May 1, 2015

Dear Advantage shareholders,

As with our prior reports, this update report will focus on progress at BC Advantage Funds on key issues of importance to our shareholders, namely:

- Current market conditions for emerging technology companies in Canada;
- Recent achievements by Advantage portfolio companies in advancing their technologies, products and businesses;
- An update on the liquidity strategies for Advantage portfolio companies and for reinstating redemptions for the fund; and
- Our continuing efforts to reduce management and administrative costs 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 post the 2008 – 2009 financial crisis and recession, market experts are anticipating an improved initial public offering (IPO) market in 2015 for Canadian technology companies. The ongoing slump in the energy and mining sector has caused investors to shift their investment capital into other growth sectors, including the technology area. According to an article by Thomson Reuters in March 2015, while there were only three Canadian technology IPOs in 2014 raising just $193 million (as compared to 12 in 2006 worth $1.4 billion), the sectoral shift away from energy and mining combined with recent strong demand for US technology IPOs suggests that we may see the most significant volume of Canadian tech IPOs in over a decade.

Merger and acquisition (M&A) activity in Canada is also expected to build in 2015. Reliable M&A data for the Canadian technology industry is unfortunately difficult to obtain, however, an M&A Outlook Survey by KPMG in the US showed that 82% of companies expect to make at least one acquisition in 2015, with the technology sector anticipated to be one of the most active sectors and the United States and Canada being two of most attractive regions for M&A investment.

Both trends described above should assist BC Advantage Funds as we work to achieve liquidity in our portfolio positions, both through Canadian/ US IPOs and through M&A sales to strategic industry buyers.

Advantage Structured Fund Portfolio Companies

The remaining holdings of the Advantage investment portfolio are generally continuing to advance their products and technologies, achieve important business milestones and secure additional financing to fund their growth. Our portfolio companies are, with one exception, all 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 2014, selling its common stock at US $11.00 per share and raising US $53 million in new capital. Aquinox launched two new Phase 2 trials in chronic rhinosinusitis and atopic dermatitis during the past year and expects to complete its two earlier and larger Phase 2 trials in Chronic Obstructive Pulmonary Disease (COPD) and Painful Bladder Syndrome (PBS) in mid-2015. Study endpoints for these trials are considered to be very meaningful from a clinical perspective and, if positive, could provide an opportunity for significantly higher share prices.

Endurance Wind Power – Endurance Wind Power has two divisions: a wind turbine division which designs, manufactures and sells "distributed wind" turbines; and an energy services division that produces and sells power generated by installing and running its own turbines. In 2014, Endurance achieved revenues of $52 million which was up 77% from 2013, however, profitability was well below budgeted levels. At year-end, the company had 18 wholly-owned and 33 joint venture turbines in its energy services division.

Mobidia – Mobidia is a mobile device analytics company and launched its My Data Manager app on iPhone and Android platforms in 2011. The company is now achieving significant revenues through the sale of mobile analytics data to a number of customers such as Skype, Twitter and AT&T. Mobidia has entered into an agreement with a US based strategic buyer whereby the buyer will acquire all of the issued and outstanding shares of Mobidia for cash and common shares of the acquirer. The transaction is expected to close in May 2015.

MSI Pharma - MSI Pharma is developing an extended release formulation of a widely used nutraceutical called SAMe to treat depression. 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 Q3, 2015. Similar to Aquinox, positive results in this important trial may provide an opportunity for a liquidity transaction and significantly higher share prices.

Recombo – Recombo sells a Software-as-a-Service (SaaS) application called *Agreement Express* for rapid customer onboarding, primarily for the North American financial services industry. The solution enables companies to process a high volume of contracts and execute them quickly and accurately via a web-based platform. In 2014, revenue increased by 18% to $4.0 million and forecast revenue for 2015 is $5.4 million. The company is profitable and has strong cash balances and working capital. Liquidity on this investment will likely be achieved via sale of the company to a strategic industry buyer.

Redlen Technologies – Redlen manufactures semiconductor compounds and radiation detection modules for application in medical imaging and security markets. In 2014, Redlen completed equity financing totaling $7.5 million, although at significantly lower prices than its previous financing rounds, and is currently raising an additional $3.0 million of capital at an approximate 10% premium to the 2014 rounds. The company expects to reach $10+ million in revenues in 2015 and achieve profitable operations by the fourth quarter. Liquidity will likely result from an IPO or a sale transaction to a strategic industry buyer.

Sophiris Bio – Sophiris is developing a targeted drug therapy for the treatment of BPH (Enlarged Prostate) and prostate cancer. The company expects to complete its first Phase 3 trial in BPH and release top-line results by year-end 2015. Siphiris has also initiated a Phase 2 proof of concept clinical study for the treatment of focal (very early stage) prostate cancer. The results from this Open Label trial are also expected by the end of the year. The market will very likely respond to the company's two data releases on these clinical trials which may allow for liquidity at significantly higher prices.

Venturi Ventures – Venturi was previously a publicly-listed company called Urodynamix Technologies which sold its medical device assets and reorganized itself as a technology acquisition company. Venturi has entered into a binding plan of arrangement to acquire Medna Biosciences Ltd. through a reverse takeover or RTO. Liquidity on Advantage's shares in Venturi will be achieved through their sale on the public markets once the acquisition of Medna is completed.

The Advantage portfolio did suffer the loss of one of its core holdings, Contech Enterprises, over the past year. Contech had been growing rapidly in recent years, reaching $18 million in revenues in 2014. The significant growth in Contech's business, however, was not accompanied by matching growth in the company's credit facilities and in late 2014 the company was forced to place itself into creditor protection. The Supreme Court of BC approved Contech's reorganization plan on January 26, 2015 but, in a stunning reversal, the Court of Appeal overturned the Supreme Court's approval of Contech's proposal and put the company into bankruptcy. This was terrible news for Contech, especially because the 2015 sales season was starting out quite strongly (beating budgeted sales forecasts even while the company was in creditor protection), its recently discovered bed bug aggregation hormone had attracted significant interest from strategic buyers and a US based lending group was ready to provide a $6M operating facility as soon as the reorganization process was completed. All of Contech's assets are now vested in the Bankruptcy Trustee. Our ability to realize any significant value from our investment in Contech will likely be jeopardized by this Court decision.

<u>Achieving Liquidity and Re-instating Redemptions</u>

Achieving liquidity in our investments is accomplished through our portfolio companies completing either an initial public offering (IPO) or an M&A sale transaction. During 2014, Advantage engaged a secondary market advisory firm based in New York to assist us, on a strictly success fee basis, in achieving portfolio liquidity. Amongst other things, this firm specializes in portfolio divestitures and tail-end fund divestitures to secondary funds and other buyers. Advantage worked with the advisory firm for a number of months in 2014, however, the firm was not able to attract any potential buyers for the Advantage Structured Fund portfolio.

We then asked this group to focus on achieving divestitures for several individual portfolio companies that they felt may be attractive to their buyers. While there was interest in several companies, in particular Recombo from a NY-based financial services private equity firm, no divestiture transactions were completed by this advisory firm, highlighting the difficulty of achieving secondary sales of private equity within a small, unspecialized (i.e., various tech sectors) portfolio such as that held by Advantage.

As noted earlier in this report, the financial markets for emerging Canadian technology companies are showing improvement in 2015, and we are hopeful that we will see more IPOs, such as Aquinox Pharmaceuticals achieved in 2014, and more M&A sale transactions, such as that in process with Mobidia, 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 workable exit strategies for each position, including sales to strategic buyers and TSX or NASDAQ stock market listings. 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 5 to 3 in 2011, from 3 to 2 in 2012, and to 1 in 2015. We also have reduced our support and accounting staff from 6 to 2 over this period, materially reduced fund managers' salaries and moved to smaller offices in North Vancouver.

In 2014, 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 registering 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 2014 were 16% less than those for 2013, and we expect a further reduction of management and administrative costs in 2015.

In summary, we believe that the 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 reinstate redemptions.

Yours sincerely,
The BC Advantage Funds management team

Frank Holler
Chairman & CEO

Ambrose Hong
Chief Financial Officer