

Issue 20, Fall 2009

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WELCOME FROM THE CEO



Welcome to our Fall 2009 edition (Issue 20) of the *Investors' Advantage* newsletter. In our last edition, we discussed the stock market recovery that is taking hold in the United States, Canada and the rest of the

world. Thankfully, that positive trend has continued and markets are higher today than they were over the summer months. But upward movement in stock prices by itself, while it may make us all feel better, does not result in "realized" returns for our funds. To achieve realized returns from our investments, we need to have liquidity events or 'exits', either via the sale of stock after a portfolio company goes public and is listed on an exchange or via the sale of the entire company to an industry buyer or private equity group.

Fortunately, we are now starting to see 'green shoots' occurring both in technology initial public offering (IPO) markets and in merger and acquisition (M&A) activity. While there were only 8 IPOs for venture capital backed companies in the first three quarters of 2009, this was nevertheless up from the 6 venture backed IPOs seen in all of 2008. And Q3'09 saw the largest technology IPO since March, 2007 with Massachusetts-based information technology company A123 Systems going public on NASDAQ and raising \$380 million in the process. Life science company Cumberland Pharmaceuticals also went public in Q3'09 via a NASDAQ IPO and raised \$85 million.

Like many sectors, M&A activity in the technology industry fell off substantially in 2008 and early 2009 with the world wide recession. But that is now changing. In the last two weeks alone, Cisco Systems announced two big deals: one to purchase wireless equipment firm Starent Networks for \$2.9 billion; and a second to acquire the Norwegian video conferencing company Tandberg for \$3 billion. With \$34 billion in cash at the end of last quarter, it seems Cisco has both the capital and the appetite for more deal making. And Cisco has plenty of company.

In pharmaceuticals, it has also been a busy year on the M&A front. The industry has seen three of the largest buyouts in recent history with Pfizer buying Wyeth, Merck purchasing Schering-Plough and Roche acquiring the remaining part of biotech firm Genentech it didn't already own. These three transactions themselves accounted for almost \$155 billion of M&A activity. Industry experts believe there won't be many other mega-deals due to a paucity of large buyout targets

but that pharma companies will instead be hunting for smaller acquisitions in the biotechnology arena. Driving their appetite for additional deals is the need for pharma companies to fill product pipelines in advance of current blockbuster drugs coming off patent.

This is all good news for venture funds such as Advantage as we look to exit mature investments and provide realized returns to you, our shareholders.

Frank Holler, CEO & Partner

NEW INVESTMENT - IN MOTION

In August 2009, the Advantage Growth Fund completed an investment in In Motion Technologies by investing \$1.5M in the company's Series 2 preferred shares. Pursuant to this investment, Tanner Philp was appointed to the In Motion Board of Directors. The investment in In Motion represents one of the Advantage Growth Fund's first investments pursuant to its new mandate to invest in emerging growth companies and is indicative of the sort of investment the fund will make prospectively.

In Motion sells a proprietary mobile gateway that turns a vehicle into a mobile wireless hotspot. The company flagship product performs seamless sensing, selection and switching for commercial wireless networks and is used to network mobile applications running in real time, in the field. In addition, In Motion sells a gateway management software application that provides real time network statistics and management. The company has a leadership position in the North American emergency medical response market, and plans to use the proceeds of its Series 2 financing to ramp sales penetration in the adjacent markets of fire, police, utilities and transit.

In Motion has been in operation for seven years and reported revenues of over \$6.0M for its fiscal year just ended. Recently, Leonard Hordyk was appointed CEO to take over leadership from a very competent founding management team that remains active in the company's success. Leonard Hordyk was previously CEO of TIR Systems, a publicly traded LED lighting company that was purchased by Philips for more than \$80.0 million cash.

In Motion is a very fitting Advantage Growth Fund investment. It is a company that has substantial

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NEW INVESTMENT - IN MOTION, CONTINUED...

revenues, a market leadership position, is close to break even and has significantly de-risked its product and go-to-market strategy. Henceforth, the company's strategic plans are to consolidate its leadership position, expand into adjacent market opportunities and execute partnership agreements with large incumbent vendors that would also be logical buyers of the company. In light of market conditions, the Advantage Growth Fund was able to secure a preferred share investment in the company at an attractive valuation.

INVESTMENT UPDATES

NEUROMED PHARMACEUTICALS

It was a busy summer for Neuromed Pharmaceuticals. On June 11, Neuromed announced that Merck had terminated its research collaboration and licensing agreement for compounds targeting N-type calcium channels. This agreement was entered into in March 2006. On June 12, the FDA informed Neuromed that its submission for late stage pain drug Exalgo was complete and it set a PDUFA (potential approval) date of November 22, 2009. On June 17, the Company announced that it has sold the U.S. rights for Exalgo that it had acquired from ALZA Corporation to Covidien subsidiary, Mallinckrodt. Under the agreement, Neuromed received an upfront payment and will receive additional development and regulatory milestone payments as well as royalties on product sales.

Finally in July 2009, Neuromed announced that it will merge with CombinatoRx (CRXX), a NASDAQ listed drug development company, in an all stock transaction. Neuromed will initially receive 50% of the shares of CRXX and relative ownership will then be adjusted depending on when Exalgo is approved by the FDA. If approval is granted by Dec. 31, 2009, Neuromed shareholders will own 70% of the combined company. This can fall to 60%, 40% or 30% if approval is granted on later dates, or not at all.

PROTOX THERAPEUTICS

We continue to be impressed by recent results announced by Protox Therapeutics in its clinical (human) studies. In September, Protox reported 12 month data from its Phase 2 trial of PRX302 in men with moderate to severe benign prostatic hyperplasia (BPH). BPH is a painful and bothersome urological condition that affects 50 million men worldwide. The study results indicate that those patients that received an optimal dose of PRX302 continued to experience significant symptomatic relief at 12 months following a single treatment.

In the study, the clinically accepted end point known as the "International Prostate Symptom Score" or IPSS was used to assess the treatment benefit of PRX302 in BPH patients. Evaluable patients at 12

PROTOX, CONTINUED...

months showed a statistically significant and sustained improvement in IPSS of 12.1 points, representing a 55% improvement when compared to their initial screening. Furthermore, Quality of Life scores also improved significantly, by an average of 67% at 12 months post-treatment, and prostate volume decreased significantly (29%). Finally, the maximum urine flow rate increased 42% in BPH patients receiving the optimal dose. No safety issues were identified in the study and no sexual dysfunction has been reported in any of the subjects dosed to date.

Protox also announced in September that it had completed enrolment in its most recent study, a 90 patient placebo-controlled study of PRX302 also in men with moderate to severe BPH (study name: TRIUMPH). Ninety day results from the TRIUMPH study are expected around year-end 2009.

NXTGEN EMISSION CONTROLS

NxtGen has developed a non-catalytic Syngas Generator which reduces particulate matter and NOx emissions from diesel engines at a lower cost than competitive systems. NxtGen is developing their product in response to stringent US government emission regulations coming into effect January 2010. NxtGen recently partnered with Engine Control Systems, a leading retrofit supplier, in preparation for its commercial launch in the retrofit market by year end.

NxtGen is currently performing the final tests necessary to obtain the validation of the United States Environmental Protection Agency. This validation will allow aftermarket retro-fitters installing NxtGen's Syngas Generator to receive federal and state subsidies, aggregating up to \$15,000 per vehicle, sufficient to cover the full cost of the retrofit.

ABOUT ADVANTAGE

Advantage offers everyone in BC the opportunity to invest in some of the Province's most promising life science, technology and clean-technology companies. Advantage investors receive a 30% refundable tax credit from the BC government on investments of up to \$200,000 per year.

FOR MORE INFORMATION

For more information about BC Advantage Funds, contact your Investment Advisor or:

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Please read our Prospectus and consult with your investment and other advisors before investing.

PLEASE VISIT OUR WEBSITE AT WWW.BCADVANTAGEFUNDS.COM

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There is no market for our securities and liquidity may depend upon our ability to redeem our shares after the required hold period which is five years following the date we have invested our investors' funds. There is no guarantee that we will be able to redeem our shares if, as and when requested to by an investor. Investors should consider this investment a long-term investment.

An investment in our securities includes a tax credit in prescribed circumstances. Investors should review our prospectus for a full discussion on the tax aspects of an investment in our securities.