

Annual Management Report of Fund Performance

**B.C. ADVANTAGE FUNDS (VCC) LTD.  
ADVANTAGE GROWTH FUND**

(formerly Pender NDI Life Sciences Fund (VCC) Inc. d.b.a.  
Advantage Life Science Fund II)

Year ended December 31, 2009

This annual management report of fund performance contains financial highlights of the B.C. Advantage Funds (VCC) Ltd. Advantage Growth Fund (the Fund). You may contact us by calling 604-688-6877, by writing us at 1280 - 885 West Georgia Street, Vancouver, BC, V6C 3E8 or by visiting our website at [www.bcadvantagefunds.com](http://www.bcadvantagefunds.com) to request a copy, at no cost to you, of the Fund's financial statements, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure. You may also obtain a copy of the Fund's financial statements at [www.sedar.com](http://www.sedar.com).

# **ADVANTAGE GROWTH FUND**

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## **Management Discussion of Fund Performance**

### **Investment Objectives and Strategies**

The Fund invests in a diversified portfolio of technology, clean tech, life science, and industrial companies.

The Fund is actively raising new capital and investing this capital in life science, technology, clean tech, and industrial companies. Investors receive a 30% refundable tax credit at the time of investment. The companies in which the Fund invests must be eligible businesses in accordance with the B.C. Small Business Venture Capital Act (SBVCA). In general, this means companies based in B.C. that have less than 100 employees and carry on a business activity as specified in the SBVCA.

The Fund's strategy, since 2008, for achieving its objective is to invest in BC companies that have growing revenues, are profitable or approaching profitability are likely to provide liquidity within three to five year time frame. The Fund invests in companies with superior technology and science, large market opportunities and experienced management. Portfolio companies include private and public companies, as well as companies from the start-up stage through to revenue generation. Where appropriate, the Fund seeks to build and mentor management in emerging companies to enhance shareholder value.

### **Risk**

An investment in the Fund is highly speculative and carries significant risk. An investment in the Fund is a long-term investment. Over the period, no material or significant changes occurred that affected the overall risk level associated with the Fund.

The risks of investing in the Fund include a relatively large proportion of private company investments and early-stage concentration. A significant portion of the Fund's investments are in private companies, for which no ready market exists. Valuation of private companies for which no published market exists is subject to inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments.

The Fund relies on the allocation of tax credits provided to investors by the administrator of the SBVCA to raise new funds. Issuance of tax credits is discretionary and cannot be guaranteed. The SBVCA administrator has authorized tax credits that will allow BC Advantage (VCC) Ltd. ("Advantage" or the "Fund Manager") to raise up to an additional \$10 million in each of 2009, 2010 and 2011, which includes all funds managed by Advantage. Thereafter, Advantage has been provided a rolling three year allocation. If the Fund either cannot raise additional funds or contravenes the SBVCA and has to repay tax credits, it may impair the Fund's ability to carry on business and meet its investment objectives.

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## Management Discussion of Fund Performance (continued)

### Risk (continued)

There is no market for the Fund's shares, and no market is expected to develop. Investors will not, typically, be able to dispose of their investment other than by way of redemption. In accordance with the SBVCA, investments in portfolio companies must be held for at least five years. As such, an investor's redemption of the Fund's shares is prohibited for at least five years from the date the Fund invests in eligible companies in accordance with the SBVCA. Practically speaking, investors will not be able to redeem their investment for six to seven years from the date they invested in the Fund.

### Impact of market conditions

The credit crisis and global economic downturn had impacted and are expected to continue to impact operating conditions for companies in all sectors and, at least in the near-term, valuations of all companies. The Fund invests in a diversified portfolio of technology, clean technology, and industrial companies in British Columbia. These companies are normally subject to a great degree of risk and, in order to achieve their business objectives, generally have capital requirements in excess of their available resources. Typically in times of market turmoil, companies with smaller capitalizations have a tendency to show greater volatility, which is also the case in market recoveries. The Fund Manager is working closely with the majority of its portfolio investments, including both publicly-traded and privately-held investments, in an effort to ensure their viability and ultimate success so as to provide long-term capital appreciation to the investors.

### Results of Operations

#### Investment Activity

During the fiscal year, the Fund completed investment of \$3.50 million in 3 new and existing venture investments. The Fund did not dispose of any investments during the fiscal year. As at December 31, 2009, the fair value of the Fund's portfolio investments represented 81% of the net assets of the Fund, while cash and other net assets represented 19% of net assets.

The following table summarizes changes in the composition of the Fund's investment portfolio in comparison to the prior fiscal year:

	2009	2008
Venture Investments, Cost	\$ 14,274,650	\$ 10,774,650
Venture Investments, Fair Value	9,720,376	6,485,450
Number of Venture Investments:	11	9
Private	6	5
Public	5	4
Life Science	9	9
Technology	2	-

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## Management Discussion of Fund Performance (continued)

### Results of Operations (continued)

#### *Investment Activity (continued)*

##### Fair value of investments:

Of the fair value of the Fund's investments, \$6.72 million or 69% are life science companies, and \$3.00 million or 31% are technology companies. Of the fair value of the Fund's investments, \$6.07 million or 63% are public companies, and \$3.65 million or 37% are private companies.

##### Number of investments:

Of the number of the Fund's investments, 82% are life science companies and 18% are technology companies. Of the number of the Fund's investments, 45% are public companies and 55% are private companies.

#### *Investment Performance*

Over the past year, the Fund's net asset value per share declined by \$0.27. The decline in net asset value per share was due to operating costs incurred by the Fund in excess of investment income and an increase in the unrealized loss on venture investments (see section entitled "Financial Highlights").

The Fund's management expense ratio (MER) was 6.09% for fiscal 2009 as compared to 5.82% for 2008. Management expense ratio is based on the total expenses incurred by the Fund inclusive of management fees, all operating costs, and share issuance costs related to marketing and subscription of shares for the stated year.

Over the fiscal year, the Fund underperformed the Globefund Retail Venture Capital Index (see section entitled "Past Performance").

#### **Recent Developments**

The Fund is managed by Lions Capital Corp. (the Fund Manager). On November 5, 2008, the Fund's Board of Directors has passed a resolution to broaden the investment mandate of the Fund to include technology, clean technology and industrial companies as well as life science companies. Previously the Fund was limited to investing in life science companies. To reflect the broader mandate, the name of the Fund, which was the Advantage Life Science Fund II, was changed to the Advantage Growth Fund. The broader investment mandate of the Fund is intended to provide its investors with greater sector and stage diversification, thereby reducing volatility and risk. As suggested by the Fund's new name, the Fund's future investments will include companies that have growing revenues, are approaching profitability or profitable and are likely to provide liquidity within a three to five year time frame.

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## Management Discussion of Fund Performance (continued)

### Recent Developments (continued)

Amalgamation with B.C. Advantage Funds (VCC) Ltd.:

On August 8, 2008, Advantage and the Fund were amalgamated into one fund company. This amalgamation was approved by the shareholders of Advantage and the Fund on June 25, 2008. The combined fund company is comprised of the Advantage Venture Fund, the Advantage Growth Fund and the Advantage Life Science Fund I. Advantage is a VCC fund company managed by the Fund Manager. The amalgamation was to streamline operations and reduce or eliminate certain operating costs for both funds. This is expected to reduce the management expense ratio of all funds and increase their net asset values, thereby resulting in greater returns to investors. For additional information, please see the Joint Information Circular dated May 22, 2008.

Accounting Policy Changes:

The CICA has issued Section 3862, *Financial Instruments – Disclosures*, Section 3863, *Financial Instruments – Presentation*, and Section 1535, *Capital Disclosures*.

Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments - Presentation* enhance existing disclosure and presentation of the nature and scope of the risks associated with financial instruments as well as the way these risks are managed. These standards were adopted by the Fund effective January 1, 2008 and have no impact on the recognition or measurement of financial instruments.

Section 1535, *Capital Disclosures*, requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies, and processes for managing capital. This standard was adopted by the Fund effective January 1, 2008 and has no impact on the recognition or measurement of any financial statement items.

On December 21, 2009, Neuromed Pharmaceuticals Inc. ("Neuromed") amalgamated with CombinatoRX, Inc. ("CombinatoRx"), a publicly traded company listed on the NASDAQ Global Market, and continued operations as CombinatoRx.

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## Management Discussion of Fund Performance (continued)

### Related party transactions

In accordance with the management agreement between the Fund and the Fund Manager, the Fund Manager receives management fees equal to 2.75% of the net asset value of the Fund, calculated and paid monthly. Also in accordance with the management agreement, separate from the management fee, the Fund reimburses the Fund Manager for expenses incurred by the Fund Manager in connection with its obligations pursuant to the management agreement. The Fund Manager may also earn an equity participation amount based on the realized gains and cumulative performance of the Fund. To date, no equity participation amount has been earned by the Fund Manager.

Related party transactions are disclosed in note 12 of the Fund's audited financial statements for the period ended December 31, 2008 and for the year ended December 31, 2009.

### Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past year and 5 months. This information is derived from the Fund's audited annual financial statements. The Fund commenced operations as an Advantage fund on August 8, 2008.

#### The Fund's Net Assets per Share<sup>(2)</sup>

	2009	2008
Net assets, upon amalgamation	\$ -	\$ 6.14
Net assets, beginning of year	4.39	-
Increase (decrease) from operations:		
Total revenue	0.01	0.02
Total expenses <sup>(2)</sup>	(0.21)	(0.11)
Realized gain (loss) for the period	-	0.01
Unrealized gain (loss) for the period	(0.10)	(1.67)
Total increase (decrease) from operations <sup>(1)</sup>	(0.30)	(1.75)
Net assets at December 31 <sup>(1)</sup>	\$ 4.12	\$ 4.39

<sup>(1)</sup> Net assets are based on the actual number of shares outstanding as at December 31 in the year shown. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period. For these reasons, the net assets per share at December 31 is not represented by the net assets, beginning of year, adjusted for the net increase (decrease) from operations.

<sup>(2)</sup> Total expenses include an income tax recovery of nil per share.

<sup>(3)</sup> Net assets per share are presented in accordance with Canadian generally accepted accounting principles (GAAP). Subscriptions and redemptions of common shares of the Fund are transacted at the Net Asset Value per Share of the Fund. The Net Asset Value per Share, which is a non-GAAP measure, is described in detail in the Fund's prospectus and is reconciled in note 10(d) of the Fund's financial statements for the year ended December 31, 2009.

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## Financial Highlights (continued)

### Ratios and Supplemental Data

	2009	2008
Net assets (000's) <sup>(1)</sup>	\$ 11,980	\$ 11,468
Number of shares outstanding <sup>(1)</sup>	2,908,225	2,613,281
MER <sup>(2)</sup>	6.09%	5.82%

<sup>(1)</sup> This information is provided as at December 31 of the year shown.

<sup>(2)</sup> Management expense ratio is based on the total expenses incurred by the Fund inclusive of management fees, all operating costs and share issuance costs related to marketing and subscription of shares for the stated year, but excluding income taxes, and is expressed as an annualized percentage of the weighted average net asset value during the year.

Portfolio turnover information has not been provided as the Fund invests in venture stage companies which, on average, are held for five to seven years. Similarly, a trading expense ratio has not been provided as the Fund neither engages in active trading, nor purchases securities in the secondary market.

### Management Fees

The Fund pays management fees of 2.75% of the net asset value of the Fund, calculated and paid monthly. In consideration for these management fees, the Fund Manager provides day to day management over the Fund and the Fund's venture investment portfolio, including sourcing and administration of all venture investments. The Fund Manager may also earn an equity participation amount based on realized gains and cumulative performance of the Fund. Additional information regarding equity participation is disclosed in note 10(c) of the Fund's financial statements for the year ended December 31, 2009.

### Past Performance

The Fund's returns are not guaranteed, the values of its shares change frequently and past performance may not be repeated nor can it be used as an indicator of future performance.

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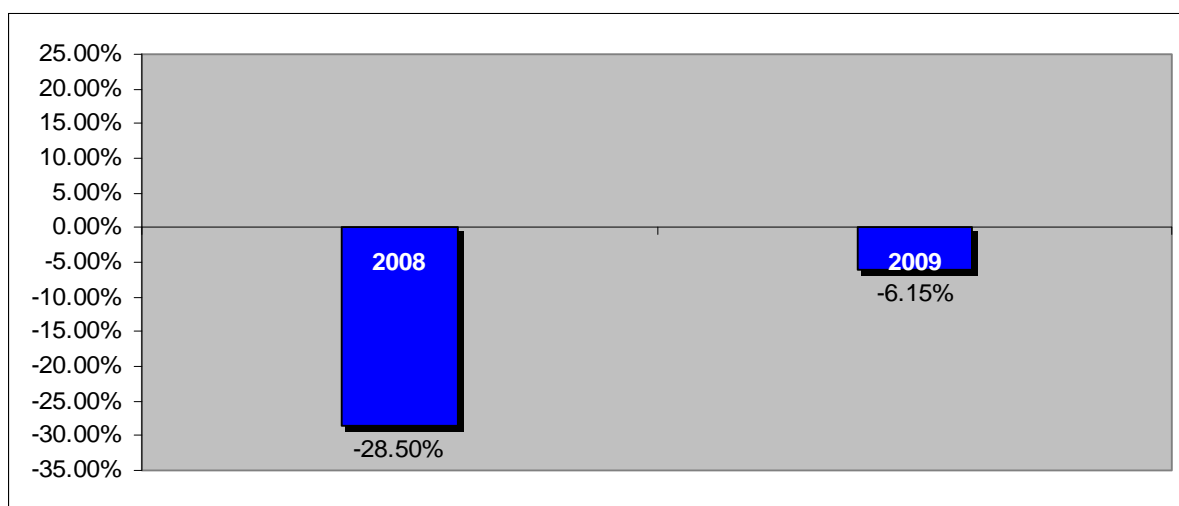
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## Past Performance (continued)

### Year by Year Returns

The chart below reflects the Fund's annual performance from August 8, 2008 to December 31, 2009, and illustrates how the Fund's performance has changed from year to year. The chart shows in percentage terms how an investment made on the first day of each fiscal year would have increased or decreased by the last day of each fiscal year.



### Annual Compound Returns

The following chart shows the Fund's annual compound returns for one year and since amalgamation as compared to the Globefund Retail Venture Capital Index (comprised of 127 retail investment funds), as at December 31, 2009.

	Advantage Growth Fund	Globefund Industry Average
Since amalgamation	(24.81)%	(4.95)%
1 Year	(6.15)	(11.47)

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## Summary of Investment Portfolio

The following tables summarize the Fund's investment portfolio as at December 31, 2009. This is a summary only and may change due to portfolio activity in the Fund. A quarterly update is available on request.

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	Fair value	Percentage of total net assets
Life science companies	\$ 6,720,376	56%
Technology companies	3,000,000	25
Total Venture Investments	9,720,376	81
Cash and Cash Equivalents and Restricted Cash	2,362,050	20
Net Other Assets less Liabilities	(102,081)	(1)
Net Assets at December 31, 2009	\$ 11,980,345	100%

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	Percentage of total net assets
Public:	
Allon Therapeutics Inc.	9%
CombinatoRx, Inc.	3
Neovasc Inc.	-
Prottox Therapeutics Inc.	33
Urodynamix Technologies Ltd.	5
Private:	
Aphrodite Therapeutics Inc.	-
Chromos Investment Corp.	-
Inimex Pharmaceuticals Inc.	4
In Motion Technology Inc.	13
Methylation Sciences Inc.	1
Redlen Technologies Ltd.	13
Total Venture Investments	81%

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