

Financial Statements of

B.C. ADVANTAGE FUNDS (VCC) LTD.

Years ended December 31, 2006 and 2005

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

B.C. Advantage Funds (VCC) Ltd.:
Advantage Venture Fund
Advantage Technology Fund (formerly named B.C. Tech Fund)
Advantage Life Science Fund (formerly named Life Science Venture Fund)
(collectively, the Funds)

The accompanying financial statements of the Funds have been prepared by the Fund Manager, Lions Capital Corp. (formerly named Mentor Capital Inc.) The Fund Manager is responsible for the preparation and presentation of the Funds' financial statements and for the development of internal controls over the financial reporting process.

The Board of Directors of B.C. Advantage Funds (VCC) Ltd. is responsible for reviewing and approving the financial statements and for overseeing the Fund Manager's performance of its financial reporting responsibilities. The Board of Directors has approved the accompanying financial statements of the Funds.

KPMG LLP, the external auditors of the Funds, was appointed by the Board of Directors. As explained in their auditors' report, KPMG LLP has audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their auditors' report follows.

Lions Capital Corp.

"Frank Holler"

Chief Executive Officer

"Tanner Philp"

Chief Financial Officer

March 2, 2007



KPMG LLP
Chartered Accountants
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AUDITORS' REPORT TO THE SHAREHOLDERS

B.C. Advantage Funds (VCC) Ltd.:
Advantage Venture Fund
Advantage Technology Fund (formerly named B.C. Tech Fund)
Advantage Life Science Fund (formerly named Life Science Venture Fund)
(collectively, the Funds)

We have audited the statements of investment portfolio of the Funds as at December 31, 2006, their statements of net assets as at December 31, 2006 and 2005, and their statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund Manager. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Fund Manager, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the investment portfolios of the Funds as at December 31, 2006, their net assets as at December 31, 2006 and 2005, and the results of their operations, changes in their net assets and their cash flows for the years then ended, all in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

March 2, 2007

ADVANTAGE VENTURE FUND

Statements of Net Assets

December 31, 2006 and 2005

	2006	2005
Assets		
Venture investments, at fair value	\$ 16,825,222	\$ 9,281,107
Cash and cash equivalents	7,626,876	7,415,086
Restricted cash (note 6)	3,365,494	3,560,454
Inter-fund receivable (note 8(b))	-	222,430
Total assets	27,817,592	20,479,077
Liabilities		
Accounts payable and accrued liabilities	39,399	40,560
Inter-fund payable (note 8(b))	41,643	-
Due to related parties (note 9)	315,550	153,000
Total liabilities	396,592	193,560
Net assets , representing shareholders' equity	\$ 27,421,000	\$ 20,285,517
Number of common shares outstanding (note 7)	3,449,738	2,397,335
Net asset value per common share	\$ 7.95	\$ 8.46

Commitments (notes 7(c) and 10)

Contingency (note 11)

See accompanying notes to financial statements.

On behalf of the Board of Directors:

"Frank Holler" _____ Director

"Don Rix" _____ Director

ADVANTAGE VENTURE FUND

Statements of Operations

Years ended December 31, 2006 and 2005

	2006	2005
Investment income:		
Interest	\$ 457,518	\$ 256,482
Other income	11,061	-
	<u>468,579</u>	<u>256,482</u>
Expenses (note 9):		
Management fees	747,116	476,783
Administration	425,305	252,982
Trailer fees	136,025	101,866
	<u>1,308,446</u>	<u>831,631</u>
Net investment loss	(839,867)	(575,149)
Change in unrealized appreciation/depreciation of venture investments	<u>(1,239,135)</u>	<u>311,119</u>
Loss from operations before income taxes	(2,079,002)	(264,030)
Income taxes recovery (note 8(c))	357,103	222,430
Loss from operations	<u>\$ (1,721,899)</u>	<u>\$ (41,600)</u>
Loss from operations per common share	<u>\$ (0.56)</u>	<u>\$ (0.02)</u>

See accompanying notes to financial statements.

ADVANTAGE VENTURE FUND

Statements of Changes in Net Assets

Years ended December 31, 2006 and 2005

	2006	2005
Net assets, beginning of year	\$ 20,285,517	\$ 10,522,392
Loss from operations	(1,721,899)	(41,600)
Capital transactions (note 7):		
Issuance of common shares	9,681,920	6,150,937
Share issue costs including sales commissions	(808,198)	(604,210)
Redemption of common shares	(16,340)	(42,213)
Transfer from Advantage Technology Fund	-	4,300,211
	8,857,382	9,804,725
Increase in net assets	7,135,483	9,763,125
Net assets, end of year	\$ 27,421,000	\$ 20,285,517

See accompanying notes to financial statements.

ADVANTAGE VENTURE FUND

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Loss from operations	\$ (1,721,899)	\$ (41,600)
Change in unrealized appreciation of venture investments	1,239,135	(311,119)
Net change in non-cash operating accounts	425,462	(194,012)
	(57,302)	(546,731)
Investments:		
Purchase of venture investments	(8,783,250)	(7,563,796)
Restricted cash	194,960	(555,185)
	(8,588,290)	(8,118,981)
Financing (note 7):		
Issuance of common shares	9,681,920	6,150,937
Share issue costs including sales commissions	(808,198)	(604,210)
Redemption of common shares	(16,340)	(42,213)
Transfer from Advantage Technology Fund	-	4,300,211
	8,857,382	9,804,725
Increase in cash and cash equivalents	211,790	1,139,013
Cash and cash equivalents, beginning of year	7,415,086	6,276,073
Cash and cash equivalents, end of year	\$ 7,626,876	\$ 7,415,086

See accompanying notes to financial statements.

ADVANTAGE VENTURE FUND

Statement of Investment Portfolio

December 31, 2006

	Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Publicly-traded investments:				
Allon Therapeutics Inc.				
2,238,095 common shares	\$ 2,000,000	\$ 2,014,286	\$ 14,286	12%
625,000 purchase warrants	-	-	-	-
IP Applications Corp.				
666,666 common shares	300,000	206,666	(93,334)	1
333,333 purchase warrants	-	-	-	-
Urodynamix Technologies Ltd.				
13,332,000 common shares	1,333,200	1,733,160	399,960	10
3,333,000 purchase warrants	-	-	-	-
Medical Ventures Corp.				
2,958,333 common shares	1,050,000	680,417	(369,583)	4
312,500 purchase warrants	-	-	-	-
Protox Therapeutics Inc.				
4,229,091 common shares	2,050,000	2,114,546	64,546	13
3,000,000 purchase warrants	-	-	-	-
Vigil Health Solutions Inc.				
3,500,000 common shares	350,000	87,500	(262,500)	1
Voice Mobility International Inc.				
2,500,000 common shares	1,500,000	1,050,000	(450,000)	6
1,250,000 purchase warrants	-	-	-	-
Total publicly-traded investments	8,583,200	7,886,575	(696,625)	47
Privately-held investments:				
Aquinox Pharmaceuticals Inc.				
Convertible debt, unsecured, non-interest bearing with no fixed term of repayment, convertible at the earlier of the Company obtaining qualified financing or June 28, 2008	500,000	500,000	-	3
Celeres Systems Inc.				
Secured debt, non-interest bearing repayable upon sale of company or beginning January 30, 2007	800,000	-	(800,000)	-
2,153,548 common shares	-	-	-	-
Galeforce Solutions Inc.				
15,625,000 common shares	750,000	750,000	-	4
7,812,500 Purchase warrants	-	-	-	-
Inimex Pharmaceuticals Inc.				
1,225,010 preferred shares	500,000	500,000	-	3
Convertible debt, secured by company's assets, bearing interest at 12% per annum, repayable on June 29, 2007, convertible at any time	200,000	200,000	-	1
Mobidia Technology Inc.				
1,195,286 preferred shares	1,500,000	1,613,636	113,636	10
52,404 common shares	-	-	-	-
370,371 purchase warrants	-	-	-	-
NxtGen Emission Controls Inc.				
1,760,274 preferred shares	1,000,000	1,056,165	56,165	6
OncoGenex Technologies Inc.				
244,593 preferred shares	913,846	913,846	-	5
Phero Tech International Inc.				
5,666,666 common shares	1,100,000	1,275,000	175,000	8
3,333,333 purchase warrants	-	-	-	-
Sirius Genomics Inc.				
2,200,000 common shares	1,850,000	2,130,000	280,000	13
Vectis Technologies Inc.				
500,000 common shares	100,000	-	(100,000)	-
Total privately-held investments	9,213,846	8,938,647	(275,199)	53
Total investment portfolio	\$ 17,797,046	\$ 16,825,222	\$ (971,824)	100%

See accompanying notes to financial statements.

ADVANTAGE TECHNOLOGY FUND

Statements of Net Assets

December 31, 2006 and 2005

	2006	2005
Assets		
Venture investments, at fair value	\$ 3,914,848	\$ 3,094,316
Cash and cash equivalents	1,114,463	1,312,086
Restricted cash (note 6)	582,000	658,813
Inter-fund receivable (note 8(b))	-	55,608
Total assets	5,611,311	5,120,823
Liabilities		
Accounts payable and accrued liabilities	6,450	9,719
Inter-fund payable (note 8(b))	31,666	-
Due to related parties (note 9)	62,726	28,138
Accrued equity participation (note 7(c))	322,960	-
Total liabilities	423,802	37,857
Net assets , representing shareholders' equity	\$ 5,187,509	\$ 5,082,966
Number of common shares outstanding (note 7)	507,359	505,817
Net asset value per common share	\$ 10.22	\$ 10.05

Commitments (notes 7(c) and 10)

Contingency (note 11)

Subsequent events (note 12)

See accompanying notes to financial statements.

On behalf of the Board of Directors:

“Frank Holler” _____ Director

“Don Rix” _____ Director

ADVANTAGE TECHNOLOGY FUND

Statements of Operations

Years ended December 31, 2006 and 2005

	2006	2005
Investment income:		
Interest	\$ 74,615	\$ 98,647
Other	3,558	-
	<u>78,173</u>	<u>98,647</u>
Expenses (note 9):		
Management fees	147,999	173,342
Administration	113,350	72,113
Trailer fees	26,467	42,957
	<u>287,816</u>	<u>288,412</u>
Net investment loss	(209,643)	(189,765)
Change in unrealized appreciation of venture investments	570,532	688,138
Equity participation accrued on unrealized gains (notes 7(c) and 9)	(322,960)	-
Income from operations before income taxes	37,929	498,373
Income taxes recovery (note 8(c))	68,020	55,608
Income from operations	<u>\$ 105,949</u>	<u>\$ 553,981</u>
Income from operations per common share	<u>\$ 0.21</u>	<u>\$ 0.89</u>

See accompanying notes to financial statements.

ADVANTAGE TECHNOLOGY FUND

Statements of Changes in Net Assets

Years ended December 31, 2006 and 2005

	2006	2005
Net assets, beginning of year	\$ 5,082,966	\$ 8,842,156
Income from operations	105,949	553,981
Capital transactions (note 7):		
Issuance of common shares	-	20,500
Share issue costs including sales commissions	-	(2,122)
Redemption of common shares	(1,406)	(31,338)
Transfer to Advantage Venture Fund	-	(4,300,211)
	(1,406)	(4,313,171)
Increase (decrease) in net assets	104,543	(3,759,190)
Net assets, end of year	\$ 5,187,509	\$ 5,082,966

See accompanying notes to financial statements.

ADVANTAGE TECHNOLOGY FUND

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Income from operations	\$ 105,949	\$ 553,981
Change in unrealized appreciation of venture investments	(570,532)	(688,138)
Equity participation accrued on unrealized gains	322,960	-
Net change in non-cash operating accounts	118,593	(119,793)
	(23,030)	(253,950)
Investments:		
Purchase of venture investments	(250,000)	(1,300,050)
Restricted cash	76,813	2,241,160
	(173,187)	941,110
Financing (note 7):		
Issuance of common shares	-	20,500
Share issue costs including sales commissions	-	(2,122)
Redemption of common shares	(1,406)	(31,338)
Transfer to Advantage Venture Fund	-	(4,300,211)
	(1,406)	(4,313,171)
Decrease in cash and cash equivalents	(197,623)	(3,626,011)
Cash and cash equivalents, beginning of year	1,312,086	4,938,097
Cash and cash equivalents, end of year	\$ 1,114,463	\$ 1,312,086

See accompanying notes to financial statements.

ADVANTAGE TECHNOLOGY FUND

Statement of Investment Portfolio

December 31, 2006

	Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Publicly-traded investments:				
IP Applications Corp. 444,444 common shares 222,222 purchase warrants	\$ 200,000 -	\$ 137,778 -	\$ (62,222) -	3% -
Visiphor Corporation 1,055,555 common shares	400,000	137,222	(262,778)	3
Total publicly-traded investments	600,000	275,000	(325,000)	6
Privately-held investments:				
Brightside Technologies Inc. 106,021 common shares	325,000	662,631	337,631	17
Galeforce Solutions Inc. 2,083,336 preferred shares 1,041,668 purchase warrants	100,000 -	100,000 -	- -	3 -
MetroBridge Networks Corp. 2,393,705 common shares	500,000	1,077,167	577,167	28
Paradigm Environmental Technologies Inc. 77,400 preferred shares	250,000	250,000	-	6
Parasun Technologies Inc. 1,250,000 preferred shares	500,000	1,200,000	700,000	31
Recombo Inc. 1,923,461 common shares	250,050	250,050	-	6
Sensific Technologies Inc. 20,000 common shares	100,000	100,000	-	3
Total privately-held investments	2,025,050	3,639,848	1,614,798	94
Total investment portfolio	\$ 2,625,050	\$ 3,914,848	\$ 1,289,798	100%

See accompanying notes to financial statements.

ADVANTAGE LIFE SCIENCE FUND

Statements of Net Assets

December 31, 2006 and 2005

	2006	2005
Assets		
Venture investments, at fair value	\$ 1,078,427	\$ 3,995,163
Cash and cash equivalents	2,893,775	1,652,258
Inter-fund receivable (note 8(b))	73,309	-
Total assets	4,045,511	5,647,421
Liabilities		
Inter-fund payable (note 8(b))	-	278,038
Due to related parties (note 9)	55,265	40,566
Accrued equity participation (note 7(c))	64,546	578,657
Future income taxes (note 8(a))	-	512,943
Total liabilities	119,811	1,410,204
Net assets , representing shareholders' equity	\$ 3,925,700	\$ 4,237,217
Number of common shares outstanding (note 7)	183,226	183,226
Net asset value per common share	\$ 21.43	\$ 23.13

Commitments (notes 7(c) and 10)

Contingency (note 11)

Subsequent events (note 12)

See accompanying notes to financial statements.

On behalf of the Board of Directors:

"Frank Holler" Director

"Don Rix" Director

ADVANTAGE LIFE SCIENCE FUND

Statements of Operations

Years ended December 31, 2006 and 2005

	2006	2005
Investment income:		
Interest	\$ 103,020	\$ 7,305
Other	1,245	52,842
	104,265	60,147
Expenses (note 9):		
Equity participation (note 7(c))	559,468	444,516
Administration	205,438	167,160
Management fees	50,400	50,400
	815,306	662,076
Net investment loss	(711,041)	(601,929)
Realized gain on sale of venture investments (see below)	2,078,224	1,582,297
Change in unrealized appreciation/depreciation of venture investments	(2,280,630)	1,433,067
Change in equity participation accrued on unrealized gains (notes 7(c) and 9)	514,111	(578,657)
Income (loss) from operations before income taxes	(399,336)	1,834,778
Income taxes expense (recovery) (note 8(c)):		
Current	425,124	278,038
Future	(512,943)	512,943
	(87,819)	790,981
Income (loss) from operations	\$ (311,517)	\$ 1,043,797
Income from operations per common share	\$ (1.70)	\$ 5.70
Realized gain on sale of venture investments:		
Proceeds from sale of venture investments	\$ 2,934,879	\$ 2,338,897
Cost of venture investments sold:		
Venture investments at cost, beginning of year	2,562,096	-
Venture investments acquired upon acquisition (note 4)	-	3,117,791
Purchase of investments, during the year	220,549	200,905
Venture investments at cost, end of year	(1,925,990)	(2,562,096)
	856,655	756,600
Realized gain on sale of venture investments	\$ 2,078,224	\$ 1,582,297

See accompanying notes to financial statements.

ADVANTAGE LIFE SCIENCE FUND

Statements of Changes in Net Assets

Years ended December 31, 2006 and 2005

	2006	2005
Net assets, beginning of year	\$ 4,237,217	\$ -
Income (loss) from operations	(311,517)	1,043,797
Capital transactions (note 7):		
Issuance of common shares on acquisition (note 4)	-	3,193,420
Increase (decrease) in net assets	(311,517)	4,237,217
Net assets, end of year	\$ 3,925,700	\$ 4,237,217

See accompanying notes to financial statements.

ADVANTAGE LIFE SCIENCE FUND

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Income (loss) from operations	\$ (311,517)	\$ 1,043,797
Realized gain on sale of venture investment	(2,078,224)	(1,582,297)
Change in unrealized appreciation of venture investments	2,280,630	(1,433,067)
Change in equity participation accrued on unrealized gains	(514,111)	578,657
Future income taxes	(453,649)	512,943
Net change in non-cash operating accounts	(395,942)	184,698
	(1,472,813)	(695,269)
Investments:		
Purchase of venture investments	(220,549)	(200,905)
Proceeds from sale of venture investments	2,934,879	2,338,897
Cash acquired upon acquisition (note 4)	-	168,389
Restricted cash acquired upon acquisition (note 4)	-	41,146
	2,714,330	2,347,527
Increase in cash and cash equivalents	1,241,517	1,652,258
Cash and cash equivalents, beginning of year	1,652,258	-
Cash and cash equivalents, end of year	\$ 2,893,775	\$ 1,652,258
Non-cash transactions:		
Common shares issued for acquisition (note 4)	\$ -	\$ 3,193,420

See accompanying notes to financial statements.

ADVANTAGE LIFE SCIENCE FUND

Statement of Investment Portfolio

December 31, 2006

	Cost	Fair value	Unrealized gain or (loss)	Percentage of total portfolio at fair value
Publicly-traded investments:				
Protox Therapeutics Inc. 1,245,455 common shares 50,000 purchase warrants	\$ 920,546 -	\$ 622,728 -	\$ (297,818) -	58% -
Vigil Health Solutions Inc. 4,766,665 common shares	430,333	119,167	(311,166)	11
Total publicly-traded investments	1,350,879	741,895	(608,984)	69
Privately-held investments:				
OncoGenex Technologies Inc. 90,223 preferred shares	325,000	336,532	11,532	31
Protiva Biotherapeutics Inc. 83,333 preferred shares	250,111	-	(250,111)	-
Total privately-held investments	575,111	336,532	(238,579)	31
Total investment portfolio	\$ 1,925,990	\$ 1,078,427	\$ (847,563)	100%

See accompanying notes to financial statements.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2006 and 2005

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 three distinct investment funds: the Advantage Venture Fund, the Advantage Technology Fund (formerly named the B.C. Tech Fund) and the Advantage Life Science Fund (formerly named the Life Science Venture Fund) (collectively, the Funds). The Advantage Venture Fund invests in early stage technology and life sciences companies. The Advantage Technology Fund invests in early stage technology companies, and the Advantage Life Science Fund invests in early stage life sciences companies. The Company may add additional investment funds in the future.

Investors' funds are invested directly in common shares of one or some combination of the Funds. The various classes of common shares 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, formerly named Mentor Capital Inc.) in accordance with the terms of a management agreement dated May 1, 2003, as amended October 31, 2003 and September 30, 2006 (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).

(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.

(i) Publicly-traded:

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

(ii) Privately-owned:

The fair values of investments in portfolio companies for which no published market exists are recorded at estimated fair values. Fair value of these types of investments is 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.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2006 and 2005

2. Significant accounting policies (continued):

(b) Venture investments (continued):

(ii) Privately-owned (continued):

Investments are initially recorded at 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 used 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 equity 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.

The Company files an income tax return that encompasses all three 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.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2006 and 2005

2. Significant accounting policies (continued):

(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.

(g) Per common share values:

Net asset value 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.

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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.

(i) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

3. Future accounting changes:

The Canadian Institute of Chartered Accountants has issued Handbook Section 3855, "Financial Instruments - Recognition and Measurement" (S3855) which applies to fiscal years beginning on or after October 1, 2006. The adoption of S3855 will impact the calculation of the net asset value of the Fund for financial reporting purposes because it will require publicly-traded investments to be valued using bid prices rather than the last sale price as is the current accounting policy of the Funds. The impact of adopting the amended valuation policy is not expected to be material to the financial statements.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2006 and 2005

3. Future accounting changes (continued):

S3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Funds, be charged to income from operations in the period incurred. Typically, given the nature of the Fund's investments, such transaction costs have not been material and are not expected to be material in the future.

The requirements of S3855 will be implemented by the Fund on a prospective basis effective January 1, 2007.

4. Advantage Life Science Fund:

On July 29, 2004, the Board of Directors of the Company approved a resolution authorizing a plan of arrangement with Qwest Emerging Biotech (VCC) Fund Ltd. (Qwest), pursuant to which all of the issued and outstanding common shares of Qwest were exchanged for the Company's Advantage Life Science Fund (at the time named the Life Science Venture Fund) common shares. This plan of arrangement was completed on January 5, 2005, on which date the Company acquired 100 percent of the net assets of Qwest, and exchanged the outstanding common shares of Qwest for Advantage Life Science Fund common shares. The results of Qwest's operations have been included in these financial statements since that date. Qwest was a VCC fund that invested in early stage life sciences companies that were eligible under the SBVCA, and this investment objective has not changed.

The aggregate purchase price of \$3,193,420 was based on the fair value of the net assets of Qwest at the time of acquisition. The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition:

	2005
Venture investments	\$ 3,117,791
Cash	168,389
Restricted cash	41,146
Accounts payable and accrued liabilities	(133,906)
Net assets	\$ 3,193,420

5. Fees and expenses:

In accordance with the Management Agreement, the Fund Manager is entitled to receive management fees equal to 2.75% of the net asset value of the respective Fund, calculated and paid monthly. 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. In practice, the Fund Manager uses the management fees it receives to pay the operating expenses of the Funds, and only seeks reimbursement for any operating expenses incurred in excess of the management fees. Management fees received by the Fund Manager are first used to pay executive compensation, then professional fees, then shareholder communications expenses and finally general and administrative expenses. The Fund Manager has adopted this policy to reduce the overall cost structure of the Funds, and is under no obligation to continue this policy. The amount of operating expenses reimbursed by the Fund will vary from period to period. Expenses to be reimbursed by the Funds are allocated monthly based on the respective net asset values of the Funds on the last day of the month.

B.C. ADVANTAGE FUNDS (VCC) LTD.

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6. 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 in an amount equal to 30% of the funds raised. As investments in eligible businesses are subsequently made, a drawdown from the investment protection account, 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 investment protection account.

7. Share capital:

(a) Authorized:

19,000,000,000 common shares divided into 19 classes of common shares; each class having an authorized share capital of 1,000,000 common shares

1,000,000,000 equity participating shares

(b) Issued:

The following table summarizes the issued capital of the Funds:

	Advantage Venture Fund		Advantage Technology Fund		Advantage Life Science Fund	
	Common shares	Equity participation shares	Common shares	Equity participation shares	Common shares	Equity participation shares
Balances, December 31, 2004	1,227,753	3,000,000	999,167	3,000,000	-	-
Issued for cash	680,015	-	2,050	-	-	-
Issued on acquisition (note 4)	-	-	-	-	183,226	-
Reallocation of equity participation shares	-	-	-	(1,500,000)	-	1,500,000
Redeemed	(5,208)	-	(625)	-	-	-
Transfer ⁽¹⁾	494,775	-	(494,775)	-	-	-
Balances, December 31, 2005	2,397,335	3,000,000	505,817	1,500,000	183,226	1,500,000
Issued	1,054,175	-	1,667 ⁽²⁾	-	-	-
Redeemed	(1,772)	-	(125)	-	-	-
Balances, December 31, 2006	3,449,738	3,000,000	507,359	1,500,000	183,226	1,500,000

⁽¹⁾ On April 8, 2005, the Company executed a strategic agreement to transfer approximately \$5,000,000 in gross proceeds, less share issue costs and sales commissions, from the Advantage Technology Fund to the Advantage Venture Fund. This transfer was accomplished by exchanging Advantage Technology Fund common shares for Advantage Venture Fund common shares based on the pricing net asset values of the respective Funds at the date the strategic agreement was executed. As the pricing net asset values per share of the respective Funds on the date of exchange were equal, 494,775 shares of the Advantage Technology Fund were exchanged for the same number of shares of the Advantage Venture Fund. In total, gross subscriptions of \$4,929,716 less share issue costs and sales commissions of \$629,505 were transferred from the Advantage Technology Fund to the Advantage Venture Fund. As permitted by the Funds' prospectus, the transfer was approved by resolution of the Board of Directors.

⁽²⁾ In December 2006, it was discovered that one of the investment officers of the Advantage Technology Fund was misallocated units pursuant to his purchase of Advantage Technology Fund shares in 2003 for cash consideration. Upon discovery, the investment officer was allocated an additional 1,667 shares. The Fund Manager has determined that the correction did not have a material impact to the Advantage Technology Fund.

B.C. ADVANTAGE FUNDS (VCC) LTD.

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Years ended December 31, 2006 and 2005

7. Share capital (continued):

(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.

Advantage Venture Fund

For the years ended December 31, 2006 and 2005, no equity participation has been accrued or paid.

Advantage Technology Fund

At December 31, 2006, the Advantage Technology Fund has a compound rate of return that exceeds 8% per year and its venture investments in Brightside Technologies Inc., MetroBridge Networks Corp. and Parasun Technologies Inc. have achieved an unrealized compound rate of return exceeding 10% per year. Accordingly, as at December 31, 2006, the Advantage Technology Fund has accrued equity participation of \$322,960 (2005 - nil) on the unrealized gains related to venture investments. The actual payments and amount of any equity participation is contingent upon both the realization of gains by the Advantage Technology Fund and the continued achievement of the rate of return criteria set out above as at the date of realization.

Advantage Life Science Fund

As described in note 4, on January 5, 2005, the Company acquired 100 percent of the net assets of Qwest in exchange for all of the outstanding common shares of the Advantage Life Science Fund.

For the purpose of calculating performance threshold criteria and the Fund Manager's equity participation, the pre-acquisition historical costs of Qwest's venture investments are used.

B.C. ADVANTAGE FUNDS (VCC) LTD.

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Years ended December 31, 2006 and 2005

7. Share capital (continued):

(c) Equity participation (continued):

The original costs of Qwest's venture investments that are still held by the Advantage Life Science Fund, are as follows:

Protox Therapeutics Inc. 1,145,455 common shares	\$ 250,000
Vigil Health Solutions Inc. 2,266,665 common shares	250,000
OncoGenex Technologies Inc. 90,233 preferred shares	400,000
Protiva Biotherapetucs Inc. 83,333 preferred shares	250,000
Total remaining venture investments at Qwest's original historical cost	\$ 1,150,000

During 2006, the Advantage Life Science Fund sold its remaining holdings of Aspreva Pharmaceuticals Inc. (Aspreva) for gross proceeds of \$2,930,808 (including the sale of 4,317 common shares acquired upon exercise of purchase warrants for a cost of \$20,549) and a net realized gain of \$2,797,340, based on the original cost. As at December 31, 2006, the Advantage Life Science Fund no longer holds any investment in Aspreva.

As the performance criteria for the equity participation shares were met, a dividend was paid in 2006 on the equity participation shares to the Fund Manager equal to \$559,468 (2005 - \$444,516). In accordance with GAAP for stock-based compensation and other stock-based payments, this dividend has been reflected as equity participation expense in the statement of operations.

At December 31, 2006, the Advantage Life Science Fund continues to have a compound rate of return that exceeds 8% per year and its venture investment in Protox Therapeutics Inc. has achieved an unrealized compound rate of return exceeding 10% per year based on the pre-acquisition historical cost. Accordingly, as at December 31, 2006, the Advantage Life Science Fund has accrued equity participation of \$64,546 (2005 - \$578,657) on the unrealized gains related to venture investments. The actual payments and amount of any equity participation is contingent on both the realization of gains by the Advantage Life Science Fund and the continued achievement of the rate of return criteria set out above as at the date of realization.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2006 and 2005

7. Share capital (continued):

(d) Pricing net asset value per common share:

Subscriptions and redemptions of the Funds are transacted at the pricing net asset value per share of the respective Fund. The pricing net asset value per share is a non-GAAP financial measure that is comprised of the net asset value per share as determined under GAAP plus any unamortized sales commissions and share issue costs. Because pricing net asset value per share is a non-GAAP financial measure that does not have any standardized meaning prescribed by GAAP, it may not be comparable to similar measures presented by other Funds.

The following is a reconciliation of net asset value and net asset value per common share determined in accordance with GAAP to Pricing net asset value and pricing net asset value per share:

	Advantage Venture Fund		Advantage Technology Fund		Advantage Life Science Fund	
	2006	2005	2006	2005	2006	2005
GAAP net asset value per statements of net assets	\$ 27,421,000	\$ 20,285,517	\$ 5,187,509	\$ 5,082,966	\$ 3,925,700	\$ 4,237,217
Add:						
Unamortized deferred sales commissions and marketing costs ⁽¹⁾	292,728	184,291	13,733	19,462	-	-
Unamortized deferred share issuance costs ⁽¹⁾	1,507,964	1,228,364	139,558	200,580	-	19,755
	1,800,692	1,412,655	153,291	220,042	-	19,755
Pricing net asset value	\$ 29,221,692	\$ 21,698,172	\$ 5,340,800	\$ 5,303,008	\$ 3,925,700	\$ 4,256,972
Common shares outstanding at year end (note 7)	3,449,738	2,397,335	507,359	505,817	183,226	183,226
GAAP net asset value per common share	\$ 7.95	\$ 8.46	\$ 10.22	\$ 10.05	\$ 21.43	\$ 23.13
Pricing net asset value per share	\$ 8.47	\$ 9.05	\$ 10.53	\$ 10.48	\$ 21.43	\$ 23.23

⁽¹⁾ Deferred sales commissions and marketing costs and deferred share issuance costs are amortized on a straight-line basis over the minimum expected holding period of the related shares of five years.

In accordance with the Company's prospectus, subscriptions and redemptions are transacted weekly by the Funds at the pricing net asset value per share calculated on Friday of the respective week. As the last transaction date for subscriptions and redemptions for 2006 was December 29, 2006, the pricing net asset value per share at which common shares were actually transacted differs from those presented above, which are as at December 31, 2006, due to the recording of certain tax, accounting and valuation adjustments for GAAP purposes as outlined in the Fund's prospectus.

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2006 and 2005

8. Income taxes:

(a) The components of future income tax balances are as follows:

	Advantage Venture Fund		Advantage Technology Fund		Advantage Life Science Fund	
	2006	2005	2006	2005	2006	2005
Future income tax assets related to:						
Tax loss carryforwards	\$ 891,682	\$ 625,195	\$ 501,666	\$ 416,455	\$ -	\$ -
Share issue costs	655,852	527,774	98,930	166,011	-	8,356
Unrealized losses on venture investments	226,921	-	-	-	18,100 ⁽¹⁾	-
	1,774,455	1,152,969	600,596	582,466	18,100	8,356
Future income tax liabilities related to:						
Unrealized gains on venture investments	-	(63,887)	(301,168)	(171,905)	-	(521,299) ⁽¹⁾
Valuation allowance	(1,774,455)	(1,089,082)	(299,428)	(410,561)	(18,100)	-
Net future income tax asset (liability)	\$ -	\$ -	\$ -	\$ -	\$ -	\$(512,943)

⁽¹⁾ Unrealized gains and losses on venture investments for the Advantage Life Science Fund are based on the adjusted tax basis costs of the Advantage Life Science Fund's venture investments (note 7(c)).

(b) The table below reflects the amount of tax benefit related to deductions that were transferred between Funds during the year and the unsettled balance in each Fund at December 31. The tax deductions transferred between Funds have been tax affected at the overall tax rate of the Company.

	Advantage Venture Fund		Advantage Technology Fund		Advantage Life Science Fund	
	2006	2005	2006	2005	2006	2005
Current tax benefit (cost) related to						
Inter-fund transfer (receipt) of tax deductions	\$ 357,103	\$ 222,430	\$ 68,020	\$ 55,608	\$ (425,124)	\$(278,038)
Inter-fund receivable (payable)						
at December 31	\$ (41,643)	\$ 222,430	\$ (31,666)	\$ 55,608	\$ 73,309	\$(278,038)

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2006 and 2005

8. Income taxes (continued):

(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 for the following reasons:

	Advantage Venture Fund		Advantage Technology Fund		Advantage Life Science Fund	
	2006	2005	2006	2005	2006	2005
Combined federal and provincial statutory income tax rate	47.8%	48.5%	47.8%	48.5%	47.8%	48.5%
Income tax expense (recovery) calculated at statutory income tax rates	\$ (993,763)	\$ (128,443)	\$ 18,130	\$ 241,711	\$ (190,883)	\$ 889,867
Adjustments resulting from:						
Share issue costs	(386,319)	(293,042)	-	(1,030)	-	(38,362)
Equity participation	-	-	154,375	-	21,681	496,238
Non-taxable portion of gains	296,153	(75,446)	(136,357)	(166,873)	62,854	(540,772)
Effects of rate changes	-	8,478	-	(4,003)	(11,804)	(8,500)
Change in future income tax valuation allowance	726,826	270,156	(104,168)	(127,548)	(8,652)	-
Other	-	(4,133)	-	2,135	38,985	(7,490)
Actual income tax expense (recovery)	\$ (357,103)	\$ (222,430)	\$ (68,020)	\$ (55,608)	\$ (87,819)	\$ 790,981

(d) The Funds have non-capital tax-loss carryforwards available for utilization against taxable income in future years. No Funds have capital tax-loss carryforwards available. If not utilized, these non-capital tax-loss carryforwards will expire as follows:

	Advantage Venture Fund	Advantage Technology Fund	Advantage Life Science Fund
2009	\$ 5,742	\$ 5,742	\$ -
2010	164,188	168,102	-
2011	675,186	486,829	-
2015	463,544	210,753	-
2016	600,724	202,806	-
Total	\$ 1,909,384	\$ 1,074,232	\$ -

9. Related party transactions:

In addition to the related party transactions as described in the tables below, the Funds also incurred interfund receivables and payables on the transfer of tax attributes between the Funds as described in note 8(b), and certain Funds accrued and/or paid equity participation to the Fund Manager as described in note 7(c).

B.C. ADVANTAGE FUNDS (VCC) LTD.

Notes to Financial Statements

Years ended December 31, 2006 and 2005

9. Related party transactions (continued):

The following tables summarize the Funds' related party transactions not otherwise disclosed in the financial statements:

Advantage Venture Fund	Year ended December 31,		Amount payable as at	
	2006	2005	December 31, 2006	December 31, 2005
Fund Manager ⁽¹⁾				
Management fees	\$ 747,116	\$ 476,783	\$ 71,516	\$ 52,809
Reimbursement of administration expenses	280,837	252,982	244,034	100,191
Total related party expenses	\$ 1,027,953	\$ 729,765		
Due to related parties			\$ 315,550	\$ 153,000

Advantage Technology Fund	Year ended December 31,		Amount payable as at	
	2006	2005	December 31, 2006	December 31, 2005
Fund Manager ⁽¹⁾				
Management fees	\$ 147,999	\$ 173,342	\$ 13,179	\$ 12,486
Reimbursement of administration expenses	87,500	55,163	49,547	15,652
Total related party expenses	\$ 235,499	\$ 228,505		
Due to related parties			\$ 62,726	\$ 28,138

Advantage Life Science Fund	Year ended December 31,		Amount payable as at	
	2006	2005	December 31, 2006	December 31, 2005
Fund Manager ⁽¹⁾				
Management fees	\$ 50,400	\$ 50,400	\$ 4,452	\$ 4,494
Reimbursement of administration expenses	178,620	152,729	50,813	34,827
Catalyst Corporate Finance Lawyers ⁽²⁾				
Professional fees	-	-	-	1,245
Total related party expenses	\$ 229,020	\$ 203,129		
Due to related parties			\$ 55,265	\$ 40,566

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

⁽²⁾ Two officers of the Company were partners at Catalyst Corporate Finance Lawyers. Catalyst Corporate Finance Lawyers ceased to be a related party on December 31, 2005.

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10. Commitment:

The Company has an Investment Administration Agreement with The Investment Administration Solution Inc. to provide certain transfer agency and back office administration services. The agreement specifies a minimum fee per month of \$5,500 (plus GST thereon) for three years, which commenced January 1, 2007. The Funds' remaining minimum future payments in accordance with this agreement are:

2007	\$ 66,000
2008	66,000
2009	66,000
	<hr/>
	\$ 198,000

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 at December 31, 2006, management is not aware of any circumstances where the Company is not in compliance with the requirements of the SBVCA.

12. Subsequent events:

(a) Advantage Technology Fund:

On February 28, 2007 Brightside Technologies Inc. (Brightside) signed a definitive agreement to be acquired by Dolby Laboratories Inc. for cash consideration of approximately USD \$28,000,000. The transaction is subject to customary closing conditions. Upon closing of the transaction, and subject to there being no changes in the purchase equation, the Advantage Technology Fund will receive proceeds of approximately \$943,000.

(b) Advantage Life Science Fund:

On January 17, 2007, the Advantage Life Science Fund declared and subsequently paid a \$10.00 per share dividend to all shareholders of record on that date.

13. 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, due to related parties and accrued equity participation) are considered by the Fund Manager to approximate their carrying values due to their short-term nature.

B.C. ADVANTAGE FUNDS (VCC) LTD.

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14. 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.