North Vancouver, September 17, 2013

Dear Advantage shareholders,

We write to update you on progress at BC Advantage Funds. Based on our discussions with numerous shareholders over the past months, and as shareholders ourselves, we know that your concerns primarily relate to three issues: how are the Advantage portfolio companies progressing in their businesses, when can shareholders expect to get liquidity on their share positions, and what steps are being taken to keep management and administrative costs to a minimum so that when liquidity occurs, the maximum proceeds can be distributed to shareholders?

Advantage Structured Fund Portfolio Companies

Overall, the core holdings of the Advantage investment portfolio continue to do well in terms of advancing their products and technologies, achieving key business milestones and securing additional financing to fund their future growth. However, as many of you know, we had a significant disappointment with one of our emerging technology companies over the past year. Allon Therapeutics had a failure in its late stage clinical (human) trial for the treatment of dementia and, as a result, the fund incurred a substantial loss on this investment. It is not unusual for a venture capital portfolio to have such losses and, otherwise, Advantage's core portfolio companies have performed well. More than half of our companies are now achieving significant revenues and the majority of these revenue stage firms are profitable. Our pre-revenue life science companies are also very well funded and pursuing late stage (Phase 2 or Phase 3) clinical development of their drug candidates. By venture capital fund standards, the Advantage portfolio companies are now at a relatively mature stage of development.

The following is a summary of Advantage's core portfolio holdings.

Aquinox Pharmaceuticals – Aquinox is developing novel drugs for the treatment of inflammatory disease. The company had good results in its first two Phase 2 clinical trials in 2012 and, earlier this year, secured an additional $18 million of financing in an investment round led by J&J Development Corp. (part of Johnson & Johnson) and Pfizer Ventures. With this funding, the company has commenced larger Phase 2 studies in two inflammatory disease areas, Chronic Obstructive Pulmonary Disease and Interstitial Cystitis or Painful Bladder disease. Both studies are expected to provide top line results within the next 12 – 15 months.

Contech Enterprises – In fiscal 2012, Contech increased its revenues by 46% and beat its EBITDA forecast by $300,000. Although fiscal 2013 results have not yet been finalized, preliminary results show the company’s revenues are expected to increase by a further 30% to more than $17 million annually. Earlier in 2013, Contech completed the acquisition of Scenery Solutions Inc. which contributed to revenue growth in the current year and is expected to be a strong contributor to further revenue growth in the coming year.

Endurance Wind Power – Endurance Wind Power has two divisions: a wind turbine division which designs, manufactures and sells some of the world’s most efficient “distributed wind” turbines; and an energy services division that produces and sells power the company generates by installing and running its own turbines. The company has substantially increased its revenues, more than doubling revenues in each of the past three years. In 2012, the company achieved revenues of $65 million with material profitability.

In Motion Technology – In Motion is a leader in wireless broadband networking for vehicles. Its proprietary mobile communications gateway turns every vehicle into a communications hotspot. The company increased its revenues in 2012 and ended the year with a large sales funnel that is expected to further increase revenues in 2013. In its most recent quarter, the company achieved profitability and In Motion expects to be profitable on a go forward basis.

Mobidia – Mobidia is a mobile analytics company and launched its My Data Manager app on iPhone and Android platforms in 2011. The company’s mobile app recently passed six million downloads and the company is now achieving revenues through selling mobile analytics to a number of customers such as Skype, Twitter and AT&T.

MSI Pharma - MSI Pharma is developing an extended release formulation of a widely used nutraceutical (SAMe) to treat depression. In 2011, MSI closed an US $18 million financing led by Inventages, a large European venture fund. The company and Inventages are now finalizing a further US $17.5 million financing. Based on this funding commitment, MSI recently commenced a large Phase 2 trial (285 patients) for the treatment of depression.

Redlen Technologies – Redlen manufactures semiconductor compounds and radiation detection modules for application in medical imaging and security markets. The company recently signed a 5 year supply agreement with Spectrum Dynamics in Nuclear Medicine (NM) imaging, has an active partnership with Philips in CT medical imaging, and a further partnership with Siemens in whole body NM scanners. The company had revenues of $5.4 million in fiscal 2012.

Sophiris Bio - Sophiris is developing a targeted drug therapy for the treatment of BPH (Enlarged Prostate) and for prostate cancer. In August, Sophiris completed a US $65 million at $5.00 per share and concurrent NASDAQ listing. While the price of the offering was very disappointing, the company now has sufficient funding to complete its first pivotal trial in BPH. In mid-September, four research analyst reports were published by Lazard, Leerink, Stifel and Euro Pacific with target prices of US $10.00, $11.00, $9.00 and $11.00, respectively.

Overall, Advantage is encouraged by the progress achieved by our portfolio investments. Those of you familiar with venture capital investing will know that, although some companies fail, it is often one or two good wins in the portfolio that give investors their returns. Based on the mature stage of development and recent business progress of our portfolio companies, we remain confident that we will ultimately see a number of “wins” within this portfolio.

Achieving Liquidity and Re-instating Redemptions

Achieving liquidity in our investments through our portfolio companies completing initial public offerings or merger-acquisition (M&A) exits continues to be frustrated by risk adverse financial markets and cautious strategic buyers. In 2012, we tested the M&A markets with two of our portfolio companies but in both cases we were not successful in securing acceptable bids. Allon’s failure late last year in its Phase 3 trial for the treatment of dementia was another potential liquidity event that failed to occur in 2012. Had this clinical trial been successful, we believe we would have seen substantial returns on this position but unfortunately that did not occur.

While the delay in liquidity is frustrating for our shareholders, and for us, we know that proper timing is crucial when selling these positions. Having being involved in venture capital for 25 years, we know that returns can be substantial if one sells an investment at the right time. For example, in our prior fund, the Advantage Life Sciences Fund, we were able to achieve a return of 23.4 times invested capital on our investment in Aspreva Pharmaceuticals. However, the converse is also true. If you try to force liquidity and sell an investment at the wrong time, you are likely to receive only cents on the dollar.

Our fund management team has developed exit strategies for each position, including sales to strategic buyers, migration to a NASDAQ listing and IPOs. Redemptions will be reinstated as soon as we have a material liquidity event in the fund. While generally markets have remained difficult for emerging technology companies, there are some signs of an improved investment climate for the sector. Recently, US capital markets have been more receptive to emerging technology companies and there have been an increasing number of IPOs.

Given the stage of development and maturity of our portfolio companies, we expect there will be natural liquidity opportunities in the coming 12 – 24 months. When we have a liquidity event, we will reinstate redemptions in the chronological order that our shares became redeemable under the Small Business Venture Capital Act. Advantage maintains detailed records on both the date of each investment made by our shareholders and the respective dates of maturity of those investments, so it is not necessary for shareholders to indicate their intention to redeem or to initiate redemption. We will be in contact with each shareholder eligible for redemption when we have a material liquidity event.

Minimizing Management and Administrative Costs

Over the past two years we have taken a number of steps to reorganize Advantage and substantially reduce management and administrative costs. We eliminated management fees in 2012 by terminating our management contract with Lions Capital Corp. and transferring management responsibilities directly to Advantage. We reduced partners from five to three in 2011 and from three to two in 2012, while reducing our support and accounting staff from six to three. We also materially reduced fund managers' salaries and moved to smaller offices in North Vancouver. Together with terminating trailer fees on matured shares, these actions reduced our administrative costs by more than $1 million per annum.

We will continue to take all appropriate measures to reduce management and administrative costs. Our budgeted costs for 2013 were 20.5% less than those same costs for 2012, and we expect a further reduction of management and administrative costs of 13.3% in 2014.

In summary, we believe that the significant progress achieved by our core portfolio companies over the past year bodes well for future exit transactions and liquidity. We are actively working with the management and boards of our portfolio companies to drive them toward liquidity events in a manner that maximizes exit values, and we are committed to returning capital to our shareholders as soon as we have the cash on hand to do so.

We wish to acknowledge and thank shareholders for your continued support and for your patience as we work through challenging financial markets to achieve liquidity in our portfolio companies in a manner that maximizes exit values and allows us to reinitiate redemptions.

Yours sincerely,

The BC Advantage Funds management team

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