

Financial Statements of

B.C. ADVANTAGE FUNDS (VCC) LTD.

Years ended December 31, 2008 and 2007

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

B.C. Advantage Funds (VCC) Ltd.:
Advantage Venture Fund
Advantage Growth Fund
Advantage Life Science Fund I
(collectively, the Funds)

The accompanying financial statements of the Funds have been prepared by the Fund Manager, Lions Capital Corp. The Fund Manager is responsible for the preparation and presentation of the Funds' financial statements and for the development of internal controls over the financial reporting process.

The Board of Directors of B.C. Advantage Funds (VCC) Ltd. is responsible for reviewing and approving the financial statements and for overseeing the Fund Manager's performance of its financial reporting responsibilities. The Board of Directors has approved the accompanying financial statements of the Funds.

KPMG LLP, the external auditors of the Funds, was appointed by the Board of Directors. As explained in their auditors' report, KPMG LLP has audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their auditors' report follows.

Lions Capital Corp.

"Frank Holler"
Chief Executive Officer

"Tanner Philp"
Chief Financial Officer

March 13, 2009



KPMG LLP
Chartered Accountants
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Canada

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AUDITORS' REPORT TO THE SHAREHOLDERS

B.C. Advantage Funds (VCC) Ltd.:
Advantage Venture Fund
Advantage Growth Fund
Advantage Life Science Fund I
(collectively, the Funds)

We have audited the statements of investment portfolio of the Funds as at December 31, 2008, their statements of net assets as at December 31, 2008 and 2007, and their statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund Manager. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Fund Manager, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the investment portfolios of the Funds as at December 31, 2008, their net assets as at December 31, 2008 and 2007, and the results of their operations, changes in their net assets and their cash flows for the years then ended, all in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

March 13, 2009

ADVANTAGE VENTURE FUND

Statements of Net Assets

December 31, 2008 and 2007

	2008	2007
Assets		
Venture investments, at fair value	\$ 34,088,238	\$ 30,890,336
Cash and cash equivalents	5,866,301	11,192,051
Restricted cash (note 5)	2,323,197	5,384,071
Total assets	42,277,736	47,466,458
Liabilities		
Accounts payable and accrued liabilities	57,258	63,098
Inter-fund payable (note 10(b))	24,725	45,401
Due to related parties (note 11)	407,953	607,004
Accrued equity participation (note 9(c))	26,929	-
Total liabilities	516,865	715,503
Net assets , representing shareholders' equity	\$ 41,760,871	\$ 46,750,955
Number of common shares outstanding (note 9)	6,171,536	5,299,900
Net assets per common share (note 9(d))	\$ 6.77	\$ 8.82

Commitments (notes 9(c) and 12)
Contingency (note 13)

See accompanying notes to financial statements.

On behalf of the Board of Directors:

"Don Rix" Director

"Frank Holler" Director

ADVANTAGE VENTURE FUND

Statements of Operations

Years ended December 31, 2008 and 2007

	2008	2007
Investment income:		
Interest	\$ 747,878	\$ 601,782
Other income	468	-
	<u>748,346</u>	<u>601,782</u>
Expenses (notes 4 and 11):		
Management fees	1,362,200	1,234,520
Administration	344,968	382,984
Trailer fees	246,234	223,920
Transfer agency fees	98,119	78,394
Audit, tax and advisory fees	77,278	46,703
Legal fees	63,282	24,707
Directors' fees and expenses	55,123	51,531
Shareholder communications	53,806	29,121
Equity participation (note 9(c))	40,884	-
Foreign exchange loss	-	9,484
	<u>2,341,894</u>	<u>2,081,364</u>
Net investment loss	(1,593,548)	(1,479,582)
Realized gain on sale of venture investments (see below)	198,981	-
Change in unrealized appreciation (depreciation) of venture investments	(11,036,437)	4,296,991
Change in equity participation accrued on unrealized gains (note 9(c))	39,656	-
Income (loss) from operations before income taxes	(12,391,348)	2,817,409
Income tax (recovery) (note 10(c))	(28,404)	(282,130)
Income (loss) from operations	<u>\$(12,362,944)</u>	<u>\$ 3,099,539</u>
Income (loss) from operations per common share	<u>\$ (2.12)</u>	<u>\$ 0.67</u>
Realized gain on sale of venture investments:		
Proceeds from sale of venture investments	\$ 204,419	\$ -
Cost of venture investments sold:		
Venture investments at cost, beginning of year	27,594,580	17,797,046
Purchase of investments, during the year	14,270,217	9,797,534
Venture investments at cost, end of year	(41,859,359)	(27,594,580)
	<u>5,438</u>	<u>-</u>
Realized gain on sale of venture investments	<u>\$ 198,981</u>	<u>\$ -</u>

See accompanying notes to financial statements.

ADVANTAGE VENTURE FUND

Statements of Changes in Net Assets

Years ended December 31, 2008 and 2007

	2008	2007
Net assets, beginning of year	\$ 46,750,955	\$ 27,421,000
Transitional adjustment, resulting from valuing the Fund's publicly-traded investments using bid quotations rather than last sale prices (note 3(a))	-	(29,411)
	46,750,955	27,391,589
Income (loss) from operations	(12,362,944)	3,099,539
Capital transactions (note 9):		
Issuance of common shares	2,839,097	17,617,385
Share issue costs including sales commissions	(424,138)	(1,288,780)
Redemption of common shares	(35,778)	(68,778)
Advantage Technology Fund share exchange (note 7)	4,993,679	-
	7,372,860	16,259,827
Increase (decrease) in net assets	(4,990,084)	19,359,366
Net assets, end of year	\$ 41,760,871	\$ 46,750,955

See accompanying notes to financial statements.

ADVANTAGE VENTURE FUND

Statements of Cash Flows

Years ended December 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Income (loss) from operations	\$ (12,362,944)	\$ 3,099,539
Realized gain on sale of venture investment	(198,981)	-
Change in unrealized (appreciation) depreciation of venture investments	11,036,437	(4,296,991)
Change in equity participation accrued on unrealized gains	(39,656)	-
Net change in non-cash operating accounts	(245,459)	318,911
	(1,810,603)	(878,541)
Investments:		
Proceeds from sale of venture investments	204,419	-
Purchase of venture investments	(11,667,073)	(9,797,534)
Restricted cash	3,296,501	(2,018,577)
Cash acquired upon exchange of Advantage Technology Fund shares (note 7)	2,271,825	-
	(5,894,328)	(11,816,111)
Financing (note 9):		
Issuance of common shares	2,839,097	17,617,385
Share issue costs including sales commissions	(424,138)	(1,288,780)
Redemption of common shares	(35,778)	(68,778)
	2,379,181	16,259,827
Increase (decrease) in cash and cash equivalents	(5,325,750)	3,565,175
Cash and cash equivalents, beginning of year	11,192,051	7,626,876
Cash and cash equivalents, end of year	\$ 5,866,301	\$ 11,192,051

See accompanying notes to financial statements.

ADVANTAGE VENTURE FUND

Statement of Investment Portfolio

December 31, 2008

	Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Publicly-traded investments:				
Allon Therapeutics Inc.				
4,024,095 common shares	\$ 4,000,300	\$ 1,348,072	\$ (2,652,228)	4%
416,666 purchase warrants	-	-	-	-
IP Applications Corp.				
1,111,110 common shares	500,000	111,111	(388,889)	-
MetroBridge Network Corp.				
2,393,705 common shares	500,000	47,874	(452,126)	-
Neovasc Inc.				
147,916 common shares	1,050,000	17,010	(1,032,990)	-
OncoGenex Pharmaceuticals Inc.				
106,204 common shares	1,317,304	388,069	(929,235)	1
Protox Therapeutics Inc.				
7,966,885 common shares	4,603,142	2,788,410	(1,814,732)	8
Tekmira Pharmaceuticals Inc.				
142,138 common shares	54,723	49,748	(4,975)	-
Urodynamix Technologies Ltd.				
26,665,000 common shares	2,999,800	1,866,550	(1,133,250)	6
Vigil Health Solutions Inc.				
7,417,219 common shares	498,014	148,344	(349,670)	-
Voice Mobility International Inc.				
2,500,000 common shares	1,500,000	125,000	(1,375,000)	-
1,000,000 purchase warrants	-	-	-	-
Total publicly-traded investments	17,023,283	6,890,188	(10,133,095)	19
Privately-held investments:				
Aphrodite Therapeutics Inc.				
1,022,000 preferred shares	-	-	-	-
Aquinox Pharmaceuticals Inc.				
4,576,867 preferred shares	2,607,166	2,662,472	55,306	8
Celeres Systems Inc.-				
Secured debt, non-interest bearing				
repayable upon sale of company-	800,000	-	(800,000)	-
Conasys Consumer Assurance Systems Inc.				
2,864,698 common shares	650,000	650,000	-	2
Contech Inc. (formerly Phero Tech				
International Inc.)				
16,662,150 preferred shares	2,600,000	5,339,035	2,739,035	16
Convertible debt, secured, non-interest				
bearing, repayable upon events of default	1,000,000	1,000,000	-	3
Contigo Systems Inc.				
4,930,967 preferred shares	2,077,173	2,077,173	-	6
Galeforce Solutions Inc.				
1,184,372 preferred shares	1,148,956	568,499	(580,457)	2
Convertible debt, secured,				
bearing interest at 12% per				
annum, repayable September 24, 2009	60,700	60,700	-	-
Inimex Pharmaceuticals Inc.				
561,656 preferred shares	1,610,749	1,466,442	(144,307)	4
Methylation Sciences Inc.				
395,000 common shares	395,000	395,000	-	1
Total carried forward	12,949,744	14,219,321	1,269,577	42

ADVANTAGE VENTURE FUND

Statement of Investment Portfolio (continued)

December 31, 2008

	Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Privately-held investments (continued):				
Total brought forward	\$ 12,949,744	\$ 14,219,321	\$ 1,269,577	42%
Mobidia Technology Inc.				
3,200,664 preferred shares	3,520,731	3,520,731	-	11
215,848 common shares	-	237,432	237,432	1
NxtGen Emission Controls Inc.				
6,497,258 preferred shares	3,840,151	3,897,231	57,080	11
488,238 common shares	-	292,943	292,943	1
Paradigm Environmental Technologies Inc.				
77,400 common shares	250,000	290,250	40,250	1
Recombo Inc.				
1,923,461 common shares	250,050	634,742	384,692	2
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	6
Vectis Technologies Inc.				
500,000 common shares	100,000	-	(100,000)	-
Zeugma Systems Inc.				
2,647,422 preferred shares	1,975,400	1,975,400	-	6
Total privately-held investments	24,836,076	27,198,050	2,361,974	81
Total investment portfolio	\$ 41,859,359	\$ 34,088,238	\$ (7,771,121)	100%

See accompanying notes to financial statements.

ADVANTAGE GROWTH FUND

Statement of Net Assets

December 31, 2008 (note 8)

Assets

Venture investments, at fair value	\$ 6,485,450
Cash and cash equivalents	3,396,215
Restricted cash (note 5)	1,752,939
Total assets	11,634,604

Liabilities

Due to related parties (note 11)	150,496
Accounts payable and accrued liabilities	7,692
Inter-fund payable (note 10(b))	8,293
Total liabilities	166,481

Net assets , representing shareholders' equity	\$ 11,468,123
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Number of common shares outstanding (note 9)	2,613,281
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Net assets per common share (note 9(d))	\$ 4.39
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Commitments (notes 9(c) and 12)
Contingency (note 13)

See accompanying notes to financial statements.

On behalf of the Board of Directors:

"Don Rix" Director

"Frank Holler" Director

ADVANTAGE GROWTH FUND

Statement of Operations

	Period from August 8, 2008 to December 31, 2008 (note 8)
Investment income:	
Interest	\$ 54,951
Expenses (notes 4 and 11):	
Management fees	166,796
Administration	43,921
Audit fees, tax, and advisory fees	18,698
Trailer fees	17,303
Transfer agency fees	10,488
Legal fees	10,470
Directors' fees and expenses	7,517
Shareholder communications	2,583
	<u>277,776</u>
Net investment loss	(222,825)
Realized gain on sale of venture investments (see below)	34,399
Change in unrealized appreciation (depreciation) of venture investments (note 8)	<u>(4,289,200)</u>
Income (loss) from operations before income taxes	(4,477,626)
Income tax (recovery) (note 10(c))	(8,484)
Income (loss) from operations	<u>\$ (4,469,142)</u>
Income (loss) from operations per common share	<u>\$ (1.73)</u>
Realized gain on sale of venture investments:	
Proceeds from sale of venture investments	\$ 34,399
Cost of venture investments sold:	
Venture investments at cost, beginning of period	-
Venture investments acquired upon amalgamation (note 8)	9,274,650
Purchase of investments, during the period	1,500,000
Venture investments at cost, December 31, 2008	<u>(10,774,650)</u>
	-
Realized gain on sale of venture investments	<u>\$ 34,399</u>

See accompanying notes to financial statements.

ADVANTAGE GROWTH FUND

Statement of Changes in Net Assets

	Period from August 8, 2008 to December 31, 2008 (note 8)
Net assets, beginning of period	\$ -
Income (loss) from operations	(4,469,142)
Capital transactions (note 9):	
Issuance of common shares	199,413
Share issuance costs including sales commissions	(78,042)
Issuance of common shares upon amalgamation (note 8)	15,820,784
Redemption of common shares	(4,890)
	15,937,265
Increase in net assets	11,468,123
Net assets, end of period	\$ 11,468,123

See accompanying notes to financial statements.

ADVANTAGE GROWTH FUND

Statement of Cash Flows

	Period from August 8, 2008 to December 31, 2008 (note 8)
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Cash provided by (used in):	
Operations:	
Income (loss) from operations	\$ (4,469,142)
Realized gain on sale on venture investments	(34,399)
Change in unrealized depreciation of venture investments	4,289,200
Net change in non-cash operating accounts	32,371
	<hr/> (181,970)
Investments:	
Proceeds from sale of venture investments	34,399
Purchase of venture investments	(1,500,000)
Restricted cash	735,881
Cash acquired upon amalgamation (note 8)	4,191,424
	<hr/> 3,461,704
Financing (note 9):	
Issuance of common shares	199,413
Share issuance costs including sales commissions	(78,042)
Redemption of common shares	(4,890)
	<hr/> 116,481
Increase in cash and cash equivalents	3,396,215
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	<hr/> \$ 3,396,215

See accompanying notes to financial statements.

ADVANTAGE GROWTH FUND

Statement of Investment Portfolio

December 31, 2008 (note 8)

	Historical Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Publicly-traded investments:				
Allon Therapeutics Inc. 3,556,333 common shares	\$ 3,546,150	\$ 1,191,372	\$ (2,354,778)	18%
415,000 purchase warrants	-	-	-	-
Neovasc Inc. (formerly Medical Ventures Corp.) 131,250 common shares	750,000	15,094	(734,906)	-
Protox Therapeutics Inc. 4,714,286 common shares	2,650,000	1,650,000	(1,000,000)	25
Urodynamix Technologies Ltd. 15,000,000 common shares	1,500,000	1,050,000	(450,000)	16
Total publicly-traded investments	8,446,150	3,906,466	(4,539,684)	59
Privately-held investments:				
Aphrodite Therapeutics Inc. 378,000 common shares	-	-	-	-
Chromos Investment Corp. 701,785 preferred shares	-	51,060	51,060	1
Inimex Pharmaceuticals Inc. 190,172 preferred shares	496,525	496,525	-	8
Methylation Sciences Inc. 105,000 common shares	105,000	105,000	-	2
Neuromed Technologies Ltd. 1,129,700 preferred shares	1,926,399	1,926,399	-	30
Total privately-held investments	2,527,924	2,578,984	51,060	41
Total investment portfolio	\$10,974,074	\$ 6,485,450	\$ (4,488,624)	100%
Total investment portfolio for the determination of unrealized gain or (loss) as presented on the statement of operations (note 8)	10,774,650	6,485,450	(4,289,200)	-

See accompanying notes to financial statements.

ADVANTAGE LIFE SCIENCE FUND I

Statements of Net Assets

December 31, 2008 and 2007

	2008	2007
Assets		
Venture investments, at fair value	\$ 154,662	\$ 1,466,290
Cash and cash equivalents	433,731	1,077,928
Inter-fund receivable (note 10(b))	33,018	1,201
Total assets	621,411	2,545,419
Liabilities		
Due to related parties (note 11)	18,629	31,349
Dividend payable	19,990	19,990
Equity participation payable (note 9(c))	102,407	-
Accrued equity participation (note 9(c))	4,845	127,818
Future income taxes (note 10(a))	-	54,284
Total liabilities	145,871	233,441
Net assets, representing shareholders' equity	\$ 475,540	\$ 2,311,978
Number of common shares outstanding (note 9)	47,217	183,226
Net assets per common share (note 9(d))	\$ 10.07	\$ 12.62

Commitments (notes 9(c) and 12)
Contingency (note 13)

See accompanying notes to financial statements.

On behalf of the Board of Directors:

"Don Rix" Director

"Frank Holler" Director

ADVANTAGE LIFE SCIENCE FUND I

Statements of Operations

Years ended December 31, 2008 and 2007

	2008	2007
Investment income:		
Interest	\$ 27,872	\$ 50,108
Expenses (notes 4 and 11):		
Management fees	34,387	67,299
Audit, tax and advisory fees	14,274	16,831
Administration	10,788	19,726
Transfer agency fees	2,951	4,714
Legal fees	1,668	1,229
Directors' fees and expenses	1,486	2,797
Shareholder communications	701	1,038
Equity participation (note 9(c))	102,407	-
	168,662	113,634
Net investment loss	(140,790)	(63,526)
Realized loss on sale of venture investments (see below)	(318,930)	-
Change in unrealized appreciation (depreciation) of venture investments (note 6)	191,986	412,774
Change in equity participation accrued on unrealized gains (note 9(c))	122,973	(63,272)
Income (loss) from operations before income taxes	(144,761)	285,976
Income taxes (note 10(c)):		
Current expense (recovery)	36,887	(11,756)
Future expense (recovery)	(54,284)	54,284
	(17,397)	42,528
Income (loss) from operations	\$ (127,364)	\$ 243,448
Income (loss) from operations per common share	\$ (1.31)	\$ 1.33
Realized loss on sale of venture investments:		
Proceeds from sale of venture investments	\$ 1,184,684	\$ -
Cost of venture investments sold:		
Venture investments at cost, beginning of year	1,925,990	1,925,990
Purchase of investments, during the year	-	-
Venture investments at cost, end of year	(422,376)	(1,925,990)
	1,503,614	-
Realized loss on sale of venture investments	\$ (318,930)	\$ -

See accompanying notes to financial statements.

ADVANTAGE LIFE SCIENCE FUND I

Statements of Changes in Net Assets

Years ended December 31, 2008 and 2007

	2008	2007
Net assets, beginning of year	\$ 2,311,978	\$ 3,925,700
Transitional adjustment resulting from valuing the Fund's publicly-traded investments using bid quotations rather than last sale prices (note 3(a))	-	(24,910)
	2,311,978	3,900,790
Income (loss) from operations	(127,364)	243,448
Capital transactions (note 9):		
Redemption of common shares	(1,709,074)	-
Dividend distribution on common shares of realized gain on venture investments sold (note 9(e))	-	(1,832,260)
Decrease in net assets	(1,836,438)	(1,588,812)
Net assets, end of year	\$ 475,540	\$ 2,311,978

See accompanying notes to financial statements.

ADVANTAGE LIFE SCIENCE FUND I

Statements of Cash Flows

Years ended December 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Income (loss) from operations	\$ (127,364)	\$ 243,448
Realized loss on sale of venture investment	318,930	-
Change in unrealized appreciation of venture investments	(191,986)	(412,774)
Change in equity participation accrued on unrealized gains	(122,973)	63,272
Future income taxes	(54,284)	54,284
Net change in non-cash operating accounts	57,870	48,193
	(119,807)	(3,577)
Investments:		
Proceeds from sale of venture investments	1,184,684	-
Financing:		
Redemption of common shares	(1,709,074)	-
Dividend distribution on common shares of realized gain on venture investments sold (note 9(e))	-	(1,812,270)
	(1,709,074)	(1,812,270)
Decrease in cash and cash equivalents	(644,197)	(1,815,847)
Cash and cash equivalents, beginning of year	1,077,928	2,893,775
Cash and cash equivalents, end of year	\$ 433,731	\$ 1,077,928

See accompanying notes to financial statements.

ADVANTAGE LIFE SCIENCE FUND I

Statements of Investment Portfolio

December 31, 2008 (note 6)

	Historical Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Publicly-traded investments:				
OncoGenex Pharmaceuticals Inc. 3,087 common shares	\$ 71,284	\$ 11,280	\$ (60,004)	7%
Protox Therapeutics Inc. 221,947 common shares	53,456	77,681	24,225	51
Tekmira Pharmaceuticals Corp. 139,178 common shares	123,682	48,712	(74,970)	31
Vigil Health Solutions Inc. 849,448 common shares	71,296	16,989	(54,307)	11
Total publicly-traded investments	319,718	154,662	(165,056)	100%
Privately-held investments:				
Protiva Therapeutics Inc. Promissory note contingent on milestones	-	-	-	-
Total privately-held investments	-	-	-	-
Total investment portfolio	\$ 319,718	\$ 154,662	\$ (165,056)	100%
Total investment portfolio for the determination of unrealized gain or (loss) as presented on the statement of operations (note 6)	422,376	154,662	(267,714)	

See accompanying notes to financial statements.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

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 three distinct investment funds: the Advantage Venture Fund, the Advantage Growth Fund, formerly named the Pender NDI Life Sciences Fund (VCC) Inc., D.B.A. Advantage Life Science Fund II, and the Advantage Life Science Fund I, formerly named the Advantage Life Science Fund, (collectively, the Funds). The Advantage Venture Fund invests in emerging technology, clean-tech and life science companies, the Advantage Growth Fund invests in emerging technology, clean-tech and life science companies, including companies that have growing revenues, are profitable or approaching profitability and are likely to provide liquidity within a three to five years time frame; and the Advantage Life Science Fund I invests in emerging 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 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 and August 8, 2008 (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).

(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.

(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.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(b) Venture investments (continued):

(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.

The Company files an income tax return that encompasses all three 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.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(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 9(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 9(d).

(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.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

3. Changes in accounting standards:

(a) Significant accounting changes:

(i) 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 requirements of S3855 were implemented in the prior year by the Funds on a retroactive basis, with transitional adjustments to opening net assets, effective January 1, 2007 as disclosed in the respective Fund's comparative Statements of Changes in Net Assets.

The adoption of S3855 impacted 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.

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

Section 3862, *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation* of the CICA Handbook sections 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, which were adopted by the Company effective January 1, 2008, have no impact on the recognition or measurement of financial instruments.

(iii) Section 1535, *Capital Disclosures*:

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, which was adopted by the Company effective January 1, 2008, has no impact on the recognition or measurement of any financial statement items.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

3. Changes in accounting standards:

(b) Future accounting changes:

(i) International Financial Reporting Standards:

In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles (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.

4. Fees and expenses:

In accordance with the Management Agreement, the Fund Manager is entitled to receive management fees equal to 2.75% 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.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

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 these financial statements since that date. Qwest was a VCC fund that invested in early stage life sciences companies that were eligible under the SBVCA, and this investment objective has not changed.

In accordance with GAAP for business combinations, the assets and liabilities of the Advantage Life Science Fund I were transferred to the Company at the fair value of those assets and liabilities at the amalgamation date. Such fair value is the basis on which changes in unrealized appreciation and depreciation of venture investments is determined in the statement of operations, as required under GAAP, and as reported in the table below.

Specifically, cost in accordance with GAAP following the amalgamation is equal to the fair value at the date of amalgamation, which differs from historical cost amount originally paid for each investment prior to the amalgamation as presented in the Statement of Investment Portfolio.

	Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Publicly-traded investments:				
OncoGenex Pharmaceuticals Inc. 3,087 common shares	\$ 57,918	\$ 11,280	(46,638)	7%
Protox Therapeutics Inc. 221,947 common shares	164,052	77,681	(86,371)	51
Tekmira Pharmaceuticals Corp. 139,178 common shares	123,736	48,712	(75,024)	31
Vigil Health Solutions Inc. 849,448 common shares	76,670	16,989	(59,681)	11
Total publicly-traded investments	422,376	154,662	(267,714)	100%
Privately-held investments:				
Protiva Therapeutics Inc. Promissory note contingent on milestones	-	-	-	-
Total privately-held investments	-	-	-	-
Total investment portfolio	\$ 422,376	\$ 154,662	\$ (267,714)	100%

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

7. Advantage Technology Fund:

Effective June 5, 2008, all Advantage Technology Fund common 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 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 per common share of the Advantage Technology Fund at the time of exchange. See note 9(d) for a discussion of net asset values. The transfer was approved by resolution of the Company's Board of Directors.

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

Venture investments at fair value	\$ 2,572,704
Cash	2,271,825
Restricted cash	235,627
Accounts payable	(19,892)
Accrued equity participation	(66,585)
<hr/>	
Net assets	4,993,679
Unamortized share issue costs	58,299
<hr/>	
Net asset value	\$ 5,051,978

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

8. 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, now including 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 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:

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/>	<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. Such fair value is the basis on which changes in unrealized appreciation and depreciation of venture investments is determined in the statement of operations, as required under GAAP, and as reported in the table below.

Specifically, cost in accordance with GAAP following the amalgamation is equal to the fair value at the date of amalgamation, which differs from historical cost amount originally paid for each investment prior to the amalgamation as presented in the Statement of Investment Portfolio.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

8. Advantage Growth Fund (continued):

	Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Publicly-traded investments:				
Allon Therapeutics Inc. 3,556,333 common shares	\$ 3,556,333	\$ 1,191,372	\$ (2,364,961)	18%
Neovasc Inc. 131,250 common shares	173,250	15,094	(158,156)	-
Protox Therapeutics Inc. 4,714,286 common shares	3,017,143	1,650,000	(1,367,143)	25
Urodynamix Technologies Ltd. 15,000,000 common shares	1,500,000	1,050,000	(450,000)	16
Total publicly-traded investments	8,246,726	3,906,466	(4,340,260)	59
Privately-held investments:				
Aphrodite Therapeutics Inc. 378,000 common shares	-	-	-	-
Chromos Investment Corp. 701,785 preferred shares	-	51,060	51,060	1
Inimex Pharmaceuticals Inc. 190,172 preferred shares	496,525	496,525	-	8
Methylation Sciences Inc. 105,000 common shares	105,000	105,000	-	2
Neuromed Technologies Ltd. 1,129,700 preferred shares	1,926,399	1,926,399	-	30
Total privately-held investments	2,527,924	2,578,984	51,060	41
Total investment portfolio	\$10,774,650	\$ 6,485,540	\$ (4,289,200)	100%

Prior to the amalgamation described above, the Fund Manager also managed ALSFII. In accordance with the ALSFII management agreement dated November 20, 2007, for the purpose of calculating performance threshold criteria and the Fund Manager's equity participation, the fair values of Advantage Growth Fund's venture investments at November 20, 2007 are the basis for this determination and are disclosed in note 9(c).

On November 5, 2008, the Company's Board of Directors passed a resolution to broaden the investment mandate of ALSF II to include emerging technology, clean technology and industrial companies as well as life science companies, including companies that have growing revenues, are profitable or approaching profitability and are likely to provide liquidity within a three to five year time frame. Previously ALSF II was limited to investing in emerging life science companies. To reflect the broader mandate, the name of ALSF II has been changed to the Advantage Growth Fund.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

9. 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) Issued:

The following table summarizes the issued capital of the Funds:

	Advantage Venture Fund		Advantage Growth Fund		Advantage Life Science Fund I	
	Common shares	Equity participation shares	Common shares	Equity participation shares	Common shares	Equity participation shares
Balances, December 31, 2006	3,449,738	3,000,000	-	-	183,226	1,500,000
Issued for cash	1,857,273	-	-	-	-	-
Redeemed	(7,111)	-	-	-	-	-
Balances, December 31, 2007	5,299,900	3,000,000	-	-	183,226	1,500,000
Issued for cash	320,550	-	38,531	-	-	-
Issued on amalgamation (note 8)	-	-	2,575,500	-	-	-
Redeemed	(4,064)	-	(750)	-	(136,009)	-
Issued for Advantage Technology Fund shares (note 7)	555,150	-	-	-	-	-
Equity participation shares upon Advantage Technology Fund common shares conversion (note 7)	-	1,500,000	-	-	-	-
Balances, December 31, 2008	6,171,536	4,500,000	2,613,281	-	47,217	1,500,000

(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

Years ended December 31, 2008 and 2007

9. Share capital (continued):

(c) Equity participation (continued):

Advantage Venture Fund:

(i) Equity participation paid:

In June, all Advantage Technology Fund common shares were exchanged for Advantage Venture Fund common shares (see note 7) and based on the net asset values of the Advantage Technology Fund as at May 30, 2008, the performance criteria for the equity participation shares were met and its investments in Brightside Technologies Inc. ("Brightside"), Parasun Technologies Inc. ("Parasun") and Recombo Inc. ("Recombo") had achieved a compound rate of return exceeding 10% per year. As such, \$66,585 of equity participation was accrued at that time. During 2008, the Advantage Venture Fund received a payment of \$204,419 for the remaining interest in Brightside and Parasun. As such, dividends were paid to the Fund Manager in 2008 on the equity participation shares equal to \$40,884 (2007 - nil), of which \$39,656 was accrued in the Advantage Technology Fund prior to the share exchange.

(ii) Equity participation accrued:

For the year ended December 31, 2008, the Fund has a remaining accrued equity participation of \$26,929 resulting from the Advantage Technology Fund common share conversion. This equity participation will be paid when the Fund's investment in Recombo has been sold to an arm's length party.

Advantage Growth Fund:

Effective October 1, 2007, the Fund Manager acquired the management agreement for the Advantage Growth Fund from its previous manager, Pender Fund Capital Management Ltd., and entered into a new management agreement dated November 20, 2007, which replaced the previous management agreement dated July 1, 2004. As of October 1, 2007, the Fund Manager became responsible for all day-to-day operations of the Fund.

Pursuant to the management agreement dated November 20, 2007, the Fund Manager is entitled to equity participation if the investment objective and the exchangeability objective are met. For the purposes of calculating performance threshold criteria and the Fund Manager's equity participation, the fair values of Advantage Growth Fund's venture investments at November 20, 2007 (the "Start Date") are used.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

9. Share capital (continued):

(c) Equity participation (continued):

Advantage Growth Fund (continued):

The fair values of the Advantage Growth Fund's original venture investments at the Start Date that are still held by the Fund, are as follows:

Allon Therapeutics Inc. 3,080,000 common shares	\$ 2,618,000
Neovasc Inc. (formerly "Medical Ventures Corp.") 131,250 common shares	196,875
Neuromed Technologies Ltd. 1,129,700 preferred shares	1,926,399
Protox Therapeutics Inc. 4,000,000 common shares	3,800,000
	<hr/> \$ 8,541,274 <hr/>

For the year ended December 31, 2008, no equity participation has been accrued or paid.

Advantage Life Science Fund I:

For the purposes of calculating performance threshold criteria and the Fund Manager's equity participation, the pre-acquisition historical costs as shown on the Schedule of Investment Portfolio of the Fund are used.

(i) Equity participation payable:

During 2008, to provide liquidity for the redemption of common shares, the Advantage Life Science Fund I partially sold its investments in Protox Therapeutics Inc., Tekmira Pharmaceuticals Inc., Vigil Health Solutions Inc., and OncoGenex Technologies Inc. to the Advantage Venture Fund for gross proceeds of \$1,184,684 (including the sale of 31,990 warrant shares acquired for \$5,438) and a net realized gain of \$154,402, based on the original cost as outlined above.

As the performance criteria for equity participation shares were met, an equity participation amount of \$102,407 previously accrued has been recorded as payable, but will not be paid until the Advantage Venture Fund's investments in Protox Therapeutics Inc., Tekmira Pharmaceuticals Inc., Vigil Health Solutions Inc., and OncoGenex Technologies Inc. have been sold to an arm's length party.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

9. Share capital (continued):

(c) Equity participation (continued):

(ii) Equity participation accrued:

At December 31, 2008, the Advantage Life Science Fund I continues to have a compound rate of return that exceeds 8% per year and its venture investment in Protox Therapeutics Inc. has achieved an unrealized compound rate of return exceeding 10% per year based on the pre-acquisition historical cost. Accordingly, as at December 31, 2008, the Advantage Life Science Fund has accrued further equity participation of \$4,845 (2007 - \$127,818) on the unrealized gains related to venture investments. The actual payments and amount of any equity participation is contingent on both the realization of gains by the Advantage Life Science Fund I and the continued achievement of the rate of return criteria set out above as at the date of realization.

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

Subscriptions and redemptions of the Funds are transacted at the net asset value (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 (note 3(a)), 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.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

9. Share capital (continued):

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

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:

	Advantage Venture Fund		Advantage Growth Fund	Advantage Life Science Fund I	
	2008	2007	2008	2008	2007
Net assets per statements of net assets	\$ 41,760,871	\$ 46,750,955	\$ 11,468,123	\$ 475,540	\$ 2,311,978
Add:					
Unamortized deferred sales commissions and share issuance costs ⁽¹⁾	1,999,171	2,422,071	1,216,481	-	-
Adjustment from bid quotations to last sale prices (note 3(a)), net of contingent equity allocation	447,899	125,871	291,644	21,931	24,333
	2,447,070	2,547,942	1,508,125	21,931	24,333
Net asset value	\$ 44,207,941	\$ 49,298,897	\$ 12,976,248	\$ 497,471	\$ 2,336,311
Common shares outstanding at year end (note 9(b))	6,171,536	5,299,900	2,613,281	47,217	183,226
GAAP net assets per common share	\$ 6.77	\$ 8.82	\$ 4.39	\$ 10.07	\$ 12.62
Net asset value per common share	\$ 7.16	\$ 9.30	\$ 4.97	\$ 10.54	\$ 12.75

⁽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 2008 was December 26, 2008, the net asset values per common share at which shares were actually transacted differs from those presented above, which are as at December 31, 2008, due to the recording of certain tax, accounting and valuation adjustments for GAAP purposes as outlined in the Funds' prospectus.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

9. Share capital (continued):

(e) Distribution of realized gains:

Advantage Venture Fund:

For the years ended December 31, 2008 and 2007, no distributions were paid out of the Advantage Venture Fund.

Advantage Growth Fund

For the year ended December 31, 2008, no distributions were paid out of the Advantage Growth Fund.

Advantage Life Science Fund I:

For the year ended December 31, 2008, no distributions were paid out of the Advantage Life Science Fund I.

On January 17, 2007, Advantage Life Science Fund I declared and subsequently paid dividends of \$1,832,260 to all shareholders of record on this date, which was approved at a meeting of shareholders on December 5, 2006.

10. Income taxes:

(a) The components of future income tax balances are as follows:

	<u>Advantage Venture Fund</u>		<u>Advantage Growth Fund</u>	<u>Advantage Life Science Fund I</u>	
	2008	2007	2008	2008	2007
Future income tax assets related to:					
Tax loss carryforwards	\$ 2,887,713	\$ 1,664,587	\$ 2,084,410	\$ -	\$ 18,182
Share issuance costs	696,034	900,134	381,145	-	-
Equity participation	12,037	-	-	47,942	-
Unrealized losses on venture investments	1,666,596	-	1,003,207 ⁽¹⁾	29,148 ⁽¹⁾	-
	5,262,380	2,564,721	3,468,762	77,090	18,182
Future income tax liabilities related to:					
Unrealized gains on venture investments	-	(769,669)	-	-	(72,466) ⁽¹⁾
Valuation allowance	(5,262,380)	(1,795,052)	(3,468,762)	(77,090)	-
Net future income tax asset (liability)	\$ -	\$ -	\$ -	\$ -	\$ (54,284)

⁽¹⁾ Unrealized gains and losses on venture investments for the Advantage Growth Fund and the Advantage Life Science Fund I are based on the adjusted cost basis for tax (denoted as historical cost) in each respective Fund's Statement of Investment Portfolio.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

10. Income taxes (continued):

- (b) The table below reflects the amount of tax benefit related to deductions that were transferred between Funds during the year and the unsettled balance in each Fund at December 31. The tax deductions transferred between Funds have been tax affected at the overall tax rate of the Company.

	Advantage Venture Fund		Advantage Growth Fund	Advantage Life Science Fund I	
	2008	2007	2008	2008	2007
Current tax benefit (cost) related to Inter-fund transfer (receipt) of tax deductions	\$ 28,404	\$ 282,130	\$ 8,484	\$ (36,887)	\$ 11,756
Inter-fund receivable (payable) at December 31	\$ (24,725)	\$ (45,401)	\$ (8,293)	\$ 33,018	\$ 1,201

- (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:

	Advantage Venture Fund		Advantage Growth Fund	Advantage Life Science Fund I	
	2008	2007	2008	2008	2007
Combined federal and provincial statutory income tax rate	46.2%	47.8%	46.2%	46.2%	47.8%
Income tax expense (recovery) calculated at statutory income tax rates	\$ (5,724,803)	\$ 1,346,721	\$ (2,068,663)	\$ (66,880)	\$ 136,697
Adjustments resulting from:					
Share issue costs in equity	(195,952)	(616,037)	(462,776)	-	-
Equity participation in accounting income	567	-	-	(59,052)	30,244
Non-taxable portion of realized and unrealized (gains) losses	2,546,744	(1,026,980)	1,341,971	29,324	(98,653)
Effects of rate changes	200,386	-	116,401	2,006	-
Other – Unrealized losses eliminated on wind-up	(231,798)	-	-	-	-
Non-taxable portion of Inter-fund transfers	145,214	-	-	-	-
Losses transferred from predecessor funds	(12,441)	-	(2,404,180)	-	(25,760)
Change in future income tax valuation allowance	3,039,928	14,166	3,468,763	77,090	-
Expired non-capital losses	203,751	-	-	-	-
Other	-	-	-	115	-
Actual income tax expense (recovery)	\$ (28,404)	\$ (282,130)	\$ (8,484)	\$ (17,397)	\$ 42,528

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2008 and 2007

10. Income taxes (continued):

- (d) The Funds have non-capital loss carryforwards available for utilization against taxable income in future years. If not utilized, these non-capital loss carryforwards will expire as follows:

	Advantage Venture Fund	Advantage Growth Fund	Advantage Life Science Fund I
2012	\$ 1,161,215	\$ 24,685	\$ -
2013	658,546	130,817	-
2014	17,449	770,258	-
2025	804,705	642,335	-
2026	1,555,723	837,439	-
2027	1,619,251	591,722	-
2028	643,319	353,467	-
Total	\$ 6,460,208	\$ 3,350,723	\$ -

The Advantage Growth Fund has an allowable capital loss carryforward of \$1,312,387.

11. Related party transactions:

In addition to the related party transactions as described in the tables below, the Funds also incur interfund receivables and payables on the transfer of tax deductions between the Funds as described in note 10(b), and certain Funds accrue and/or pay equity participation to the Fund Manager as described in note 9(c).

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 not otherwise disclosed in the financial statements:

Advantage Venture Fund	Year ended December 31,		Amount payable as at December 31,	
	2008	2007	2008	2007
Fund Manager ⁽¹⁾				
Management fees	\$ 1,362,200	\$ 1,234,520	\$ 215,139	\$ 239,408
Reimbursement of administration expenses	838,958	794,053	192,814	367,596
Total related party expenses	\$ 2,201,158	\$ 2,028,573	\$ 407,953	\$ 607,004
Due to related parties				

B.C. ADVANTAGE FUNDS (VCC) LTD.

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11. Related party transactions (continued):

Advantage Growth Fund	Year ended December 31, 2008	Amount payable as at December 31, 2008
Fund Manager ^{(1) (2)}		
Management fees	\$ 166,796	\$ 63,620
Reimbursement of administration expenses	149,330	86,876
Total related party expenses	\$ 316,126	
Due to related parties		\$ 150,496

Advantage Life Science Fund I	Year ended December 31,		Amount payable as at December 31,	
	2008	2007	2008	2007
Fund Manager ⁽¹⁾				
Management fees	\$ 34,387	\$ 67,299	\$ 2,569	\$ 11,150
Reimbursement of administration expenses	29,637	41,551	16,060	20,199
Total related party expenses	\$ 64,024	\$ 108,850		
Due to related parties			\$ 18,629	\$ 31,349

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

⁽²⁾ From October 1, 2007 onward, the Fund Manager was Lions Capital Corp. From January 1, 2007 to September 30, 2007, the manager of the Fund was Pender Fund Capital Management Ltd., an entity unrelated to Lions Capital Corp.

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 9(c).

12. 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 \$10,000 (plus GST thereon) for three years, which commenced January 1, 2007. The Funds' remaining minimum future payment in accordance with this agreement for 2009 is \$120,000.

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13. 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 December 31, 2008, management is not aware of any circumstances where the Company is not in compliance with the requirements of the SBVCA.

14. 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.

15. 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.

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.

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15. Financial instruments (continued):

(c) Liquidity risk:

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.

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15. 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.

16. Capital management:

The objective of the Advantage Venture Fund and the Advantage Growth Fund is to raise equity capital and to invest it in investments that meet the Funds' investment criteria. The Advantage Life Science Fund I is fully invested and does not intend to raise additional equity. 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 December 31, 2008 and 2007, 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.

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Notes to Financial Statements

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17. 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.