

WELCOME MESSAGE FROM THE CHAIRMAN



Neil de Gelder, Chairman

The British Columbia Discovery Fund (VCC) Inc., which was established in November 2002, is a professionally managed venture capital fund providing British Columbians with an opportunity to invest in one of BC's fastest growing sectors - the technology industry. In a survey conducted in May 2003 jointly by the BC Technology Industries

Association (TIA) and Ipsos Reid, 77% of British Columbians rate BC's high-tech sector as a "major" or "moderate" contributor to the overall well-being of the BC economy, behind only tourism and the forestry industry. When asked to consider the future, 28% of British Columbians expect the high-tech sector to be the biggest contributor to the BC economy, second to the proportion who mention tourism (44%), but surpassing forestry (18%), and well ahead of either manufacturing (6%) or mining (3%).

At the same time, results from an earlier BC TIA/Ipsos Reid survey revealed that the biggest concern for the CEOs of technology companies in British Columbia continues to be their inability to secure investment capital. The British Columbia Discovery Fund is an investment fund that will help bridge the gap between the investment opportunities that British Columbians perceive and the need for investment capital identified by technology companies, with the potential for attractive investment returns. The Fund also provides individual British Columbia investors with tax credits of 30% on amounts invested up to \$200,000.

Discovery Capital Corporation, the manager of the Fund, was established in 1986 with a goal of advising and contributing to the development of the technology industry in British Columbia, and the Company has grown along with the industry. Today, Discovery Capital is well known in the BC technology industry for its collaborative investment

style and value-added approach to assisting emerging technology companies as they grow and profit. This has benefited Discovery Capital and the investment funds it has managed as well - the Company has a long track record of profitable realizations on investments in the British Columbia technology industry, having been an early investor in leading technology companies such as Sierra Wireless, A.L.I. Technologies (now a division of McKesson Corporation), TIR Systems and Inex Pharmaceuticals.

The Small Business Venture Capital Act, which governs venture capital corporations (VCCs) such as the Fund, was significantly amended in March 2003, resulting in substantial improvements for investors in VCCs. Discovery Capital was a significant contributor to the development of these amendments, and it launched the British Columbia Discovery Fund as the first fund structured under the new legislation. Similar to labour sponsored funds (LSFs), shares of the Fund are purchased and can be redeemed at net asset value per share, after a hold period. However, the Fund has several key advantages for investors over LSFs, including:

- A 30% fully refundable tax credit on amounts invested from a minimum of \$2,500 to a maximum of \$200,000 (versus a \$5,000 maximum investment and a 30% non-refundable tax credit for investors in LSFs); and
- The ability to request redemption after a 5-year hold period (versus an 8-year hold period for typical LSFs).

On behalf of my fellow independent directors, John MacDonald and Alan Winter, I would like to thank John McEwen, Harry Jaako and their team at Discovery Capital for their continuing efforts to ensure the long-term success of the British Columbia Discovery Fund.

To shareholders of the Fund - welcome!



Neil de Gelder, Chairman

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Charles Cook,
Chief Financial Officer



Don Furney,
PricewaterhouseCoopers

FREQUENTLY ASKED QUESTIONS

What are the criteria for selecting venture investments?

Before we consider making a venture investment, we evaluate a prospective portfolio company on the basis of the following criteria:

Management - The quality of the management team is paramount. The management team is evaluated with respect to its experience in the industry in which the company operates, its equity stake in the company, its ability to grow with the company as the business expands or its receptiveness to the recruitment of suitably qualified management candidates, and its demonstrated track record in managing the growth of a business through to a successful exit in previous ventures.

Markets - The size and expected growth of the market for the products and/or services of the prospective portfolio company must be significant. Markets should not be geographically limited or overly narrow.

Market Acceptance - Market acceptance should be demonstrated either through the generation of revenues or through the existence of a strategic relationship with a partner that will assist in the distribution of the product.

Technology and Products - The prospective portfolio company should be the sole owner of the proprietary technology, products, services or processes it intends to market. The company will also be assessed with respect to its ability to develop multiple products or applications for its technology and its ability to innovate through research and development activities.

Exit Strategy - The expected length of time to sell an investment in a prospective portfolio company will be assessed, with investments preferred in companies where profitable exit opportunities may be expected to occur in a three to five year time frame.

Prospective portfolio companies will typically be valued at between \$3 million and \$30 million, prior to initial investment. The fund manager will, generally, aim to have the Fund secure an aggregate 10% to 30% equity stake in portfolio companies, normally on a lead investor basis, and allow for the ability to participate in several rounds of financing. The total evaluation process, from sourcing to investment, will typically take about three months.

FUND TIPS AND INFORMATION

In this section, we provide information regarding the Fund which we believe will be of interest to investors. Investors are advised to consult their legal, taxation and investment advisors before investing in the Fund.

Don Furney is a tax partner with PricewaterhouseCoopers of Vancouver, BC. As the world's largest professional services organization, PricewaterhouseCoopers provides audit, tax and business advisory services to its corporate and personal clients. We asked Don to consider the tax savings of a \$25,000 investment in a VCC compared to a \$25,000 investment in a "flow-through" share or fund, based on the following simplified example and assumptions:

- The investor is a single employee residing in BC, with no dependents and no other deductions, earning \$80,000 in employment income.

- Alternative minimum tax is ignored and it is assumed that future income tax rates are the same as 2003.
- The "flow-through" investment provides a 100% tax deduction in the year it is acquired and no other tax credits are available.
- The investment, whether it is the VCC or the "flow-through" investment, is eventually sold for its original cost of \$25,000. (The timing of the sale is ignored, but hold periods will likely be different for each investment - for example, the Fund has a five year hold period.)

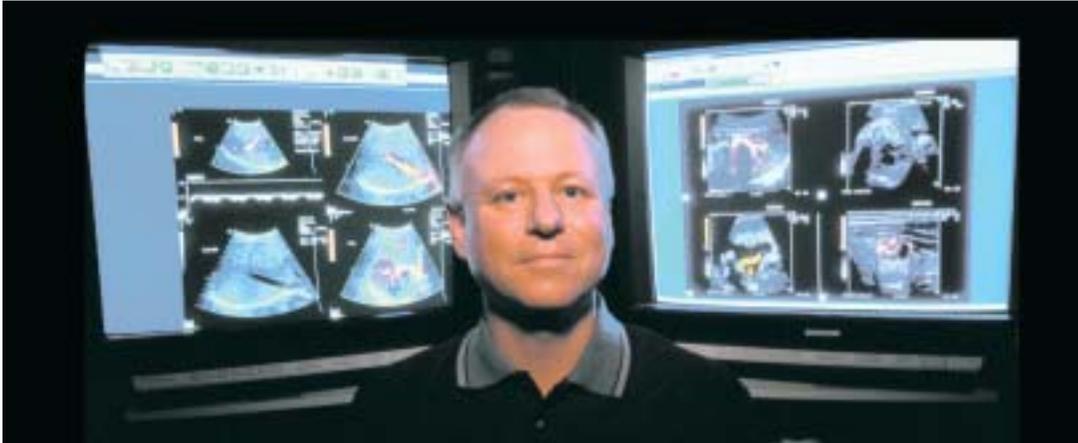
	VCC Investment	Flow-Through Investment
Employment Income	\$80,000	\$80,000
Flow-through Deduction	-	25,000
Taxable Income	80,000	55,000
Taxes Payable	21,464	12,480
VCC Tax Credit (\$25,000 x 30%)	7,500	-
Net Taxes Payable	13,964	12,480
Capital Gain	-	25,000
Tax on Capital Gain	-	5,005
Total Taxes Payable	\$13,964	\$17,485

As demonstrated in the foregoing simplified example, the VCC investor would pay \$3,521 less in total taxes over time, after providing for the tax that must be paid on the capital gain arising on the disposition of the "flow-through" investment.

PORTFOLIO PROFILE

In this section, we will be typically profiling one of the Fund's portfolio companies. As the Fund has been focused on capital raising and is now in the process of reviewing initial opportunities for investment, we believed it would be of interest to our shareholders to review the fund manager's experience with a previous investment made by other funds it has managed.

CASE STUDY - A.L.I. TECHNOLOGIES - THE MAKING OF A GLOBAL LEADER



Greg Peet, President and CEO, A.L.I. Technologies Inc.

By 1995, A.L.I. Technologies Inc. had already spent seven long years researching and developing its electronic ultrasound system. The Richmond-based company hoped to create its own niche with this unique cost-saving product.

The company then faced the challenges of commercialization. Convincing the financial community that eight-year-old A.L.I. Technologies could successfully commercialize its product was arduous. "It was very difficult to obtain funding," says A.L.I. Technologies President and CEO Greg Peet. That's when Discovery Capital entered the scene. "They were there at a critical time," Peet says. Discovery Capital was the only locally-based venture capital firm to invest in A.L.I.

Subsequently, A.L.I. Technologies dramatically increased its revenues from \$2 million to more than \$40 million annually, as reported in its last annual report as a public company. Its staff also grew from 35 to over 200. As one of Canada's fastest growing companies, A.L.I. had established itself as a global market leader. With Discovery Capital's support, A.L.I. followed through on even more ambitious plans. Peet replicated the company's ultrasound success in broader applications for all radiology, including x-rays, MRIs and nuclear medicine.

Before it was acquired, more than 500 A.L.I. systems had been installed worldwide, at such renowned hospitals as the Mayo Clinic, Loma Linda University Medical Center, Duke University Medical Center and John Hopkins University Medical Center.

Discovery Capital seeks to find ways in which it can actively support and accelerate the development of the companies it invests in. In the case of A.L.I., Discovery was a pre-IPO investor, and agreed to stand as the lead investor for the IPO. Discovery made its third, and largest investment, well after the IPO, during a period when capital markets were weak and A.L.I.'s share price was depressed, while the company was diligently executing its business plan. Discovery subsequently agreed to sell a significant part of its shareholdings to GE Medical Systems, helping to facilitate an important strategic partnership. In aggregate, Discovery Capital realized \$6.4 million on its investment in A.L.I. Technologies in just over four years, almost four times its investment of \$1.7 million. In 2002, A.L.I. Technologies was sold to McKesson Corporation for approximately \$530 million cash, the largest cash acquisition of a BC-based technology company in history.



The Fund will selectively diversify its investing across the following recognized world class technology clusters in BC:

Information Technology

- Software
- Hardware

Advanced Technologies

- Energy
- Environmental
- Advanced Materials

Communications

- Wireless
- Networking

Health & Life Sciences

- Biotechnology
- Pharmaceuticals
- Bioinformatics

MESSAGE TO THE SHAREHOLDERS



John McEwen & Harry Jaako,
Co-Chief Executive Officers,
Discovery Capital Corporation

Fund Facts

Fund Code	DCC 100
Asset Class	Venture Capital Fund
Fund Manager	Discovery Capital Corporation
Tax Credit	30%
Redemption	5 years
Eligibility	B.C. residents only
Minimum Investment	\$2,500
Maximum Investment Eligible for Tax Credit	\$200,000 for individuals, no limit for corporations
Purchase Price	Net Asset Value per Share
Eligibility	RRSP's, RRF's, RESP's
Foreign Content Bump-Up	Yes
Valuations	Weekly

Overview

British Columbia Discovery Fund is focused on venture capital investing in the technology sector of British Columbia. As manager of the Fund, Discovery Capital believes that the opportunity to make venture capital investments in British Columbia has rarely been more attractive.

British Columbia has a remarkably vibrant technology sector which provides for a rich supply of diversified investment opportunities across several segments of the technology industry, such as information technology, wireless communications, alternative energy, life sciences and new media, to name just a few. However, venture capital under management and available for investment in British Columbia is relatively low compared to other technology "clusters" in Canada. Relatively scarce venture capital means that the valuations of potential investment candidates in British Columbia remain very attractive, which creates opportunities for the Fund to make investments on very favourable terms.

From a macro perspective, venture capitalists are observing financial market conditions that are increasingly positive for the first time in three years. As business confidence returns, many corporations are announcing that their capital budgets are being increased, with significant allocations being made to technology investment. The pace of mergers and acquisitions (M&A) activity has also increased, and will likely accelerate as improved stock market valuations prompt more companies to consider strategic acquisitions.

Investors have taken notice - major North American stock market indices have had double-digit percentage increases since the beginning of 2003 and there is an upsurge in the number of initial public offerings (IPOs) being completed, after several years of relative inactivity. The improving business climate has several positive implications for venture capital investment:

- Increased capital spending should result in increased revenues and accelerated innovation in venture-stage technology companies.
- Increased M&A and IPO activity should provide enhanced financing possibilities for companies, as well as increased exit opportunities for venture stage investors.
- Accelerated innovation, better access to capital and improved business confidence should lead to a significant increase in venture investment opportunities.

Investment Activity

The Fund made its initial venture investment in April by participating in the IPO of Vigil Health Solutions Inc.



to raise \$2 million. Based in Victoria, Vigil develops and markets a proprietary technology platform combining software and hardware to provide solutions that guide care of and monitor seniors living in long-term care facilities, especially seniors suffering from Alzheimer's disease and other forms of dementia. The Vigil System is currently installed in 24 facilities throughout North America.

Fund Sales

We commenced selling shares of the Fund pursuant to a prospectus in March 2003. Although sales began after the important RRSP selling season, we are very pleased with initial sales, which currently approach \$3 million. In British Columbia, the sale of shares by venture capital investment funds that provide investors with a tax credit is limited by the policies of the provincial government. British Columbia Discovery Fund is currently authorized to issue a maximum of \$10 million of shares annually. If investor interest in 2003 exceeds this amount, the Fund may apply to receive an allocation to issue an additional amount in the current year, although additional amounts may not be available.

Outlook

Through the resources and strong network of the fund manager and the Board of Directors, the Fund is reviewing a qualified selection of investment opportunities, some of which will be the subject of further due diligence and possible investment. We are excited about the launch of British Columbia Discovery Fund, as we believe patient investors will be rewarded with attractive returns.

Sincerely,

Harry Jaako

John McEwen

FINANCIAL STATEMENTS



Statements of Financial Position

(Unaudited - prepared by management)

	June 30, 2003	December 31, 2002
ASSETS		
Venture investments, at fair value	\$ 170,743	\$ -
Marketable securities, at market value (note 2)	1,164,624	-
Cash	704,163	225,683
Subscriptions receivable	94,525	-
Accounts receivable and other assets	7,594	-
Deferred charges (note 3)	610,501	219,782
Total Assets	2,752,150	445,465
LIABILITIES		
Accounts payable and accrued liabilities (note 4)	75,163	183,365
Total Liabilities	75,163	183,365
Net Assets	2,676,987	262,100
SHAREHOLDERS' EQUITY		
Share capital (note 5)	2,672,244	262,100
Unrealized appreciation of venture investments	4,743	-
Total Shareholders' Equity	\$ 2,676,987	\$ 262,100
Common shares outstanding	267,224	26,210
Net Asset Value per Common Share¹	\$ 10.02	\$ 10.00

See accompanying notes

¹ The Fund is conducting a continuous offering of its common shares pursuant to a prospectus dated March 6, 2003. The common shares were offered at a price of \$10.00 per common share until June 30, 2003. Thereafter, the common shares are being offered at net asset value per share.

On behalf of the Board of Directors:

Harry Jaako
Director

John McEwen
Director

Statement of Changes in Net Assets

(Unaudited - prepared by management)

For the six months ended	June 30, 2003
Net Assets, beginning of period	\$ 262,100
Investment Activities	
Unrealized appreciation of venture investments	4,743
Capital Transactions	
Proceeds from issuance of common shares	2,410,144
Increase in net assets for the period	2,414,887
Net Assets, end of the period	\$ 2,676,987

See accompanying notes

FINANCIAL STATEMENTS

Statement of Cash Flows

(Unaudited - prepared by management)

For the six months ended	June 30, 2003
Operating Activities	
Net change in non-cash working capital	\$ (210,321)
Cash flows used in operating activities	(210,321)
Investing Activities	
Purchase of venture investments	(166,000)
Purchase of short-term investments	(1,164,624)
Cash flows used in investing activities	(1,330,624)
Financing Activities	
Proceeds from issuance of common shares	2,410,144
Deferred charges	(390,719)
Cash flows from financing activities	2,019,425
Net Increase in Cash during the period	478,480
Cash, beginning of the period	225,683
Cash, end of the period	\$ 704,163

See accompanying notes

Statement of Investment Portfolio

(Unaudited - prepared by management)

As at June 30, 2003

MARKETABLE SECURITIES

Par Value \$	Issuer	Maturity Date	Cost \$	Market Value \$	Percentage of Net Assets
Short-term Investments					
681,000	Government of Canada	July 17, 2003	680,177	680,177	
485,000	Government of Canada	July 17, 2003	484,447	484,447	
Total Marketable Securities			1,164,624	1,164,624	44%

VENTURE INVESTMENTS

Investee	Number of Securities	Security	Cost \$	Percentage of Net Assets
Public				
Vigil Health Solutions Inc.	474,286	Common Shares	166,000	
Vigil Health Solutions Inc.	474,286	Warrants	-	
Total venture investments, at cost			166,000	6%
Unrealized appreciation of venture investments			4,743	0%
Total Venture Investments, at Estimated Fair Value			170,743	6%
Total Investments			1,335,367	50%
Other assets, net of liabilities			1,341,620	50%
Net Assets			2,676,987	100%

See accompanying notes

NOTES TO FINANCIAL STATEMENTS



Notes to Financial Statements

(June 30, 2003)

These interim financial statements should be read in conjunction with the audited statement of financial position as at November 20, 2002 contained in the prospectus of the Fund dated March 6, 2003. These statements follow the same accounting policies and methods of their application as those followed in the November 20, 2002 audited statement of financial position.

1 Nature of operations

British Columbia Discovery Fund (VCC) Inc. (the Fund) was incorporated under the Company Act of British Columbia on November 6, 2002 and is registered as a venture capital corporation under the Small Business Venture Capital Act of British Columbia (the SBVCA). The Fund is engaged in the business of venture capital financing, focusing on investing in technology businesses that are eligible small businesses under the SBVCA.

A wholly owned subsidiary of Discovery Capital Corporation, Discovery Capital Management Corp. (together, the Manager), acts as investment manager to the Fund and assists the Fund in sourcing, selecting and monitoring the Fund's investments. The Fund has entered into a management agreement with the Manager under which the Manager will be paid an annual management fee of 2.75% of the net asset value of the Fund, up to \$100 million, plus 2.5% of the net asset value of the Fund in excess of \$100 million, calculated and paid monthly in arrears, as well as, subject to satisfaction of certain conditions, a performance fee equal to 20% of the realized gains for cash and cash income from each eligible investment of the Fund, calculated and paid quarterly in arrears.

The Fund did not expect to conduct material investment operations prior to June 30, 2003 and, accordingly, deferred all costs associated with the start-up and initial organization of the Fund in the pre-operating period, which ended June 30, 2003. Accordingly, the Fund has not prepared a statement of operations for the period ending June 30, 2003.

2 Marketable securities

Short-term investments are valued at amortized cost, which approximates market value.

3 Deferred charges

The Fund records sales commissions and other costs directly related to the issuing of common shares (Issue Costs) as deferred charges. The Fund amortizes Issue Costs on a straight-line basis over five years from the date of issue of the related shares.

Costs associated with the start-up and initial organization of the Fund have been deferred in the pre-operating period and will subsequently be amortized over the shorter of the expected period of benefit or five years, when it is probable that the costs will be recoverable from future periods.

4 Related party transactions

Included in accounts payable and accrued liabilities at June 30, 2003 is \$30,270 payable to the Manager in respect of management fees (\$17,343) and recoverable expenditures (\$12,927).

Pursuant to a funding agreement between Discovery Capital Corporation (DCC) and the Fund, DCC has agreed to pay any expense of the Fund that the Fund is unable to pay, due to any restrictions on the Fund paying such expenses imposed by the SBVCA or otherwise, and, further, to not demand payment of any expenses payable to DCC. Any such expenses will continue to be liabilities of the Fund and will be paid when the Fund has available funds that are not restricted by the SBVCA to pay such liabilities.

5 Share capital

Authorized

500,000,000 common shares

Issued	June 30, 2003	
	Number	Amount
Balance, December 31, 2002	26,210	\$ 262,100
Issued during the period	241,014	2,410,144
Balance, end of period	267,224	\$ 2,672,244

Shareholders can require the Fund to redeem their shares at the net asset value per common share of the Fund at any time after five years from the original share issue date, or at any time if the holder thereof is deceased, provided that the Fund is in compliance with the SBVCA at all times and is not otherwise prohibited or restricted under its articles from completing redemption requests.

6 Subsequent event

The Fund is conducting a continuous offering of its common shares pursuant to a prospectus dated March 6, 2003. The common shares were offered at a price of \$10.00 per common share until June 30, 2003 after which the common shares are being offered at the net asset value per common share determined on the valuation date which falls on or occurs immediately after the date on which the common shares are purchased. As at August 18, 2003, the Fund has issued 300,385 common shares for gross proceeds of \$3,000,952.

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FUND CODE

DCC 100

FUND MANAGER

Discovery Capital Management Corp.

A wholly owned subsidiary of Discovery Capital Corporation

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