

Financial Statements of

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

Six months ended June 30, 2011 and 2010

## **NOTICE PURSUANT TO NATIONAL INSTRUMENT 81-106**

The accompanying interim financial statements of B.C. Advantage Funds (VCC) Ltd. as at and for the period ended June 30, 2011 have not been reviewed by an auditor.

# ADVANTAGE VENTURE FUND

## Statements of Net Assets

June 30, 2011 and December 31, 2010

	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 1,100,135	\$ 2,632,159
Restricted cash (note 5)	2,407,195	2,602,902
Venture investments	42,230,689	48,688,702
	<u>45,738,019</u>	<u>53,923,763</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	76,655	83,917
Due to related parties (note 9)	488,828	401,586
Accrued equity participation (note 7(c))	132,849	132,849
	<u>698,332</u>	<u>618,352</u>
<b>Net assets</b> , representing shareholders' equity	\$ 45,039,687	\$ 53,305,411
Number of common shares outstanding (note 7(b))	8,334,046	8,340,704
Net assets per common share (note 7(d))	<u>\$ 5.40</u>	<u>\$ 6.39</u>

Commitments (notes 7(c) and 10)  
Contingency (note 11)

See accompanying notes to financial statements.

Approved on behalf of the Board:

"Avtar Dhillon" Director

"Frank Holler" Director

# ADVANTAGE VENTURE FUND

## Statements of Operations

Six Months Ended June 30, 2011 and 2010

	2011	2010
Investment income:		
Interest	\$ 22,924	\$ 34,766
Other income	2,780	2,250
	<u>25,704</u>	<u>37,016</u>
Expenses (notes 4 and 9):		
Management fees	671,341	702,454
Fund administration	207,739	151,237
Trailer fees	114,258	119,954
Transfer agency fees	61,986	55,564
Shareholder communications	44,442	15,720
Audit, tax and advisory fees	35,817	35,308
Directors' fees and expenses	20,923	18,785
Legal fees	18,267	10,308
Brokerage fees	2,180	8,290
	<u>1,176,953</u>	<u>1,117,620</u>
Net investment loss	(1,151,249)	(1,080,064)
Realized loss on sale of venture investments	(4,810,543)	(323,688)
Change in unrealized appreciation (depreciation) of venture investments	(2,261,904)	(4,535,651)
Income (loss) from operations	<u>\$ (8,223,696)</u>	<u>\$ (5,939,943)</u>
Income (loss) from operations per common share	<u>\$ (0.99)</u>	<u>\$ (0.86)</u>

See accompanying notes to financial statements.

# ADVANTAGE VENTURE FUND

## Statements of Changes in Net Assets

Six Months Ended June 30, 2011 and 2010

	2011	2010
Net assets, beginning of year	\$ 53,305,411	\$ 48,063,915
Income (loss) from operations	(8,223,696)	(5,939,943)
Capital transactions (note 7(b)):		
Issuance of common shares	-	730,754
Share issue costs including sales commissions	-	(59,919)
Redemption of common shares	(42,028)	(77,716)
Issued for Advantage Growth Fund shares (note 6(a))	-	11,905,226
	(42,028)	12,498,345
Increase (decrease) in net assets	(8,265,724)	6,558,402
Net assets, end of period	\$ 45,039,687	\$ 54,622,317

See accompanying notes to financial statements.

# ADVANTAGE VENTURE FUND

## Statements of Cash Flows

Six Months Ended June 30, 2011 and 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Income (loss) from operations	\$ (8,223,696)	\$ (5,939,943)
Realized loss on sale of venture investment	4,810,543	323,688
Change in unrealized (appreciation) depreciation of venture investments	2,261,904	4,535,651
Net change in non-cash operating accounts	79,980	85,281
	<u>(1,071,269)</u>	<u>(995,323)</u>
Investments:		
Proceeds from sale of venture investments	104,292	449,371
Purchase of venture investments	(718,726)	(2,125,988)
Restricted cash	195,707	(451,572)
Cash and restricted cash acquired upon exchange of Advantage Growth Fund shares (note 6(a))	-	2,230,638
	<u>(418,727)</u>	<u>102,449</u>
Financing (note 7(b)):		
Issuance of common shares	-	730,754
Share issue costs including sales commissions	-	(59,919)
Redemption of common shares	(42,028)	(77,716)
	<u>(42,028)</u>	<u>593,119</u>
Decrease in cash and cash equivalents	(1,532,024)	(299,755)
Cash and cash equivalents, beginning of year	2,632,159	4,046,840
Cash and cash equivalents, end of period	<u>\$ 1,100,135</u>	<u>\$ 3,747,085</u>

See accompanying notes to financial statements.

# ADVANTAGE VENTURE FUND

Statement of Investment Portfolio

June 30, 2011

	Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
<b>Publicly-traded investments:</b>				
Allon Therapeutics Inc. 7,580,428 common shares	\$ 7,556,633	\$ 2,653,150	\$ (4,903,483)	6%
Protox Therapeutics Inc. 15,680,896 common shares	8,534,337	8,310,875	(223,462)	20
Urodynamix Technologies Ltd. 51,665,000 common shares	4,999,800	774,975	(4,224,825)	2
<b>Total publicly-traded investments</b>	<b>21,090,770</b>	<b>11,739,000</b>	<b>(9,351,770)</b>	<b>28</b>
<b>Privately-held investments:</b>				
Aphrodite Therapeutics Inc. 1,400,000 common shares	-	-	-	-
Aquinox Pharmaceuticals Inc. 8,213,230 preferred shares	4,752,876	4,806,832	53,956	11
CHR Investment Corp. 701,785 preferred shares	-	51,060	51,060	-
Contech Enterprises Inc. 25,787,369 common shares	3,600,000	8,282,903	4,682,903	19
Contigo Systems Inc. 4,930,967 preferred shares	2,077,173	2,077,173	-	5
Endurance Wind Power Inc. 50,000 preferred shares	600,000	600,000	-	1
Inimex Pharmaceuticals Inc. 751,828 preferred shares	2,107,274	1,962,966	(144,308)	5
In Motion Technology Inc. 2,830,189 preferred shares	1,500,000	1,500,000	-	4
Methylation Sciences Inc. 1,500,000 common shares	1,500,000	1,500,000	-	4
Convertible debt, secured, bearing interest at 8% per annum, repayable after June 30, 2011	225,000	225,000	-	-
Mobidia Technology Inc. 3,655,209 preferred shares	4,020,731	4,020,731	-	10
215,848 common shares	-	237,432	237,432	-
Paradigm Environmental Technologies Inc. 77,400 common shares	250,000	212,850	(37,150)	-
Recombo Inc. 1,923,461 common shares	250,050	634,742	384,692	2
Redlen Technologies Inc. 6,153,847 preferred shares	2,000,000	2,000,000	-	5
Sensific Technologies Inc. 200,000 common shares	100,000	-	(100,000)	-
Sirius Genomics Inc. 2,450,000 common shares	2,100,000	2,380,000	280,000	6
<b>Total privately-held investments</b>	<b>25,083,104</b>	<b>30,491,689</b>	<b>5,408,585</b>	<b>72</b>
<b>Total investment portfolio</b>	<b>\$ 46,173,874</b>	<b>\$ 42,230,689</b>	<b>\$ (3,943,185)</b>	<b>100%</b>

See accompanying notes to financial statements.

# ADVANTAGE STRUCTURED FUND I

## Statements of Net Assets

June 30, 2011 and December 31, 2010

	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 539,937	\$ 272,109
Restricted cash (note 5)	70,249	23,007
Venture investments	3,652,786	4,086,120
	<u>4,262,972</u>	<u>4,381,236</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 2,546	\$ 2,043
Due to related parties (note 9)	36,632	35,001
Accrued equity participation (note 7(c))	22,222	128,889
	<u>61,400</u>	<u>165,933</u>
<b>Net assets</b> , representing shareholders' equity	<u>\$ 4,201,572</u>	<u>\$ 4,215,303</u>
Number of common shares outstanding (note 7(b))	498,762	454,834
Net assets per common share (note 7(d))	<u>\$ 8.42</u>	<u>\$ 9.27</u>

Commitments (notes 7(c) and 10)  
Contingency (note 11)

See accompanying notes to financial statements.

Approved on behalf of the Board:

"Avtar Dhillon" Director

"Frank Holler" Director

# ADVANTAGE STRUCTURED FUND I

## Statements of Operations

Six Months Ended June 30, 2011 and 2010

	2011	2010
Investment income:		
Interest	\$ 1,786	\$ 1,204
Other income	853	-
	<u>2,639</u>	<u>1,204</u>
Expenses (notes 4 and 9):		
Management fees	66,079	34,591
Fund administration	18,974	6,611
Transfer agency fees	5,273	2,452
Trailer fees	5,017	2,103
Audit, tax and advisory fees	3,124	12,046
Directors' fees and expenses	1,819	1,001
Legal fees	1,460	591
Shareholder communications	1,230	998
	<u>102,976</u>	<u>60,393</u>
Net investment loss	(100,337)	(59,189)
Change in unrealized appreciation (depreciation) of venture investments	(433,334)	(261,111)
Change in equity participation accrued on unrealized gain	106,667	-
Income (loss) from operations	<u>\$ (427,004)</u>	<u>\$ (320,300)</u>
Income (loss) from operations per common share	<u>\$ (0.87)</u>	<u>\$ (1.28)</u>

See accompanying notes to financial statements.

# ADVANTAGE STRUCTURED FUND I

## Statements of Changes in Net Assets

Six Months Ended June 30, 2011 and 2010

	2011	2010
Net assets, beginning of year	\$ 4,215,303	\$ 1,179,876
Income (loss) from operations	(427,004)	(320,300)
Capital transactions (note 7(b)):		
Issuance of common shares	434,492	1,001,492
Share issue costs including sales commissions	(21,219)	(119,868)
<u>Issued for Structured Fund II shares (note 6)</u>	-	1,320,973
	413,273	2,202,597
Increase (decrease) in net assets	(13,731)	1,882,287
Net assets, end of period	\$ 4,201,572	\$ 3,062,173

See accompanying notes to financial statements.

# ADVANTAGE STRUCTURED FUND I

## Statements of Cash Flows

Six Months Ended June 30, 2011 and 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Income (loss) from operations	\$ (427,004)	\$ (320,300)
Change in unrealized appreciation of venture investments	433,334	261,111
Change in equity participation accrued on unrealized gain	(106,667)	-
Net change in non-cash operating accounts	2,134	26,437
	<u>(98,203)</u>	<u>(32,752)</u>
Investments:		
Purchase of venture investments	-	(500,000)
Restricted cash	(47,242)	(288,407)
Cash and restricted cash acquired upon exchange of Advantage Structured Fund II shares (note 6(b))	-	286,609
	<u>(47,242)</u>	<u>(501,798)</u>
Financing (note 7(b)):		
Issuance of common shares	434,492	1,001,492
Share issuance costs including sales commissions	(21,219)	(119,868)
	<u>413,273</u>	<u>881,624</u>
Increase in cash and cash equivalents	267,828	347,074
Cash and cash equivalents, beginning of year	272,109	171,549
Cash and cash equivalents, end of period	<u>\$ 539,937</u>	<u>\$ 518,623</u>

See accompanying notes to financial statements.

# ADVANTAGE STRUCTURED FUND I

Statements of Investment Portfolio

June 30, 2011

	Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
<b>Publicly-traded investments:</b>				
Protox Therapeutics Inc. 2,222,223 common shares 1,111,111 warrants	\$ 1,000,000	\$ 1,177,778	\$ 177,778	32%
Urodynamix Technologies Ltd. 5,000,000 common shares	250,000	75,000	(175,000)	2
Total publicly-traded investments	1,250,000	1,252,778	2,778	34
<b>Privately-held investments:</b>				
Endurance Wind Power Inc. 116,667 preferred shares	1,400,008	1,400,008	-	38
In Motion Technology Inc. 943,397 preferred shares	500,000	500,000	-	14
Redlen Technologies Inc. 1,538,461 preferred shares	500,000	500,000	-	14
Total privately-held investments	2,400,008	2,400,008	-	66
Total investment portfolio	\$ 3,650,008	\$ 3,652,786	\$ 2,778	100%

See accompanying notes to financial statements.

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

---

## 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 two distinct investment funds: the Advantage Venture Fund and the Advantage Structured Fund I. The Advantage Venture Fund and the Advantage Structured Fund I invest in emerging technology, clean-tech and life science companies. The Company may add additional investment funds in the future.

The Company had previously offered the Advantage Growth Fund and the Advantage Structured Fund II, which merged with the Advantage Venture Fund and the Advantage Structured Fund I, respectively in 2010 (note 6). Effective May 3, 2010, the Company temporarily suspended redemptions of shares of Advantage Venture Fund and closed the Fund to new subscriptions. Also effective March 2, 2011, the Company closed the Advantage Structured Fund I to new subscriptions.

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

The Funds are managed by Lions Capital Corp. (the Fund Manager) in accordance with the terms of a management agreement dated May 1, 2003, as amended October 31, 2003, September 30, 2006, April 1, 2007, August 8, 2008, June 5, 2009, July 8, 2009, and March 1, 2011 (the Management Agreement).

## 2. Significant accounting policies:

### (a) Basis of presentation:

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

### (b) Venture investments:

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

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

---

## 2. Significant accounting policies (continued):

### (b) Venture investments (continued):

#### (i) Publicly-traded:

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

#### (ii) Privately-owned:

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

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

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

### (c) Cash and cash equivalents:

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

### (d) Sales commissions and share issue costs:

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

### (e) Income taxes:

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

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

---

## 2. Significant accounting policies (continued):

### (e) Income taxes (continued):

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

### (f) Stock-based compensation:

The Company has issued equity participation shares to its Fund Manager. Value is accreted to these equity participation shares when certain performance conditions are met. The value accreted to equity participation shares is accounted for by the Funds as stock-based compensation and expensed in the respective Fund's statement of operations and recorded as accrued equity participation in the related statement of net assets. However, the equity participation is actually payable only when all performance conditions (see note 7(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. In March 2011, the Fund Manager has voluntarily suspended all payments associated with the any equity participation payable to the Fund Manager from the Advantage Venture Fund until redemption of its shares is reinstated.

### (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 7(d).

In accordance with the Company's prospectus, subscriptions to shares of Advantage Structured Fund I and formerly Advantage Structured Fund II were fixed at \$10 per share, regardless of NAV at the relevant subscription date. On June 3, 2011, subsequent to the Fund's closing to new subscriptions, the previously set NAV of \$10 per share was released and the NAV of the Fund is determined from time to time on the valuation date.

# **B.C. ADVANTAGE FUNDS (VCC) LTD.**

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

---

## **2. Significant accounting policies (continued):**

### (h) Use of estimates:

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

## **3. Future accounting changes:**

In February 2008, the Canadian Accounting Standards Board (AcSB) announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. For investment companies, however, the AcSB agreed to extend the option to defer their changeover by two years to January 1, 2013. As a publicly accountable investment company, the Company will be required to prepare December 31, 2013 financial statements, including comparative information for 2012, 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 previous Management Agreement, the Fund Manager was entitled to receive management fees equal to 2.75% per annum of the net asset value of the respective Fund, calculated and paid monthly. In March 2011, the Fund Manager has voluntarily agreed to reduce the management fees from 2.75% to 1.25% in respect of all capital that is eligible for, but currently suspended from redemption. The management fee in relation to capital that is not yet eligible for redemption remains at 2.75%. The Management Agreement was amended as such in March 2011. 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.

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

---

## 4. Fees and expenses (continued):

Expenses that are the direct responsibility of the Funds include fund administration costs, trailer fees, 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 (IPA) in an amount equal to 30% of the funds raised. As investments in eligible businesses are subsequently made, a drawdown from the IPA, 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 IPA.

In 2010, the Advantage Venture Fund made an investment of \$1.5 million in Contech Enterprises Inc. (Contech). In March 2010, the Investment Capital Branch (ICB) informed the Advantage Venture Fund that Contech used the investment received from the Advantage Venture Fund in contravention to the SBVCA. Consequently, the Advantage Venture Fund's investment made in Contech was deemed to be ineligible and 37.5% of the investment (representing the associated draw down in IPA related to the Contech investment) amounting to \$562,500 was paid to the ICB by the Advantage Venture Fund. The investment agreement made between the Advantage Venture Fund and Contech stipulates that Contech is required to adhere to the SBVCA regarding any investment received from the Advantage Venture Fund. As a result, the Advantage Venture Fund was compensated by Contech through the issuance of 1,757,812 common shares to Advantage Venture Fund at zero cost. At the date of issue, the fair value of these shares approximated the payment to the ICB.

## 6. Fund mergers:

(a) Advantage Venture Fund:

(i) Advantage Growth Fund:

Effective May 7, 2010, all Advantage Growth Fund common shares were exchanged for Advantage Venture Fund common shares based on the relative net asset value per common share of the Advantage Growth Fund and the Advantage Venture Fund as at May 7, 2010. Each Advantage Growth Fund common share was exchanged for 0.5861 Advantage Venture Fund common shares resulting in the issuance of 1,718,158 Advantage Venture Fund common shares. The aggregate consideration received for the issuance of 1,718,158 Advantage Venture Fund common shares was \$11,905,226 based on the net asset value per common share of the Advantage Growth Fund at the time of merger. The exchange was approved by resolution of the Board of Directors. The results of the Advantage Growth Fund have been included in the financial statements of the Advantage Venture Fund since May 7, 2010.

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

## 6. Fund mergers (continued):

(a) Advantage Venture Fund (continued):

(i) Advantage Growth Fund (continued):

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

Venture investments at fair value	\$ 9,713,585
Cash	1,297,071
Restricted cash	933,567
Accounts payable and accrued liabilities	(38,997)
Net assets	11,905,226
Unamortized share issue costs	678,271
Net asset value	\$ 12,583,497

(ii) Advantage Life Science Fund I:

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

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

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

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

---

## 6. Fund mergers (continued):

### (b) Advantage Structured Fund I:

Effective May 7, 2010, all Advantage Structured Fund II common shares were exchanged for Advantage Structured Fund I common shares. Each Advantage Structured Fund II common share was exchanged for one Advantage Structured Fund I common share as both funds are offered at \$10 per share in accordance with the prospectus. This resulted in the issuance of 140,188 Advantage Structured Fund I common shares. The exchange was approved by resolution of the Board of Directors. The results of the Advantage Structured Fund II have been included in the financial statements of the Advantage Structured Fund I since May 7, 2010.

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

---

Venture investments at fair value	\$ 1,061,111
Cash	67,741
Restricted cash	218,867
Accounts payable and accrued liabilities	(4,524)
Accrued equity participation	(22,222)
<hr/>	
Net assets	1,320,973
Unamortized share issue costs	121,630
<hr/>	
Net asset value	\$ 1,442,603

---

## 7. Share capital:

### (a) Authorized:

18,000,000,000 common shares divided into 18 classes of common shares; each class having an authorized share capital of 1,000,000,000 common shares

1,000,000,000 equity participating shares

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

## 7. Share capital (continued):

### (b) Issued:

The following table summarizes the issued capital of the Funds:

	Advantage Venture Fund		Advantage Structured Fund I	
	Common shares	Equity participation shares	Common shares	Equity participation shares
Balance, December 31, 2009	6,554,382	6,000,000	146,206	-
Issued for cash	101,389	-	168,440	-
Redeemed	(33,225)	-	-	-
Issued for Advantage Growth Fund common share conversion (note 6(a))	1,718,158	-	-	-
Issued for Advantage Structured Fund II common share conversion (note 6(b))	-	-	140,188	-
Balance, December 31, 2010	8,340,704	6,000,000	454,834	-
Issued for cash	-	-	43,928	-
Redeemed	(6,658)	-	-	-
Balance, June 30, 2011	8,334,046	6,000,000	498,762	-

### (c) Equity participation:

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

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

---

## 7. Share capital (continued):

### (c) Equity participation (continued):

The accrued equity participation is an estimate of the amount that would be payable to the Fund Manager had the entire venture portfolio been disposed of at the estimated fair value at the year end.

#### Advantage Venture Fund:

For the six months ended June 30, 2011 and 2010, no equity participation has been paid.

For the six months ended June 30, 2011, the Advantage Venture Fund has accrued equity participation of \$132,849 (2010 - \$132,849) resulting from accrued gains on investments in Recombo Inc. (Recombo) and Protox Therapeutics Inc. (Protox) acquired by the Advantage Venture Fund in the course of Fund mergers in 2008 and 2009. This equity participation, subject to the Fund reinstating redemption of its shares, will be paid when the Advantage Venture Fund's investments in Recombo and Protox have been sold to an arm's length party.

During 2010, the Advantage Venture Fund sold its investment in Tekmira Pharmaceuticals Inc. for a realized gain of \$214,972. During 2009, the Advantage Venture Fund sold its investment in OncoGenex Pharmaceuticals Inc. for a realized gain of \$460,498. At the time of sale, both investments had achieved an internal rate of return exceeding 10% per year. However, the total realized gains, unrealized gains and net investment income from the Advantage Venture Fund's portfolio of venture investments have not generated a compound rate of return exceeding 8% per year. Accordingly, the Advantage Venture Fund has not accrued any equity participation amount related to these dispositions. The cumulative equity participation amount of \$315,609 will be accrued and paid if the total realized gains, unrealized gains, and investment income from the Fund's portfolio of venture investments exceeds a compound rate of return of 8% per year in the future.

#### Advantage Structured Fund I:

For the six months ended June 30, 2011 and 2010, no equity participation has been paid.

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

---

## 7. Share capital (continued):

### (c) Equity participation (continued):

#### Advantage Structured Fund I (continued):

For the six months ended June 30, 2011, the Advantage Structured Fund I has accrued equity participation of \$22,222 (2010 - \$128,889) resulting from accrued gains on investments in Prottox as a result of fund mergers. This equity participation will be paid when the Advantage Structured Fund I's investments in Prottox have been sold to an arm's length party. For the year ended December 31, 2010, the total realized gains, unrealized gains and net investment income from the Advantage Structured Fund I's portfolio of venture investments have generated a compound rate of return exceeding 8% per year. Accordingly, in the event that the Fund had liquidated its investment in the portfolio companies at December 31, 2010 and realized the gain of \$533,334 for its investment in Prottox, an equity participation amount of \$106,667 would have been payable. Accordingly, equity participation has been accrued as payable, but the actual amount will not be finalized until the Fund's investment in Prottox is sold to an arm's length party in the future. In addition, during 2010, the Advantage Structured Fund I acquired accrued equity participation of \$22,222 resulting from accrued gains on investments in Prottox in the course of Fund mergers. This equity participation will be paid when the Advantage Structured Fund I's investments in Prottox have been sold to an arm length party.

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

Subscriptions and redemptions of the Advantage Venture Fund are transacted at the NAV per common share of the Fund. Subscriptions and redemption of the Advantage Structured Fund I were fixed at \$10 per share in accordance with the Company's prospectus, until such time as the Board of the Company determines a different NAV per share. NAV is a non-GAAP financial measure that is comprised of the net assets as determined under Canadian GAAP plus any unamortized sales commissions and share issue costs, plus, commencing January 1, 2007, an adjustment to revalue publicly-traded investments using last sale prices rather than closing bid quotations. Because NAV per share is a non-GAAP financial measure that does not have any standardized meaning prescribed by Canadian GAAP, it may not be comparable to similar measures presented by other funds.

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

# B.C. ADVANTAGE FUNDS (VCC) LTD.

## Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

### 7. Share capital (continued):

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

	Advantage Venture Fund		Advantage Structured Fund I	
	2011	2010	2011	2010
Net assets per statements of net assets	\$ 45,039,687	\$53,305,411	\$ 4,201,572	\$4,215,303
Add:				
Unamortized deferred sales commissions and share issuance costs <sup>(1)</sup>	782,560	1,247,979	322,231	341,429
Adjustment from bid quotations to last sale prices	258,326	679,660	25,000	83,333
	1,040,886	1,927,639	347,231	424,762
NAV <sup>(2)</sup>	\$ 46,080,573	\$55,233,050	\$ 4,548,803	\$4,640,065
Common shares outstanding at year end (note 7(b))	8,334,046	8,340,704	498,762	454,834
Net assets per common share	\$ 5.40	\$ 6.39	\$ 8.42	\$ 9.27
NAV per common share <sup>(2)</sup>	\$ 5.53	\$ 6.62	\$ 9.12	\$ 10.20

(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.

(2) In accordance with the Company's prospectus, all subscriptions into the Advantage Structured Fund I occurred at \$10 per share in 2011 and 2010, regardless of NAV at the relevant subscription date.

In accordance with the Company's prospectus, subscriptions and redemptions are transacted weekly by the Funds at the net asset value per share calculated on Friday of the respective week. As the last transaction date for subscriptions and redemptions for the period was June 30, 2011, the net asset values per common share at which shares were actually transacted differs from those presented above, which are as at June 30, 2011, 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

Six Months Ended June 30, 2011 and June 30, 2010

## 7. Share capital (continued):

(e) Distribution of realized gains:

### Advantage Venture Fund:

For the six months ended June 30, 2011, no distributions of realized gains were paid out of the Advantage Venture Fund.

### Advantage Structured Fund I:

For the six months ended June 30, 2011, no distributions of realized gains were paid out of the Advantage Structured Fund I.

## 8. Income taxes:

(a) The components of future income tax balances in each fund at June 30, 2011 and December 31, 2010 are as follows:

	Advantage Venture Fund		Advantage Structured Fund I	
	2011	2010	2011	2010
Future income tax assets related to:				
Tax loss carry forwards	\$ 8,431,620	\$ 8,772,146	\$ 213,122	\$ 148,457
Share issuance costs	346,869	489,444	116,921	133,118
Equity participation	-	-	-	47,680
Unrealized losses (gains) on venture investments	414,966	2,031,038	(621)	(194,942)
	9,193,455	11,292,628	329,422	134,313
Valuation allowance	(9,193,455)	(11,292,628)	(329,422)	(134,313)
Net future income tax asset	\$ -	\$ -	\$ -	\$ -

(b) There were no tax deductions transferred between Funds during the six months ended June 30, 2011 and during 2010.

(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 due to amortization of share issue costs, payment of equity participation fees, the non-taxable portion of capital gains, and adjustments for applicable rate changes and changes in valuation allowances.

(d) The Funds have non-capital loss carry forwards available for utilization against taxable income in future years. The Advantage Venture Fund and the Advantage Structured Fund I have an allowable capital loss carry forward of \$14,824,547 and \$332,118, respectively. See audited financial statements of the Company for details regarding expiration of non-capital-tax-loss carryforwards.

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

## 9. 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 8(b), certain Funds accrue and/or pay equity participation to the Fund Manager as described in note 7(c) and the Fund Manager pays certain expenses on behalf of the Funds and is subsequently reimbursed by the Funds as described in note 4.

The following tables summarize the Funds' related party transactions:

<b>Advantage Venture Fund</b>	Six months ended		Amount payable as at	
	June 30,		December 31	
	2011	2010	2011	2010
Fund Manager <sup>(1)</sup>				
Management fees	\$ 671,341	\$ 702,454	\$ 347,515	\$ 278,279
Reimbursement of administration expenses	306,999	271,810	141,313	123,307
Total related party expenses	\$ 978,340	\$ 974,264		
Due to related parties			\$ 488,828	\$ 401,586

<b>Advantage Structured Fund I</b>	Six months ended		Amount payable as at	
	June 30,		December 31	
	2011	2010	2011	2010
Fund Manager <sup>(1)</sup>				
Management fees	\$ 66,079	\$ 34,591	\$ 24,174	\$ 22,104
Reimbursement of administration expenses	27,744	86,782	12,458	12,897
Total related party expenses	\$ 93,823	\$ 121,373		
Due to related parties			\$ 36,632	\$ 35,001

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

## 10. Commitment:

The Company has an Investment Administration Agreement with Investment Administration Solution Inc. to provide certain transfer agency and back office administration services. The agreement specifies a minimum fee per month of \$10,750 (plus HST thereon) for three years, which commenced January 1, 2010. The Company's minimum future payment in accordance with this agreement for 2011 and 2012 amounts to \$64,500 and \$129,000, respectively.

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

## 11. 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 described in note 5, in 2010 the Company was required to make a payment to the ICB as one of its investments was in contravention of the requirements of the SBVCA. As at June 30, 2011, the Fund Manager is not aware of any other circumstances where the Company is not in compliance with the requirements of the SBVCA.

## 12. Fair values of financial assets and liabilities:

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

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

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

The following is a summary of the inputs used as of June 30, 2011 and December 31, 2010 in valuing the respective Fund's investments carried at fair values:

### *Advantage Venture Fund*

June 30, 2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,100,135	\$ -	\$ -	\$ 1,100,135
Restricted cash	2,407,195	-	-	2,407,195
Listed equities:				
Common shares	11,739,000	-	-	11,739,000
Unlisted equities:				
Common shares	-	-	13,247,927	13,247,927
Preferred shares	-	-	17,018,762	17,018,762
Interest bearing securities:				
Convertible debentures	-	-	225,000	225,000
	\$ 15,246,330	\$ -	\$ 30,491,689	\$ 45,738,019

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

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

### *Advantage Venture Fund (continued)*

December 31, 2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,632,159	\$ -	\$ -	\$ 2,632,159
Restricted cash	2,602,902	-	-	2,602,902
Listed equities:				
Common shares	14,725,565	-	-	14,725,565
Unlisted equities:				
Common shares	-	-	13,290,870	13,290,870
Preferred shares	-	-	20,447,267	20,447,267
Interest bearing securities:				
Convertible debentures	-	-	225,000	225,000
	\$ 19,960,626	\$ -	\$ 33,963,137	\$ 53,923,763

### *Advantage Structured Fund I*

June 30, 2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 539,937	\$ -	\$ -	\$ 539,937
Restricted cash	70,249	-	-	70,249
Listed equities:				
Common shares	1,252,778	-	-	1,252,778
Unlisted equities:				
Preferred shares	-	-	2,400,008	2,400,008
	\$ 1,862,964	\$ -	\$ 2,400,008	\$ 4,262,972

December 31, 2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 272,109	\$ -	\$ -	\$ 272,109
Restricted cash	23,007	-	-	23,007
Listed equities:				
Common shares	1,686,112	-	-	1,686,112
Unlisted equities:				
Preferred shares	-	-	2,400,008	2,400,008
	\$ 1,981,228	\$ -	\$ 2,400,008	\$ 4,381,236

During the period ended June 30, 2011, there were no transfers between Level 1 and Level 2.

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

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

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

	Advantage Venture Fund		Advantage Structured Fund I	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Opening balance	\$ 33,963,137	\$ 29,861,318	\$ 2,400,008	\$ 550,000
Change in unrealized gain (loss)	-	1,942,518	-	-
Purchases	718,726	2,663,489	-	1,400,008
Disposals/write-offs	(4,190,174)	(4,156,773)	-	-
Acquired due to merger	-	3,652,585	-	450,000
Closing balance	\$ 30,491,689	\$ 33,963,137	\$ 2,400,008	\$ 2,400,008

## 13. 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.

# B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

---

## 13. 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 Company's prospectus. 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 also hold 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.

#### (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).

# **B.C. ADVANTAGE FUNDS (VCC) LTD.**

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

---

## **13. Financial instruments (continued):**

(d) Market risk (continued):

(iii) Other price risk (continued):

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

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

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

## **14. Capital management:**

The objective of the Advantage Venture Fund and the Advantage Structured Fund I is to raise equity capital and to invest it in investments that meet the Funds' investment criteria. The Funds' capital structure consists only of proceeds from share issuance, net of share issue costs including sales commissions. The Funds may make adjustments to their capital structure in light of economic conditions and the risk characteristics of its investments. As described in note 5, all Funds are subject to placing 30% of their capital raised into an investment protection account under the SBVCA. As of June 30, 2011, the Funds were in compliance with this restriction. Common shares of the Funds are generally only redeemable after five years from the date the proceeds are invested in eligible businesses. Management also has the ability to suspend redemptions in specific situations, including where the Board of Directors determines, in its sole discretion, that the redemption should not proceed.

# **B.C. ADVANTAGE FUNDS (VCC) LTD.**

Notes to Financial Statements

Six Months Ended June 30, 2011 and June 30, 2010

---

## **15. 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.