

Semi-Annual Management Report of Fund Performance

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

Six months ended June 30, 2010

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

# ADVANTAGE STRUCTURED FUND I

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## Management Discussion of Fund Performance

### Investment Objectives and Strategies

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

The Fund is actively raising new capital and investing this capital in life science, clean-tech, technology, and industrial 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 BC companies that have growing revenues, are profitable or approaching profitability or are likely to provide liquidity within a three to five year time frame. 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 six months ended June 30, 2010, 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.

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 BC Advantage Funds (VCC) Ltd. to raise up to an additional \$10 million in each of 2010, 2010 and 2011. 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.

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## Management Discussion of Fund Performance (continued)

### Risk (continued)

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, and the ability of the Fund to provide redemptions to investors will be dependent on the Fund's ability to successfully sell its portfolio investments for fair value.

### 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, clean-tech, technology and industrial 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.

### Results of Operations

#### Investment Activity

During the six months June 30, 2010, the Fund completed one investment of \$0.50 million in 1 new venture investment. As at June 30, 2010, the fair value of the Fund's portfolio investments represented 64% of the net assets of the Fund, while cash and other net assets represented 36% of net assets.

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

	2010	2009
Venture Investments, Cost	\$ 2,250,000	\$ 800,000
Venture Investments, Fair Value	1,975,000	675,000
Number of Venture Investments:		
Private	4	3
Public	2	2
Life Science	2	1
Technology	1	1
	3	2

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## 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, \$0.90 million or 46% are life science companies and \$1.08 million or 54% are technology companies. Of the fair value of the Fund's investments, \$0.98 million or 50% are public companies and \$1 million or 50% are private companies.

##### Number of investments:

Of the number of the Fund's investments, 25% are life science companies and 75% are technology companies. Of the number of the Fund's investments, 50% are public companies and 50% are private companies.

#### *Investment Performance*

During the six months ended June 30, 2010, the Fund's net asset value per share decreased by \$0.17. The decrease in net asset value per share was principally due to operating costs incurred by the Fund in excess of investment income and an increase in the unrealized loss on venture investments (see section entitled "Financial Highlights").

The Fund's management expense ratio (MER) was 11.13% for the six months ended June 30, 2010 compared to 25.04% for the five month period ended December 31, 2009. 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 period. The MER for the six months ended June 30, 2010 and for the five months period ended December 31, 2009 is high due to Fund start up costs and the timing of Fund subscriptions. The MER for the semi-annual period is an annualized amount.

#### **Recent Developments**

The Fund is managed by Lions Capital Corp. (the Fund Manager). The Fund invests in a diversified portfolio of life science, clean-tech, technology and industrial companies with the objective of providing long-term capital appreciation to investors.

Effective May 10, 2010 all Advantage Structured Fund II common shares were exchanged for Advantage Structured Fund I common shares. Based on the relative pricing net asset value per common share of the Advantage Structured Fund II and the Advantage Structured Fund I as at May 7, 2010. Each Advantage Structured Fund II common share was exchanged for one Advantage Structured Fund I common shares resulting in the issuance of 140,188 Advantage Structured Fund I common shares. The aggregate consideration received for the issuance of 140,188 Advantage Structured Fund I common shares was \$1,442,603. The exchange was approved by resolution of the Advantage's Board of Directors. Additional information is disclosed in note 8 of the Fund's financial statements for the six months ended June 30, 2010.

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### Management Discussion of Fund Performance (continued)

#### 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 12 of the Fund's financial statements for the six months ended June 30, 2010.

#### 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 five months ended December 31, 2010 and for the 6 months ended June 30, 2010. This information is derived from the Fund's semi-annual and audited annual financial statements. The Fund commenced operations on July 20, 2009.

#### The Fund's Net Assets per Share<sup>(2)</sup>

	2010	2009
Net assets, beginning of year	\$ 8.07	\$ -
Net assets, at inception	-	-
Issuance of shares (average)	-	9.98
Less: share issue costs (average)	-	(0.84)
Increase (decrease) from operations:		
Total revenue	0.00	0.00
Total expenses	(0.24)	(0.28)
Unrealized gain (loss) for the period	(1.06)	(1.45)
Total increase (decrease) from operations <sup>(1)</sup>	(1.30)	(1.73)
Net assets at December 31 <sup>(1)</sup>	\$ 7.90	\$ 8.07

<sup>(1)</sup> Net assets are based on the actual number of shares outstanding as at December 31 in the year shown or June 30, 2010. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

<sup>(2)</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 10(d) of the Fund's financial statements for the six months ended June 30, 2010.

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### Financial Highlights (continued)

#### Ratios and Supplemental Data

	2010	2009
Net assets (000's) <sup>(1)</sup>	\$ 3,062	\$ 1,180
Number of shares outstanding <sup>(1)</sup>	387,578	146,206
MER <sup>(2)</sup>	11.13%	25.04%

<sup>(1)</sup> This information is provided as at December 31 of the year shown or June 30, 2010.

<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.

MER is materially impacted by the timing of capital raised and the share issuance costs paid thereon. The MER for the period ending June 30, 2010 is high because the Fund is actively raising capital and therefore incurring share issuance costs which are disproportionately high relative to the net assets of the Fund.

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 10(c) of the Fund's financial statements for the six months ended June 30, 2010.

#### 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.

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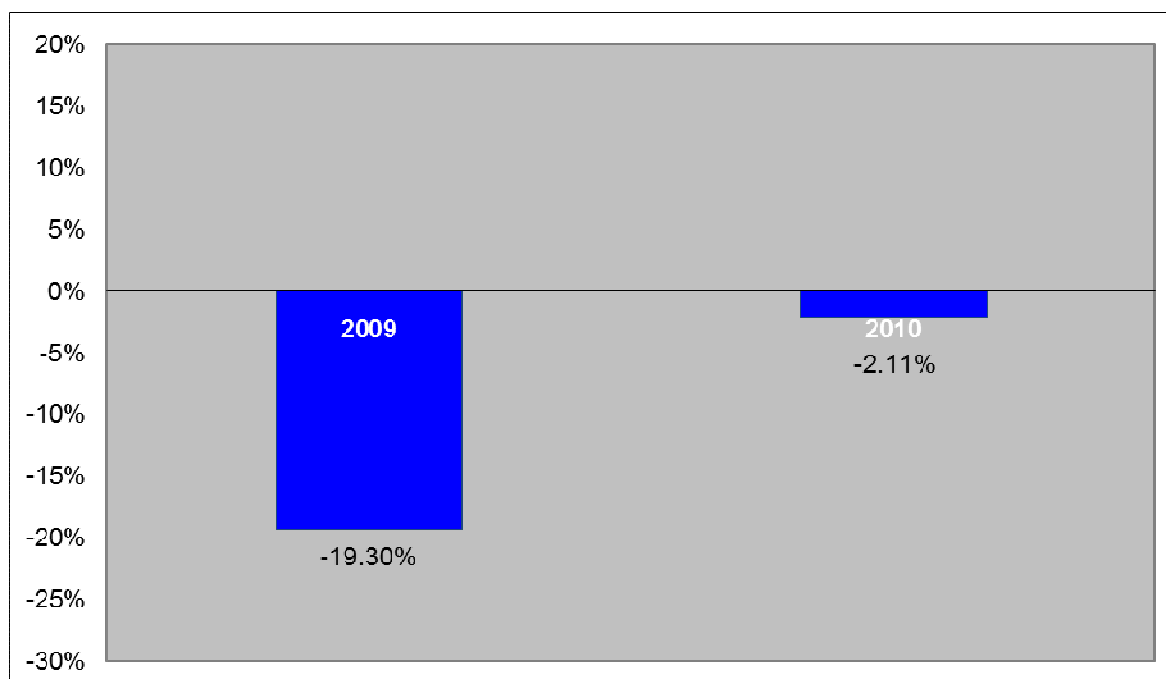
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### Past Performance (continued)

#### Year by Year Returns

The chart below reflects the Fund's performance for inception to December 31, 2009 and for the semi-annual period ended June 30, 2010. The chart shows in percentage terms how an investment would have increased or decreased by the last day of each period.



### Summary of Investment Portfolio

The following tables summarize the Fund's investment portfolio as at June 30, 2010. 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	\$ 900,000	29%
Technology companies	1,075,000	35
Total Venture Investments	1,975,000	64
Cash and Cash Equivalents and Restricted Cash	1,179,059	39
Other Assets less Liabilities	(91,886)	(3)
Net Asset Value at June 30, 2010	\$ 3,062,173	100%

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## Summary of Investment Portfolio (continued)

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	Percentage of total net assets
Public:	
Protox Therapeutics Inc.	30%
Urodynamix Technologies Ltd.	2
Private:	
In Motion Technology Inc.	16
Redlen Technologies Inc.	16
<hr/> Total Venture Investments	<hr/> 64%