

Annual Management Report of Fund Performance

**B.C. ADVANTAGE FUNDS (VCC) LTD.  
ADVANTAGE VENTURE FUND**

Year ended December 31, 2008

This annual management report of fund performance contains financial highlights of the B.C. Advantage Funds (VCC) Ltd. Advantage Venture Fund (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).

# ADVANTAGE VENTURE FUND

Annual Management Report of Fund Performance

Year ended December 31, 2008

---

## Management Discussion of Fund Performance

### Investment Objectives and Strategies

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

The Fund is actively raising new capital and investing this capital in emerging life science and technology companies. Investors receive a 30% refundable tax credit at the time of investment. 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, information technology and industrial technology companies. The Fund invests in companies with superior technology, 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 early-stage concentration. A significant 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 life science and technology 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 effect to ensure their viability and ultimate success so as to provide long-term capital appreciation to the investors.

# ADVANTAGE VENTURE FUND

Annual Management Report of Fund Performance

Year ended December 31, 2008

---

## Impact of market conditions (continued):

The Fund relies on the allocation of tax credits provided to investors by the administrator of the SBVCA to raise new funds. Issuance of tax credits is discretionary and cannot be guaranteed. The SBVCA administrator has authorized tax credits that will allow the Fund to raise up to an additional \$13 million in each of 2008, 2009 and 2010. Thereafter, the Fund has been provided a rolling three year allocation. If the Fund either cannot raise additional funds or 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 shares 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 to seven years from the date they invested in the Fund.

## Management Discussion of Fund Performance (continued)

### Results of Operations

#### *Investment Activity*

During the fiscal year, the Fund completed investment of \$11.67 million in 14 new and existing venture investments, and disposed of 2 venture investments for which the Fund received proceeds of \$0.20 million and a realized net gain of \$0.20 million. As at December 31, 2008 the fair value of the Fund's portfolio investments represented 82% of the net assets of the Fund, while cash and other net assets represented 18% of net assets.

The following table summarizes changes in the composition of the Fund's investment portfolio in comparison to the prior fiscal year:

---

	2008	2007
Venture Investments, Cost	\$ 41,859,359	\$ 27,594,580
Venture Investments, Fair Value	34,088,238	30,890,336
Number of Venture Investments:	27	20
Private	17	13
Public	10	7
Life Science	12	10
Technology	15	10

---

# ADVANTAGE VENTURE FUND

Annual Management Report of Fund Performance

Year ended December 31, 2008

---

## Management Discussion of Fund Performance (continued)

### Results of Operations (continued):

#### *Investment Activity (continued):*

##### Fair value of investments:

Of the fair value of the Fund's investments, \$19.45 million or 57% are life science companies and \$14.64 million or 43% are technology companies. Of the fair value of the Fund's investments, \$6.89 million or 19% are public companies and \$27.20 million or 81% are private companies.

##### Number of investments:

Of the number of the Fund's investments, 44% are life science companies and 56% are technology companies. Of the number of the Fund's investments, 63% are private companies and 37% are public companies.

#### *Investment Performance*

Over the past year, the Fund's net assets per share (NAPS) decreased by \$2.05. The decrease in NAPS was principally due to an increase in the unrealized loss on venture investments, combined with operating costs incurred by the Fund in excess of investment income (see section entitled "Financial Highlights").

The Fund's management expense ratio (MER) was 5.80% for fiscal 2008 as compared to 8.20% for 2007. Management expense ratio is based on the total expenses incurred by the Fund inclusive of management fees, all operating costs, and share issuance costs related to marketing and subscription of shares for the stated year.

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

# ADVANTAGE VENTURE FUND

Annual Management Report of Fund Performance

Year ended December 31, 2008

---

## Management Discussion of Fund Performance (continued)

### 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 and technology 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.

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 (ASLFI) and the Company were amalgamated into one fund company. This amalgamation was approved by the shareholders of ALSFI and B.C. Advantage Funds (VCC) Ltd. (Advantage) on June 25, 2008. The combined fund company is comprised of the Advantage Venture Fund, the ALSFI and the Advantage Life Science Fund I. The ALSFI, which is now the Advantage Growth Fund, and Advantage 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.

Advantage Technology Fund:

Effective June 5, 2008, all existing Advantage Technology Fund common shares were exchanged for Advantage Venture Fund common shares. Based on the relative net asset values of the Advantage Venture Fund and the Advantage Technology Fund as at May 30, 2008, each Advantage Technology Fund common share was exchanged for 1.0956 Advantage Venture Fund shares resulting in the issuance of 555,150 Advantage Venture Fund shares. The aggregate consideration received for the issuance of 555,150 Advantage Venture Fund shares was \$5,051,978 based on the net asset value of the Advantage Technology Fund at the time of exchange. The transfer was approved by resolution of the Fund's Board of Directors. Additional information is disclosed in note 7 of the Fund's financial statements for the year ended December 31, 2008.

# ADVANTAGE VENTURE FUND

Annual Management Report of Fund Performance

Year ended December 31, 2008

---

## Management Discussion of Fund Performance (continued)

### Recent Developments (continued)

Accounting Policy Changes:

Section 3855, Financial Instruments – Recognition and Measurement:

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 asset value 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. To date, no equity participation amounts have been earned by the Fund Manager.

Related party transactions are disclosed in note 11 of the Fund's audited financial statements for the years ended December 31, 2008 and 2007.

# ADVANTAGE VENTURE FUND

## Annual Management Report of Fund Performance

Year ended December 31, 2008

### 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 for the past five years. This information is derived from the Fund's audited annual financial statements. The Fund was incorporated operations on October 1, 2002.

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

	2008	2007	2006	2005	2004
Net assets, beginning of year	\$ 8.82	\$ 7.95	\$ 8.46	\$ 8.57	\$ 8.97
Increase (decrease) from operations:					
Total revenue	0.13	0.13	0.16	0.14	0.13
Total expenses <sup>(2)</sup>	(0.39)	(0.39)	(0.31)	(0.32)	(0.67)
Realized gain for the period	0.03	-	-	-	-
Unrealized gain (loss) for the period	(1.90)	0.93	(0.41)	0.16	0.05
Total increase (decrease) from operations <sup>(1)</sup>	(2.13)	0.67	(0.56)	(0.02)	(0.59)
Net assets at December 31 <sup>(1)</sup>	\$ 6.77	\$ 8.82	\$ 7.95	\$ 8.46	\$ 8.57

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

<sup>(2)</sup> Total expenses in 2008 include an income tax recovery of \$0.00 (2007 - \$0.06) per share. For additional information see the Fund's annual audited financial statements.

<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	2004
Net assets (000's) <sup>(1)</sup>	\$ 41,760	\$ 46,751	\$ 27,421	\$ 20,286	\$ 10,522
Number of shares outstanding <sup>(1)</sup>	6,171,536	5,299,900	3,449,738	2,397,335	1,227,752
MER <sup>(2)</sup>	5.80%	8.20%	8.36%	9.06%	14.49%

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

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

# ADVANTAGE VENTURE FUND

Annual Management Report of Fund Performance

Year ended December 31, 2008

---

## 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

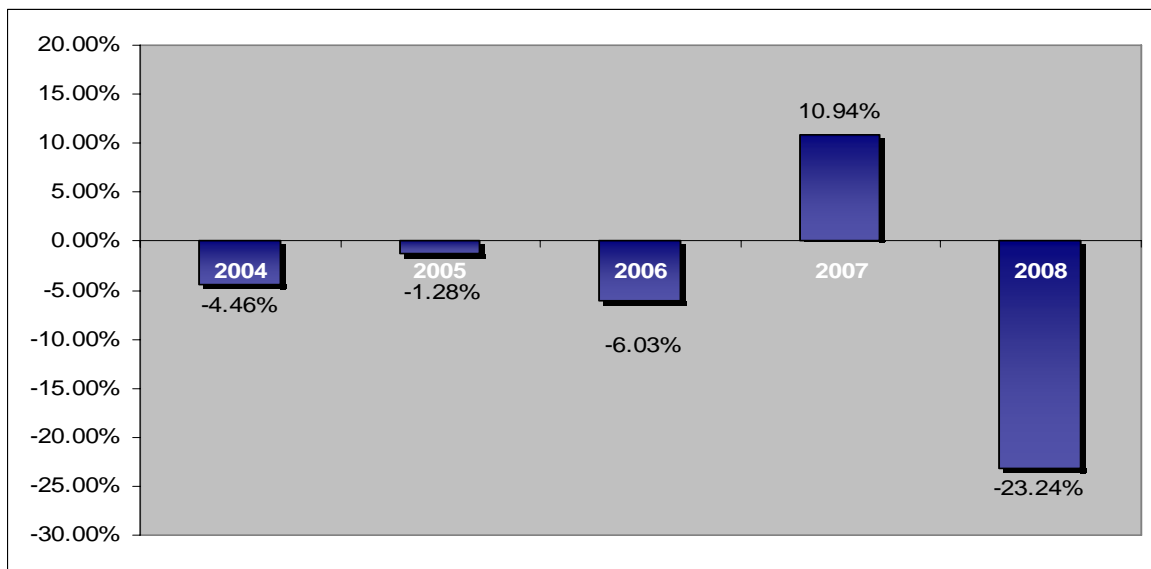
The Fund pays management fees of 2.75% of the net asset value of the Fund, calculated and paid monthly. In consideration for these management fees, the Fund Manager provides day to day management over the Fund and the Fund's venture investment portfolio, including sourcing and administration of all venture investments. The Fund Manager may also earn an equity 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 values of its shares change frequently and past performance may not 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 from January 1, 2003 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.



# ADVANTAGE VENTURE FUND

Annual Management Report of Fund Performance

Year ended December 31, 2008

---

## Past Performance (continued)

### Annual Compound Returns

The following chart shows the Fund's annual compound returns for one year, three years, and 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 Venture Fund	Globefund Industry Average
1 Year	(23.24)%	(14.74)%
3 Year	(7.16)	(5.24)
5 Year	(5.47)	(2.14)
Since Inception	(0.53)	(2.95)

---

### 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
Life Science companies	\$ 19,450,808	46%
Technology companies	14,637,430	36
Total Venture Investments	34,088,238	82
Cash and Cash Equivalents and Restricted Cash	8,189,498	19
Other Assets less Liabilities	(516,865)	(1)
Net Asset Value at December 31, 2008	\$ 41,760,871	100%

---

# ADVANTAGE VENTURE FUND

Annual Management Report of Fund Performance

Year ended December 31, 2008

---

## Summary of Investment Portfolio (continued)

---

	Percentage of total net assets
Public:	
Allon Therapeutics Inc.	3%
IP Applications Corp.	-
MetroBridge Network Corp.	-
Neovasc Inc.	-
OncoGenex Pharmaceuticals Inc.	1
Protox Therapeutics Inc.	7
Tekmira Pharmaceuticals Inc.	-
Urodynamix Technologies Ltd.	4
Vigil Health Solutions Inc.	-
Voice Mobility International Inc.	-
Private:	
Aphrodite Therapeutics Inc.	-
Aquinox Pharmaceuticals Inc.	6
Celeres Systems Inc.	-
Conasys Consumer Assurance Systems Inc.	2
Contech Inc.	15
Contigo Systems Inc.	5
Galeforce Solutions Inc.	2
Inimex Pharmaceuticals Inc.	4
Methylation Sciences Inc.	1
Mobidia Technology Inc.	9
NxtGen Emission Controls Inc.	10
Paradigm Environmental Technologies Inc.	1
Recombo Inc.	2
Sensific Technologies Inc.	-
Sirius Genomics Inc.	5
Vectis Technologies Inc.	-
Zeugma Systems Inc.	5
<hr/> Total Venture Investments	<hr/> 82%