

Issue 21, Winter 2010

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WELCOME FROM THE CEO



Welcome to our Winter 2010 edition (Issue 21) of the Investors' Advantage newsletter. Since our last newsletter, equity markets generally and the technology sector specifically have continued to strengthen. After the first day of trading in 2010, the TSX stood at 11,867 versus 11,072 on October 1, 2009, representing a gain of 7% and the NASDAQ stood at 2,308 versus 2057 on October 1, representing a gain of 12%. Moreover at year-end 2009, the technology sector reclaimed the top spot in the S&P 500 weightings by surpassing financial stocks. After beginning 2009 well behind financials, the "Info Tech" weighting now stands at almost 20%, substantially ahead of the financials' weighting of 14.4%.

While equities and the technology sector have strengthened significantly over the past year, it has not been a strong year for venture capital deal activity or fund raising. Deal activity in Canada's venture capital market totalled \$191 million nationwide in Q3, 2009, down significantly from the \$388 million invested in the same period in 2008. And fundraising was also down with a total of \$65 million raised in Q3, 2009, almost exactly half of the \$131 million raised in Q3 of the previous year. However, while the past year has been a very difficult one, recent data is showing some signs of improvement.

The National Venture Capital Association in the US (comprised of about 400 venture capital firms) conducts an annual survey called the NVCA Venture View Survey. The 2010 Venture View found that the industry is "cautiously optimistic" about improvements in 2010. Respondents expect to see more venture dollars going in to more portfolio companies and an improvement in exit transactions in 2010. Some specific areas of optimism included clean technology, growth equity and later stage venture companies.

Indeed fourth quarter 2009 numbers showed some signs of recovery for the coming year. There were five venture backed IPOs in Q4 2009, a slight increase over Q3 2009, and M&A exits reached 67 transactions with disclosed deals averaging \$216 million in value. This is the highest quarterly average value figure since Q4 2007. Both statistics suggests that Venture View respondents may have some basis for their increased optimism and their expectations of a gradual but marked improvement for the venture industry in 2010.

Frank Holler, CEO & Partner

ADVANTAGE ACTIVELY INVESTING

Advantage continues to be an active investor, having closed two significant investments in the past six months, and recently signing a term sheet on a third. The two investments completed were In Motion Technology and Redlen Technologies, with \$2.0 million being invested in each company. Both companies are well past the start up stage, have mature products and several years' track record of revenues. We believe these companies represent exciting opportunities for Advantage.

We highlighted In Motion in our last newsletter and as you may recall the company produces a product called the onBoard Mobile Gateway, a hardware box that allows mobile fleets to manage their complex mobile wireless networks and hardware. Customers include ambulance and transit authorities all over North America whose vehicles carry a multitude of disparate hardware devices, each of which needs to talk to each other and to base through a wide range of wireless networks. The company has close to a dozen partners as well, including Verizon Wireless, AT&T and Sky Pilot Networks. In Motion recently appointed Leonard Hordyk as CEO to take the helm. Leonard has been a very successful entrepreneur with his most recent engagement having been as CEO of TIR Systems, which was acquired by Philips in 2007.

Redlen Technologies produces Cadmium Telluride, Cad-Zinc-Tel, as well as integrated radiation detectors using those compounds. These products are used in a wide variety of industries including solar, nuclear medical imaging and homeland security. A number of trends which continue to garner significant media attention - the increasing focus on renewable energy sources (solar); the need to reduce radiation exposure in medical detectors (nuclear medical imaging), and the need for more and higher quality security scanners (homeland security), all bode well for Redlen which produces elaborate, highly sensitive, radiation detectors that allow sophisticated radiation detection at low levels. The CEO of Redlen is Glenn Bindley, one of the founding members of PMC Sierra, one of the most successful technology companies to come out of BC.

As noted above, Advantage recently signed a Term Sheet with a third growth fund opportunity, another company with several years of revenues, and is commencing due diligence on a fourth. David Raffa, Advantage Fund Manager, notes, "We continue to see excellent opportunities to invest in technology companies that are past the proof of principle stage, have been substantially de-risked and are at attractive valuations to boot."



2009 TAX CREDITS SALES

Deadline for 2009 tax credits are approaching. Take Advantage of your tax refund by investing today!

TRIBUTE TO DR. RIX



Dr. Don Rix, Chairman of BC Advantage Funds' Board of Directors, passed away on November 6, 2009. Dr. Rix had served as Chair for Advantage since the company's inception in 2003. He was a pioneer and icon in the technology industry as an entrepreneur, an investor and a mentor. A physician by training, Dr. Rix was a founder of MDS Metro Laboratories (now LifeLabs) and Cantest (now Maxxam), two very successful private laboratory companies. He was also extremely active in a number of technology organizations such as Genome BC, BC Innovation Council and the Premier's Technology Council and was a well known philanthropist.

Said Frank Holler, CEO of Advantage, "It was with great sadness that we learned of the passing of Dr. Rix. Don made a tremendous contribution to the growth and success of BC Advantage Funds over the years and his leadership, wise counsel and friendship will be sorely missed. It was an honour to work with a man having such wisdom, passion and integrity."

Throughout his lifetime Dr. Rix accumulated a wealth of notable achievements. In 2004, Dr. Rix was awarded the Order of British Columbia, for outstanding achievement. In 2007, he was inducted as a member of the Order of Canada. In 2008 he received his fifth honorary degree – a Doctor of Laws from the University of Victoria. A research chair from Genome BC was named for him this year, and he was most recently awarded the Frederic Newton Gisborne Starr Award, the highest award the Canadian Medical Association can bestow.

PORTFOLIO COMPANIES WIN ACCOLADES

On October 6, 2009 Advantage portfolio companies, In Motion Technology and Contech Enterprises, received awards as BC's exporters of the year in the "Advancing Technology" and "Consumer Product" categories respectively, at the 2009 BC Export Awards. The awards were announced by the Canadian Manufacturers & Exporters BC Division, along with the Ministry of Small Business, Technology and Economic Development.

On November 16, 2009, Advantage portfolio company, Zeugma Systems, announced that its SmartBoost product had won TelcoTV's Vision Award for the category of "Innovation in Broadband Networks."

On January 13, 2010, the Telecom Council of Silicon Valley nominated Advantage portfolio company, Mobidia Technology, in the "Best Mobile Opportunity" category of its 2010 Service Provider Forum awards. Nominees were selected from over 100 telecom startups. Award nominees are companies that demonstrate innovation, opportunity and a strong interest among the Telecom Council's 20 global Service Providers.

MOBIDIA TECHNOLOGY



Following on the incredible success Apple has had with the iPhone, Google recently announced the long awaited launch of its own smart phone, the Nexus One. Indeed, everyone is in this market as the fight to provide cellular subscribers with faster, more feature rich phones continues unabated. This includes even Microsoft, which has been rumoured for several years to be launching its own smartphone and which many believe will come out this year under the brand name, "Turtle." On top of this, netbooks are beginning to enter the mainstream, now being sold tied to wireless plans much like cell phones. What will all these intelligent mobile devices do in addition to providing their users with incredible mobile functionality? Why, eat up bandwidth, of course.

All of this is extremely good news for Advantage portfolio company Mobidia Technology. Mobidia completed 2009 by demonstrating 15 to 30% capacity improvement on a major carrier's test network while accelerating data sessions by up to 1.5 times, all at peak useage times. The cannibalization of AT&T's network by the iPhone when lauched is now well known, and has carrier's nervous as new devices continue to proliferate and user's appetite for bandwidth continues to grow. Mobidia's value proposition to carrier's is three-fold: improve user experience; exercise more control over your network; and very relevant today, reduce capex and infrastructure costs by squeezing more bandwidth out of existing networks.

2010 looks to be an exciting year for Mobidia, which has now completed, is in the process of completing or has planned, 14 plus trials with carriers around the world. The company is in early stages of commercial negotiations with a number of carriers and is hopeful of achieving its first full commercial roll-out this year.

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

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