Dear Advantage shareholder,

We write to update you on our progress at BC Advantage Funds. This report will focus on:

- Current market conditions for emerging technology companies in Canada;
- Recent milestones achieved by Advantage portfolio companies in advancing their technologies, products and businesses;
- An update on our liquidity strategies for the Advantage portfolio companies and for reinstating redemptions for the fund; and
- Our continuing efforts to keep management and administrative costs to a minimum so that when redemptions occur, maximum proceeds can be distributed to shareholders.

Market Conditions for Emerging Technology Companies

After a number of years of difficult markets for emerging technology companies in Canada, the initial public offering (IPO) market for technology companies is improving and liquidity is slowly returning to the sector. Due to a slump in the commodity and materials sector over the last few years, Canadian investors have been shifting their investment interest and capital into other growth sectors, including the technology area. According to a recent report by Canaccord Genuity, Canadian technology IPOs may raise as much as $400 million or more in 2014, which would be the best result for the industry in more than a decade.

On the other hand, merger and acquisition (M&A) activity in Canada has been flat to down recently, primarily due to a lack of deals in the resource sector. For example, in Q4, 2013 a total of $44 billion of M&A transactions were completed which was down 20% from the previous quarter and down 26% from the corresponding quarter in the prior year. However, M&A deal volume did increase in Q4, 2013, rising by 20% over the preceding quarter, indicating that smaller, earlier stage companies are being acquired. Reliable M&A data specifically for the Canadian technology industry is unfortunately difficult to obtain.

Advantage Structured Fund Portfolio Companies

The core holdings of the Advantage investment portfolio continue to do well overall in advancing their products and technologies, achieving important business milestones and securing additional financing to fund their growth. However, a number of these growth financings (e.g., Contech Enterprises, Endurance Wind Power and Redlen Technologies) were completed at lower prices than in previous financing rounds (so called “down rounds”) which resulted in the fund incurring significant “paper” or “unrealized” losses. In accordance with our pricing policy, upon the closing of these financings we wrote down the fair market value of our holdings in these companies to the lower value set by the price of those financings. That said, as a result of these financings and other financings carried out by our portfolio companies over the past year that were flat or a slight up-tick in valuation, our portfolio companies are now well capitalized and all have achieved a relatively mature stage of development for venture-backed companies.

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 completed an IPO on the NASDAQ market in Q1, 2014, selling its stock at US $11.00 per share and raising a total of US $53.1 million in new capital. Aquinox expects to complete two large Phase 2 trials in Chronic Obstructive Pulmonary Disease and Painful Bladder Syndrome in late 2014 or early 2015. Study endpoints for these larger trials are considered to be clinically meaningful and could provide an opportunity for a liquidity transaction at significantly higher prices.

Contech Enterprises – In fiscal 2013, Contech increased its revenues by 32% and reached revenues of $17.1 million. The company completed its biggest acquisition to date in February 2013 with the purchase of Scenery Solutions Inc. (SSI), a raised garden bed products company that added $3.8 million in revenues for the year. However, difficulties with integration of SSI and one time acquisition costs required Contech to complete a $3.3 million financing at significantly lower valuation. Advantage purchased $1.0 million of convertible debentures as part of this financing on what we believe to be very advantageous terms. We believe the company is now poised for continuing and profitable growth.

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. In Q1, 2014 Endurance produced revenues of over $14 million and material positive net income. During that quarter it also closed the final tranche of a $13 million equity financing. The Company intends to go public by carrying out an IPO on the TSX in 1H, 2015.

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 was sold to Sierra Wireless in March, 2014. Advantage expects to realize a total of approximately $3.8 million in proceeds from the sale, with about $3.5 million of this amount being received in 1H, 2014.

Mobidia – Mobidia is a mobile analytics company and launched its My Data Manager app on iPhone and Android platforms in 2011. The company' is now achieving revenues through selling mobile analytics to a number of customers such as Skype, Twitter and AT&T. Mobidia is currently in the process of raising an $8 million equity financing. Mobidia expects to achieve 11 million downloads by YE 2014 and intends to go public in 1H, 2015.

MSI Pharma - MSI Pharma is developing an extended release formulation of a widely used nutraceutical called SAMe to treat depression. In October, 2013, MSI closed a US $13.6 million financing led by Inventages, a large European venture fund. MSI is currently conducting a large (300 patient) Phase 2 trial for the treatment of depression at 34 clinical sites in the United States. Top line study results are expected in Q2, 2015. Similar to Aquinox, positive results in this trial may provide an opportunity for a liquidity transaction at significantly higher prices.

Redlen Technologies – Redlen manufactures semiconductor compounds and radiation detection modules for application in medical imaging and security markets. The company signed a 5 year supply agreement with Spectrum Dynamics in Nuclear Medicine (NM) imaging in 2013, has an active partnership with Philips in CT medical imaging, and a further partnership with Siemens in whole body NM scanners. In Q1, 2014, Redlen completed a financing of $5.8 million at significantly lower prices than its previous financing rounds. The company expects to reach $8.4 million in revenues in fiscal 2014 and achieve profitable operations by the fourth quarter, thereby eliminating the necessity of further financing rounds. Liquidity may result from an IPO or a sale transaction with a strategic industry buyer.

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. That Phase 3 trial is in process and proceeding well. The company expects to release the three month interim analysis in late Q4 2014 and 12 month data in mid H2 2015. The market will very likely respond to the company's two data releases which may provide liquidity at significantly higher prices.

Achieving Liquidity and Re-instating Redemptions

Achieving liquidity in our investments is accomplished through our portfolio companies going public or completing M&A sale transactions. As noted earlier in this report, the financial markets for emerging Canadian technology companies are improving, albeit slowly, and we are hopeful that we will see more IPOs, such as Aquinox Pharmaceuticals, and more M&A sale transactions, such as In Motion Technology, in the coming year.

While the delay in achieving liquidity is frustrating for our shareholders, and for us, we know that proper timing is crucial when selling these investment positions. Our fund management team has developed appropriate exit strategies for each position, including sales to strategic buyers, migration to NASDAQ stock market listings and other IPOs. Redemptions will be reinstated as soon as we achieve material liquidity in the fund.

When we have material liquidity, 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 contact us to indicate their intention to redeem or to initiate redemption. We will be in contact with each shareholder eligible for redemption when we reinstate redemptions.

Minimizing Management and Administrative Costs

Over the past 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.

Earlier this year, in response to a requirement of the BC Securities Commission ("BCSC"), we announced that we had filed an application with the BCSC to register BC Advantage Fund Management Inc. as an investment fund manager and a restricted portfolio manager and had retained that company as our Fund Manager. While managing Advantage directly since 2012 has saved money for our shareholders by reducing fund administrative costs, following a number of discussions with the BCSC, it became clear that the BCSC would require Advantage to hire a registered third party fund manager. We complied with that requirement by filing application to register BC Advantage Fund Management Inc. as our Fund Manager, and have done so in a manner that minimizes the impact on administrative costs.

We will continue to take all appropriate measures to reduce management and administrative costs. Our operating costs for 2013 were 18.7% less than those same costs for 2012, and we expect a further reduction of management and administrative costs of 22.3% in 2014.

In summary, we believe that the significant progress achieved by our core portfolio companies bodes well for future IPOs, sale transactions and liquidity. We are actively working with the management teams 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 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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