

Annual Management Report of Fund Performance

**B.C. ADVANTAGE FUNDS (VCC) LTD.  
ADVANTAGE LIFE SCIENCE FUND I**

Year ended December 31, 2008

This annual management report of fund performance contains financial highlights of the B.C. Advantage Funds (VCC) Ltd. Advantage Life Science Fund I (the Fund). You may contact us by calling 604-688-6877, by writing us at 1280 - 885 West Georgia Street, Vancouver, BC, V6C 3E8 or by visiting our website at [www.bcadvantagefunds.com](http://www.bcadvantagefunds.com) to request a copy, at no cost to you, of the Fund's financial statements, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure. You may also obtain a copy of the Fund's financial statements at [www.sedar.com](http://www.sedar.com).

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## Management Discussion of Fund Performance

### Investment Objectives and Strategies

The Fund invests in a diversified portfolio of emerging life science companies with the objective of providing long-term capital appreciation to investors.

The Fund is closed to new investors and has fully invested its capital. The Fund is focused primarily on working with existing portfolio companies to enhance shareholder value and on seeking liquidity for these investments. The companies in which the Fund invests must be eligible businesses in accordance with the B.C. Small Business Venture Capital Act (SBVCA). In general, this means companies based in B.C. that have less than 100 employees and carry on a business activity as specified in the SBVCA.

The Fund's strategy for achieving its objective is to invest in early stage biotech, diagnostic and medical device companies. The Fund invests in companies with superior technology and science, large market opportunities and experienced management. Portfolio companies include private and public companies, as well as companies from the start-up stage through to revenue. Where appropriate, the Fund seeks to build and mentor management in emerging companies to enhance shareholder value.

### Risk

An investment in the Fund is highly speculative and carries significant risk. An investment in the Fund is a long-term investment. Over the fiscal year, no material or significant changes occurred that affected the overall risk level associated with the Fund.

The risks of investing in the Fund include a relatively large proportion of private company investments and a concentration in early-stage and life science companies. A material portion of the Fund's investments are in private companies, for which no ready market exists. Valuation of private companies for which no published market exists is subject to inherent uncertainties, and the resulting values may differ from values that would have been used had a ready market existed for the investments.

### Impact of market conditions

The credit crisis and global economic downturn had impacted and are expected to continue to impact operating conditions for companies in all sectors and, at least in the near-term, valuations of all companies. The Fund invests in emerging life science companies in British Columbia. These companies are normally subject to a great degree of risk and, in order to achieve their business objectives, generally have capital requirements in excess of their available resources. Typically in times of market turmoil, companies with smaller capitalizations have a tendency to show greater volatility, which is also the case in market recoveries. The Fund Manager is working closely with the majority of its portfolio investments, including both publicly-traded and privately-held investments, in an effort to ensure their viability and ultimate success so as to provide long-term capital appreciation to the investors.

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## Impact of market conditions (continued):

The Fund is subject to the rules and restrictions of the SBVCA. If the Fund contravenes the SBVCA and has to repay tax credits, it may impair the Fund's ability to carry on business and meet its investment objectives.

There is no market for the Fund's shares, and no market is expected to develop. Investors will not, typically, be able to dispose of their investment other than by way of redemption. In accordance with the SBVCA, investments in portfolio companies must be held for at least five years. As such, an investor's redemption of the Fund's share is prohibited for at least five years from the date the Fund invests in eligible companies in accordance with the SBVCA. Practically speaking, investors will not be able to redeem their investment for six or seven years from the date they invested in the Fund. As the Fund has been investing in venture investments since early 2002, redemption eligibility began in 2008, subject to SBVCA restrictions.

## Management Discussion of Fund Performance

### Results of Operations

#### *Investment Activity*

During the fiscal year, the Fund did not invest in any new investments but partially disposed of 4 venture investments with a total cost of \$1.50 million for which the Fund received proceeds of \$1.18 million and realized a net loss of \$0.32 million. As at December 31, 2008, the fair value of the Fund's portfolio investments represented 32% of the net assets of the Fund, while cash and other net assets represented 68% of net assets.

The following table summarizes changes in the composition of the Fund's investment portfolio:

	2008	2007
Venture Investments, Cost	\$ 422,376	\$ 1,925,990
Venture Investments, Fair Value	154,662	1,466,290
Number of Venture Investments:	4	4
Private	-	2
Public	4	2

Of the fair value of the Fund's investments, \$0.15 million or 100% are public companies. Of the number of the Fund's investments, 100% are public companies.

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## Management Discussion of Fund Performance (continued)

### Results of Operations (continued):

#### *Investment Performance*

Over the past year, the Fund's net assets per share (NAPS) decreased by \$2.55. The decrease in NAPS was due operating costs incurred by the Fund in excess of investment income and realized loss on investments sold, which was partially offset by a decrease in the unrealized loss on venture investments (see section entitled "Financial Highlights").

The Fund's management expense ratio (MER) was 5.06% for fiscal 2008 before equity participation amounts and 3.49%, including the change in contingent equity participation accrued on unrealized gains for 2008.

Over the fiscal year, the Fund outperformed the Globefund Retail Venture Capital Index (see section entitled "Past Performance").

#### **Recent Developments**

The Fund is managed by Lions Capital Corp. (the Fund Manager). Consistent with prior periods, the Fund invests in a diversified portfolio of emerging life science companies with the objective of providing long-term capital appreciation to investors. The Fund Manager has maintained the Fund's strategy of investing early in companies with superior technology, large market opportunities and experienced management.

On January 17, 2007, the Fund declared and subsequently paid a \$10.00 per share dividend to all shareholders of record on that date, which was approved at a meeting of shareholders on December 5, 2006. During fiscal 2006 and 2005 the Fund had realized gains on a portion of its venture investment portfolio and as a result had a significant cash surplus. As redemption availability for the Fund is expected to begin within eighteen months, the Fund Manager and shareholders of the Fund elected to distribute the cash surplus rather than seek reinvestment in venture portfolio investments.

Amalgamation with Pender NDI Life Sciences (VCC) Inc.:

On August 8, 2008, Pender NDI Life Sciences Fund (VCC) Inc., doing business as Advantage Life Science Fund II ("ASLFII") and the Company were amalgamated into one fund company. This amalgamation was approved by the shareholders of ALSFII and B.C. Advantage Funds (VCC) Ltd. (Advantage) on June 25, 2008. The combined fund company is comprised of the Advantage Venture Fund, the ALSFII, and the Advantage Life Science Fund I, which is now the Advantage Growth Fund, is a VCC fund company managed by the Fund Manager. The amalgamation was to streamline operations and reduce or eliminate certain operating costs for both funds. This is expected to reduce the management expense ratio of all funds and increase their net asset values, thereby resulting in greater returns to investors. For additional information, please see the Joint Information Circular dated May 22, 2008.

On August 21, 2008, OncoGenex Pharmaceuticals Inc. ("OncoGenex") successfully listed on the NASDAQ via a reverse takeover transaction.

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On June 1, 2008, Protiva Biotherapeutics Inc. ("Protiva") amalgamated with Tekmira Pharmaceuticals Corp. ("Tekmira"), a publicly traded company listed on the Toronto Stock Exchange, and continued operations as Tekmira.

## Accounting Policy Changes:

The Canadian Institute of Chartered Accountants (CICA) has issued Handbook Section 3855, *Financial Instruments - Recognition and Measurement* (S3855) which applies to fiscal years beginning on or after October 1, 2006. The adoption of S3855 impacts the calculation of the net assets of the Funds for financial reporting purposes because it requires publicly-traded investments to be valued using bid quotations rather than the last sale prices as was the accounting policy of the Funds prior to January 1, 2007.

S3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Funds, be charged to income from operations in the period incurred. There was no impact on opening net assets as a result of this change in accounting policy.

The CICA has also issued Section 3862, Financial Instruments – Disclosures, Section 3863, Financial Instruments – Presentation, and Section 1535, Capital Disclosures.

Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments enhance existing disclosure and presentation of the nature and scope of the risks associated with financial instruments as well as the way these risks are managed. These standards were adopted by the Fund effective January 1, 2008 and have no impact on the recognition or measurement of financial instruments.

Section 1535, Capital Disclosures, requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies, and processes for managing capital. This standard was adopted by the Fund effective January 1, 2008 and has no impact on the recognition or measurement of any financial statement items.

## Related Party Transactions

In accordance with the management agreement between the Fund and the Fund Manager, the Fund Manager receives management fees equal to 2.75% of the net asset value of the Fund, calculated and paid monthly. Also in accordance with the management agreement, separate from the management fee, the Fund reimburses the Fund Manager for expenses incurred by the Fund Manager in connection with its obligations pursuant to the management agreement. The Fund Manager may also earn an equity participation amount based on the realized gains and cumulative performance of the Fund. During the current fiscal year, the Fund sold some of the portfolio investments to the Advantage Venture Fund. Equity participation amounts of \$102,407 (2007 - nil) were accrued by the Fund, payment of which is contingent upon sale of these investments to an arm's length party. A further \$4,845 (2007 - \$127,818) was accrued on unrealized gains and is contingent upon realization of related gains and continued achievement of the Fund's performance criteria as disclosed in the Fund's financial statements for the year ended December 31, 2008.

Related party transactions are disclosed in note 11 of the Fund's audited financial statements for the year ended December 31, 2008.

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## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance since its acquisition on January 5, 2005. This information is derived from the Fund's audited annual financial statements.

### The Fund's Net Assets per Share<sup>(3)</sup>

	2008	2007	2006	2005
Net assets, beginning of year	\$ 12.62	\$ 21.43	\$ 23.13	\$ -
Net assets, on acquisition	-	-	-	17.43
Increase (decrease) from operations:				
Total revenue	0.29	0.27	0.57	0.33
Total expenses <sup>(2)</sup>	(0.29)	(1.20)	(1.16)	(11.09)
Realized gain (loss) for the period	(3.27)	-	11.34	8.64
Unrealized gain (loss) for the period	1.97	2.26	(12.45)	7.82
Dividend paid during the period	-	(10.00)	-	-
Total increase from operations <sup>(1)</sup>	(1.30)	(8.67)	(1.70)	5.70
Net assets at December 31 <sup>(1)</sup>	\$ 10.07	\$ 12.62	\$ 21.43	\$ 23.13

<sup>(1)</sup> Net assets are based on the actual number of shares outstanding as at December 31. The increase/decrease from operations is based on the weekly weighted average number of shares outstanding over the financial period.

<sup>(2)</sup> Total expenses include an income tax recovery of \$0.18 (income tax expense in 2007 - \$0.23) per share and contingent equity participation recovery of \$0.21 (2007 - contingent equity participation expense of \$0.35).

<sup>(3)</sup> Net assets per share are presented in accordance with Canadian generally accepted accounting principles (GAAP). Subscriptions and redemptions of common shares of the Fund are transacted at the Net Asset Value per Share of the Fund. The Net Asset Value per Share, which is a non-GAAP measure, is described in detail in the Fund's prospectus and is reconciled in note 9(d) of the Fund's financial statements for the year ended December 31, 2008.

## Ratios and Supplemental Data

	2008	2007	2006	2005
Net assets (000's) <sup>(1)</sup>	\$ 476	\$ 2,312	\$ 3,926	\$ 4,237
Number of shares outstanding <sup>(1)</sup>	47,217	183,226	183,226	183,226
MER before equity participation amounts	5.06%	4.67%	5.39%	4.11%
Change in contingent equity participation accrued on unrealized gains	(1.57)%	2.60%	0.95%	19.31%
Total MER <sup>(2)</sup>	3.49%	7.27%	6.34%	23.42%

<sup>(1)</sup> This information is provided as at December 31.

<sup>(2)</sup> Management expense ratio is based on the total expenses incurred by the Fund inclusive of management fees and all operating costs for the year, but excluding income taxes, and is expressed as an annualized percentage of the weighted average net asset value during the year.

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## Financial Highlights (continued)

### Ratios and Supplemental Data (continued)

Portfolio turnover information has not been provided as the Fund invests in venture stage companies which, on average, are held for five to seven years. Similarly, a trading expense ratio has not been provided as the Fund neither engages in active trading, nor purchases securities in the secondary market.

### Management fees

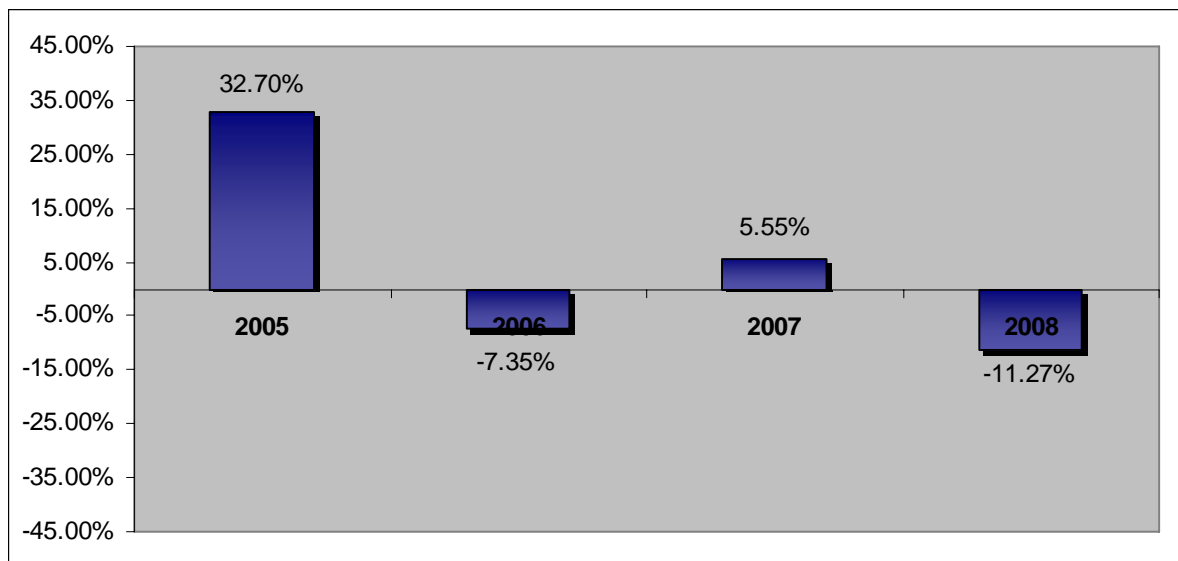
The Fund pays management fees of 2.75% of the net asset value of the Fund, calculated and paid monthly. In consideration for these fees, the Fund Manager provides day to day management over the Fund and the Fund's investment portfolio, including sourcing and administration of all venture investments. The Fund Manager may also earn an incentive participation amount based on realized gains and cumulative performance of the Fund. Additional information regarding equity participation is disclosed in note 9(c) of the Fund's financial statements for the year ended December 31, 2008.

## Past Performance

The Fund's returns are not guaranteed, the value of its shares change frequently and past performance may not neither be repeated nor can it be used as an indicator of future performance.

### Year by Year Returns

The chart below reflects the Fund's annual performance since inception to December 31, 2008 and illustrates how the Fund's performance has changed from year to year. The chart shows in percentage terms how an investment made on the first day of each fiscal year would have increased or decreased by the last day of each fiscal year.



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## Past Performance (continued)

### Annual Compound Returns

The following chart shows the Fund's annual compound return since inception as compared to the Globefund Retail Venture Capital Index as at December 31, 2008, which is comprised of 132 retail venture capital investment funds.

	Advantage Life Science Fund I	Globefund Industry Average
1 Year	(11.27)%	(14.74)%
3 Year	(4.62)	(5.24)
Since inception	(4.81)	(4.65)

## Summary of Investment Portfolio

The following tables summarize the Fund's investment portfolio as at December 31, 2008. This is a summary only and may change due to portfolio activity in the Fund. A quarterly update is available on request.

	Fair value	Percentage of total net assets
Private Companies	\$ -	-%
Public Companies	154,662	32
Total Venture Investments	154,662	32
Cash and Cash Equivalents	433,731	92
Net Other Assets less Liabilities	(112,853)	(24)
Net Asset Value at December 31, 2008	\$ 475,540	100%

	Percentage of total net assets
Public:	
OncoGenex Pharmaceuticals Inc.	2%
Protox Therapeutics Inc.	16
Tekmira Pharmaceuticals Corp.	10
Vigil Health Solutions Inc.	4
Total Venture Investments	32%