware of any other circumstances where the Company is not in compliance with the requirements of the SBVCA.

15. Fair values of financial assets and liabilities:

The Funds' venture investments are carried at fair value. The fair values of other financial instruments (cash and cash equivalents, restricted cash, inter-fund balances, accounts payable and accrued liabilities and due to related parties) are considered by the Fund Manager to approximate their carrying values due to their short-term nature.

The following table shows a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Company's investments. The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices) (Level 2)
- Inputs that are not based on observable market data (unobservable inputs) (Level 3)

The following is a summary of the inputs used as of June 30, 2010 in valuing the respective Fund's investments carried at fair values:

Advantage Venture Fund

	Level 1	Level 2	Level 3	Total
Listed Equities				
Common Shares	\$ 11,272,313			\$ 11,272,313
Unlisted Equities				
Common Shares			\$13,940,870	13,940,870
Preferred Shares			22,814,600	22,814,600
Interest Bearing Securities				
Convertible Debentures			225,000	225,000
	\$ 11,272,313	\$ -	\$36,980,470	\$ 48,252,783

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

15. Fair values of financial assets and liabilities (continued):

Advantage Structured Fund I

	Level 1	Level 2	Level 3	Total
Listed Equities				
Common Shares	\$ 975,000	-	-	\$ 975,000
Unlisted Equities				
Preferred Shares		-	\$ 1,000,000	1,000,000
	\$ 975,000	\$ -	\$ 1,000,000	\$ 1,975,000

The following table shows a reconciliation of all movements in the fair value of the Fund's investments within Level 3 during the year:

	Advantage Venture Fund	Advantage Structured Fund I
Opening Balance	\$29,861,318	\$ 550,000
Gains and Losses	1,391,639	-
Purchases	2,125,988	-
Acquired due to merger	3,601,525	450,000
Closing Balance	\$36,980,470	\$ 1,000,000

16. Financial instruments:

(a) Overview:

In the normal course of operations, each Fund has exposure to credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The Fund Manager has overall responsibility for the establishment and oversight of the Funds' risk management framework.

(b) Credit risk:

Credit risk is the risk associated with the inability of a third party to fulfill payment obligations. The Funds may invest in convertible debt securities of portfolio investees from time-to-time. Typically, the Funds expect these investments to be converted to equity investments within eighteen months of investment. As the Funds invest in early stage companies which generally have a limited history of operations and revenues, if any, in the event that the Funds do not convert their debt investments into equity securities, it is possible that the investee company would be unable to meet its obligations pursuant to the Funds' debt investment. Such exposure to credit risk is managed by the Fund Manager in conjunction with its overall investment evaluation and monitoring processes.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

16. Financial instruments (continued):

(b) Credit risk:

The maturity of each Fund's debt investments is disclosed in the respective Fund's Statement of Investment Portfolio. Such debt investments represent the main concentration of credit risk for the respective Fund, and, accordingly, represent the maximum credit risk exposure of the respective Fund.

(c) Liquidity risk (continued):

Liquidity risk is the risk that the Funds will not be able to meet financial obligations as they fall due. The Funds' shares are redeemable on demand, subject to minimum holding periods as described in the Funds' prospectuses. The Funds' ability to meet these share redemptions and other financial obligations depends on the ability to sell their investments in portfolio companies. As the Funds invest in early stage technology and life science companies which generally have a limited history of operations and revenue, if any, the success of its investments is not assured. There is no assurance that any portfolio company will be able to successfully complete its development plan or sustain operations over the short term or an extended period. The Funds manage liquidity risk by becoming actively involved in their portfolio companies and continually monitoring the value of their investments.

(d) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risk: currency risk, interest rate risk and other price risk. Such market risk exposures are managed by the Fund Manager in conjunction with its overall investment evaluation and monitoring processes.

(i) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Funds are not currently exposed to currency risk.

(ii) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Funds' primary interest rate risk relates to the investment of cash and cash equivalents and restricted cash. The Funds may hold also convertible debt securities of portfolio investees from time to time which the Funds expect to be converted into equity investments within eighteen months of investment. On this basis, the fair value of these investments is derived primarily from the fair value of the underlying equity of the portfolio investee. As such, the Funds do not have any significant exposure to interest rate risk.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

16. Financial instruments (continued):

(d) Market risk (continued):

(iii) Other price risk:

Other price risk is the risk that the market value of the Funds' equity investments will fluctuate in response to specific company developments and prospects as well as changes in economic conditions (other than those arising from currency or interest rate risk).

The Funds' investments are concentrated within the technology and life science industries. Further, the Funds investments are concentrated geographically within the Province of British Columbia. The investments are generally in early stage companies with a limited history of operations and revenues, and the fair value of these investments fluctuates primarily in response to specific company developments, rather than in response to general market conditions.

Because of these factors, sensitivity analysis that would measure the impact on the Funds' net assets from changes in the general level of market prices has not been provided as the Fund Manager believes this information would not be meaningful. Given the early development stage of the Funds' investments, there is the risk that a specific investments fair value may be reduced to nil. The Fund Manager moderates this risk through careful selection and diversification of investments within the limits of the Funds' investment objectives and strategy.

The process of estimating the fair value of venture investments for which there is no published market is inevitably based on inherent uncertainties and on techniques and assumptions that emphasize qualitative over quantitative information and analysis. As such, there is no applicable quantitative basis to estimate the potential effect of changing the assumptions to reasonably possible alternative assumptions on the estimated fair value of the venture investment portfolio.

17. Capital management:

The objective of the Advantage Venture Fund, and the Advantage Structured Fund I is to raise equity capital and to invest it in investments that meet the Funds' investment criteria. The Funds' capital structure consists only of proceeds from share issuance, net of share issue costs including sales commissions. The Funds may make adjustments to their capital structure in light of economic conditions and the risk characteristics of its investments. As described in note 5, all Funds are subject to placing 30% of their capital raised into an investment protection account under the SBVCA. As of June 30, 2010, the Funds were in compliance with this restriction. Common shares of the Funds are generally only redeemable after five years from the date the proceeds are invested in eligible businesses. Management also has the ability to suspend redemptions in specific situations, including where the Board of Directors determines, in its sole discretion, that the redemption should not proceed.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2010 and June 30, 2009

18. Review of privately-owned venture investments:

Annually, the Funds obtain a review by an independent Chartered Business Valuator of the aggregate estimated fair value of the Funds' venture investments for which no public market exists, calculated in accordance with the Funds' internal valuation policies and with the principles outlined in the Funds' prospectus.

The scope of the review by the Chartered Business Valuator consists mainly of a review of working papers and investment files prepared on behalf of the Funds by the Fund Manager, consideration of the appropriateness of the valuation methodology employed by the Funds and an assessment of the reasonableness of assumptions and conclusions. Based on the scope of the review, the Chartered Business Valuator provides an opinion to the Audit and Valuation Committee of the Funds as to the reasonableness of the aggregate estimated fair value of the Funds' privately-owned investments.

19. Subsequent events:

In July 2010 the Advantage Venture Fund recorded a write-down of its entire investment of \$2,862,429 in Zeugma Systems Inc. ("Zeugma"). The write-down was made pursuant to information received from the Board of Directors of Zeugma and adverse operating conditions that became apparent after June 30, 2010. As such, no adjustment in the financial statements of the Advantage Venture has been made as at June 30, 2010.