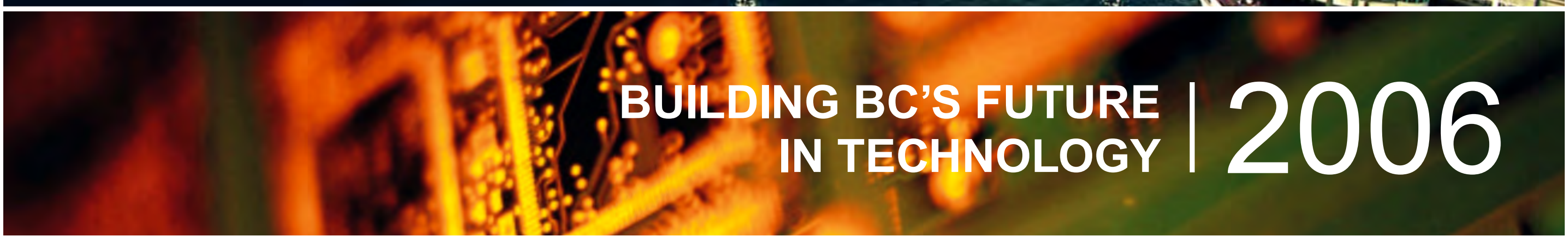


BUILDING BC'S FUTURE IN TECHNOLOGY | 2006

SEMI-ANNUAL REPORT

BC DISCOVERY FUND

2006 INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

This interim management report of fund performance contains financial highlights of and accompanies the unaudited interim financial statements of **British Columbia Discovery Fund (VCC) Inc.** (the "Fund") contained in this Semi-Annual Report, and should be read in conjunction with those financial statements.

Shareholders may contact the Fund to request a copy of this Semi-Annual Report, or the proxy voting policy or proxy voting disclosure record of the Fund, by calling the following toll free number 1-877-553-3863; by writing to the Fund at 5th Floor, 1199 West Hastings Street, Vancouver, B.C. V6E 3T5; or by visiting the Fund's website at **www.bcdiscoveryfund.com**; or SEDAR at **www.sedar.com**. The Fund's proxy voting disclosure record for the period ending June 30, 2006 is posted on the Fund's website.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

This Management Discussion of Fund Performance may contain certain forward-looking statements that are made based on management's judgment and expectations, but are inherently subject to risks and uncertainties beyond the Fund's control. Actual results may differ materially from those anticipated in forward-looking statements.

The Fund is a venture capital corporation registered under and governed by the provisions of the *Small Business Venture Capital Act* (British Columbia) ("SBVCA"). The venture capital programs operating under the SBVCA encourage early stage or 'seed" equity capital investments in small businesses by offering British Columbia resident investors refundable tax credits. Persons who require further information on the provisions of the SBVCA are advised to consult their own professional advisors or visit the website of the Investment Capital Branch at **www.equitycapital.gov.bc.ca**.

Results of Operations – Six months ended June 30, 2006

Net Assets

Net assets were $31,645,912 at June 30, 2006, an increase of $3,184,399 from net assets of $28,461,513 at December 31, 2005. The increase in net assets is a result of gross proceeds from sales of shares during the six months ended June 30, 2006 (the "2006 Interim Period") of $3,661,677 (net of redemptions in the amount of $2,248), offset by $329,963 of share issue costs and a decrease of $147,315 in net assets from operations –see "Operating Results" below.

Operating Results

Net assets from operations decreased by $147,315 during the 2006 Interim Period. This compares to an increase in net assets from operations of $1,013,743 during the six months ended June 30, 2005 (the "2005 Interim Period").

The decrease in the 2006 Interim Period is attributable mainly to an unrealized loss of $(68,741) on the Fund's venture investments, whereas during the 2005 Interim Period there was an unrealized gain of $1,399,252 on the Fund's venture investments. The unrealized loss for the 2006 Interim Period is due mainly to a decline in the share trading price of one of the Fund's publicly-traded portfolio companies (Cryopak Industries Inc.) whereas the unrealized gain for the 2005 Interim Period was due to a substantial unrealized gain in the estimated fair value of the Fund's investment in Aspreva Pharmaceuticals Inc., as well as an increase in the estimated fair value of private investee Day4 Energy Inc.

Other items affecting changes in net assets from operations are explained as follows:

- Total revenue consisting of investment income was $487,455 during the 2006 Interim Period, an increase of $277,692 from investment income of $209,763 during the 2005 Interim Period. This was due to the Fund's portfolio investments accruing higher levels of interest income and dividends, as well as generally higher rates of interest earned on cash and marketable securities.
- Total expenses were $741,447 for the 2006 Interim Period, higher by $146,175 over total expenses of $595,272 for the 2005 Interim Period. The increase is due mainly to increased management fees and increased trailer fees, which are both based on higher average pricing net assets of the Fund.
- There was a reduction of $175,418 in performance fees accrued on unrealized gains from venture investments during the 2006 Interim Period which contributed positively to net assets from operations. This amount had previously been accrued at December 31, 2005 as a provision for the amount that would have been payable if the unrealized gains on venture investments as at that date had all been realized at that date. There were no changes in performance fees recorded during the 2005 Interim Period.

Investments and Investment Activities

During the 2006 Interim Period, the Fund invested a total amount of $1,885,625, comprised of $1,277,292 in five existing portfolio companies and $608,333 in one new private company investment – Galeforce Solutions Inc. This reflected lower investment activity than the 2005 Interim Period, where a total of $4,435,000 was invested in seven portfolio companies.

The Fund's net asset mix at June 30, 2006 remained virtually unchanged from December 31, 2005, with 54% in venture investments and 46% in cash, marketable securities and other net assets – see "Summary of Investment Portfolio" below. At June 30, 2006, the Fund's portfolio comprised venture investments in twelve emerging technology companies, diversified across its targeted technology sectors. Nine of the Fund's investments at June 30, 2006 are in private companies, representing 83% of the Fund's total venture investment portfolio at that date.

SBVCA Allocation

The Fund is currently authorized under the SBVCA to issue up to $10 million of its shares during the period ended February 15, 2007 and up to a further $10 million of its shares in each of the periods ending February 15, 2008 and February 15, 2009. Typically, a substantial portion of the sale of shares of the Fund occurs between the months of September and February.

Recent Developments

There were no significant developments affecting the Fund during the 2006 Interim Period.

Related Party Transactions

The following table summarizes related party fees and expenses payable in respect of the six-month interim periods ending June 30, 2006 and June 30, 2005.

	2006 **$**	**2005** **$**
Directors' fees and expenses	11,952	13,001
Management fees	490,347	383,513
Reimbursement of expenses	35,774	25,259
Total related party fees and expenses	538,073	421,773

Management fees and performance fees are payable to Discovery Capital Management Corp. (the "Manager"), a wholly owned subsidiary of Discovery Capital Corporation ("DCC"), pursuant to an amended and restated management agreement dated as of January 1, 2004 ("Management Agreement") between the Manager and the Fund – see "Management Fees" below. Reimbursement of expenses are comprised of expenses which were payable to the Manager or to DCC relating to office and marketing expenses, as well as directors' and officers' insurance, which the Manager or DCC paid on behalf of the Fund.

During the 2006 Interim Period, the Fund invested $450,000 in Tantalus Systems Corp. and $355,800 in Vigil Health Solutions Inc., companies in which DCC is a significant shareholder.

Financial Highlights

The Fund's Net Asset Value (NAV) per Share

		For the years ended Dec. 31,		
	2006 [(1)]	**2005**	**2004**	**2003**
Net Asset Value, beginning of period [(2)]	$ 8.43	$ 8.44	$ 8.55	$ 1.61
Increase (decrease) from operations:				
Total revenue	0.13	0.18	0.20	0.16
Total expenses	(0.20)	(0.48)	(0.48)	(1.18)
Realized gains (losses) for the period	-	0.13	-	-
Unrealized gains (losses) for the period	(0.02)	0.24	(0.11)	0.29
Change in performance fees accrued on unrealized gains	0.05	(0.06)	-	-
Total increase (decrease) from operations [(2)]	$ (0.04)	$ 0.01	$ (0.39)	$ (0.73)
Distributions:				
From income (excluding dividends)	-	-	-	-
From dividends	-	-	-	-
From capital gains	-	-	-	-
Return of capital	-	-	-	-
Total Annual Distributions	-	-	-	-
Net Asset Value, end of period [(2)]	$ 8.37	$ 8.43	$ 8.44	$ 8.55

(1) This information is provided for the six-month interim period ended June 30, 2006.

(2) Net asset value is based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period. This table is not intended to be a reconciliation of the net asset value per share.

Ratios and Supplemental Data

	2006 (1)	For the years ended December 31, 2005	2004	2003
Net assets (000's) (2)	$31,646	$28,462	$21,506	$8,283
Number of shares outstanding (2)	3,779,120	3,376,812	2,549,357	968,660
Management expense ratio (3)	6.82%	7.99%	12.13%	35.77%
Portfolio turnover rate (4)	0.00%	9.86%	0.00%	0.00%
Trading expense ratio (5)	0.00%	0.02%	0.00%	0.00%
Pricing NAV per Share (2)	$8.89	$9.03	$9.15	$9.82

(1) This information is provided for the six-month interim period ended June 30, 2006.

(2) This information is provided as at June 30 for 2006 and as at December 31 for 2005, 2004 and 2003.

(3) Management expense ratio is based on total expenses for the stated periods and is expressed as an annualized percentage of weekly average net assets during the periods. Expenses for the six months ended June 30, 2006 have been annualized to reflect an entire year.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

(5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

The Fund is a venture capital fund that invests in treasury securities of emerging technology companies. It will typically hold its venture investments for a number of years before exit opportunities may arise. Accordingly, portfolio turnover rate and trading expense ratio have been negligible to date.

Management Fees

The Manager is paid an annual management fee equal to 2.75% of the Pricing Net Asset Value of the Fund up to $100 million and 2.50% of the Pricing Net Asset Value of the Fund in excess of $100 million (the Pricing Net Asset Value of the Fund is the value which is used by the Fund to calculate the price at which it issues and redeems its shares – refer to Note 5(b) of the June 30, 2006 unaudited financial statements of the Fund accompanying this report). In addition, subject to satisfaction of certain conditions, the Manager is paid a performance fee equal to 20% of the realized gains for cash and cash income from each venture investment of the Fund. The conditions which must be satisfied for a performance fee to be paid in respect of any venture investment are that:

(a) the total net realized and unrealized gains and income of the Fund from its portfolio of venture investments since its inception must have generated a return greater than the annualized average rate of return on five year guaranteed investment certificates offered by a major Canadian chartered bank plus 2% per annum;

(b) the compounded annual internal rate of return (including realized and unrealized gains and income) from the venture investment since its acquisition by the Fund must equal or exceed 10% per year; and

(c) the Fund must have fully recouped (by way of disposition proceeds, dividends, interest and otherwise) an aggregate cash amount equal to all principal invested in the venture investment.

This performance fee will be calculated and, subject to applicable SBVCA expense limitations, will be paid quarterly, in arrears. Once paid, any performance fee paid by the Fund will not be refundable by the Manager as a result of a subsequent decline in the unrealized gains on venture investments of the Fund. In the event the Management Agreement is terminated, the Fund will be required to pay, subject to applicable SBVCA expense limitations, such performance fee to the Manager in respect of the quarter in which termination occurs and in respect of the following eight quarters.

Services provided by the Manager include the overall day-to-day management of the Fund, including seeking out, investigating, analyzing and researching opportunities for the Fund to invest in eligible small businesses under the SBVCA; negotiating and structuring the investments to be made by the Fund; monitoring the financial and operating performance of the portfolio companies and providing assistance to management where necessary; and ensuring that the Fund's accounting, regulatory and transfer agency requirements are established, maintained and administered to meet the various regulatory requirements of the Fund. Trailer fees and sales commissions are included in the expenses paid by the Fund directly.

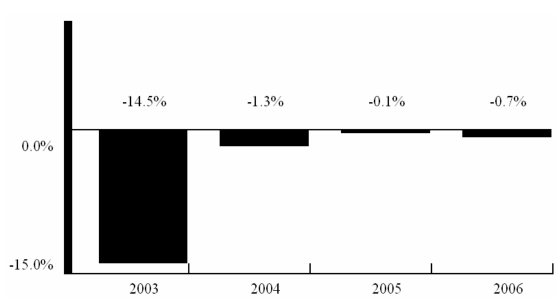
Past Performance

The following bar charts indicate the past performance of the Shares of the Fund and will not necessarily indicate how the Fund will perform in the future. The information does not take into account sales, redemptions, distribution or other optional changes payable by any shareholder that would have reduced returns or performance. Since inception of the Fund, there have been no distributions paid or reinvested by the Fund.

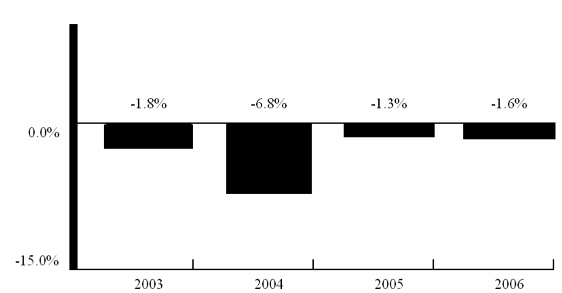
Year-by-Year Returns

The following bar charts show the performance of the Shares of the Fund for the six-month interim period ended June 30, 2006 and for each of the years ended December 31, 2005, 2004 and 2003 and illustrate how the Fund's performance has varied in each of those periods. The Fund was incorporated on November 6, 2002 and offered Shares at a price of $10.00 per Share until June 30, 2003. The bar charts show, in percentage terms, how much an investment held on January 1 (the first day of the Fund's financial year) would have increased or decreased by June 30th (the last day of the Fund's interim period) or by December 31st (the last day of the Fund's financial year). The bar charts do not take into account the 30% tax credit received on the purchase price of an investment in Shares of the Fund.

Return based on GAAP NAV



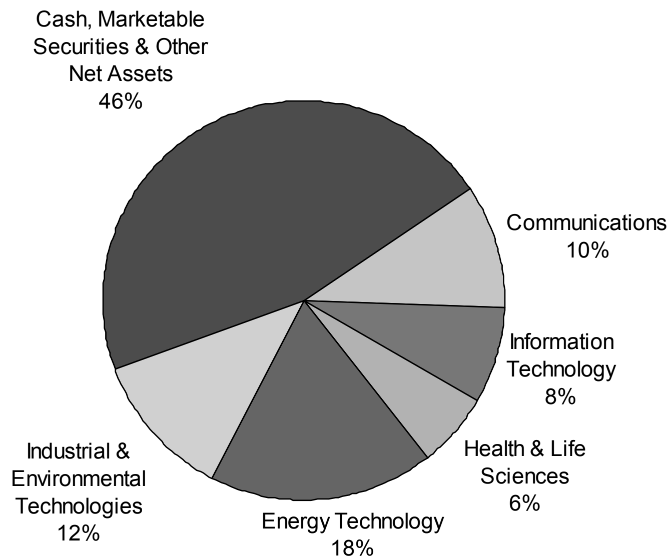
Return based on Pricing NAV



Note: The information for 2006 shows the return over the six-month interim period ended June 30, 2006. The information for 2005, 2004 and 2003 shows the return in each of those years.

Summary of Investment Portfolio

The following illustrates a portfolio breakdown of the Fund as at June 30, 2006:



This summary of investment portfolio may change due to the ongoing portfolio investment transactions of the Fund.

The Fund has positions in twelve portfolio companies. The Fund's public company investments comprise 9% of net assets and its private company investments comprise 45% of net assets. A portfolio breakdown of the Fund as at June 30, 2006 is as follows:

Investment	**Technology Sector**	**% of Net Assets**
Tantalus Systems Corp.	Energy Technology	9%
Day4 Energy Inc.	Energy Technology	9%
TIR Systems Ltd.	Industrial & Environmental Technologies	6%
Mobidia Technology Inc.	Communications	6%
Paradigm Environmental Technologies Inc.	Industrial & Environmental Technologies	5%
Vivonet Inc.	Information Technology	4%
In Motion Technology Inc.	Communications	4%
Inimex Pharmaceuticals Inc.	Health & Life Sciences	4%
IDELIX Software Inc.	Information Technology	2%
Galeforce Solutions Inc.	Information Technology	2%
Vigil Health Solutions Inc.	Health & Life Sciences	2%
Cryopak Industries Inc.	Industrial & Environmental Technologies	1%
Cash, marketable securities and other net assets		46% *
		100%

* Approximately 50% of the amount of "Cash, marketable securities and other net assets" is intended for follow-on investments in existing portfolio companies.

BC DISCOVERY FUND

British Columbia Discovery Fund (VCC) Inc.

Interim Financial Statements

(Unaudited – prepared by management)

June 30, 2006

NOTICE PURSUANT TO NATIONAL INSTRUMENT 81-106

The accompanying interim financial statements of British Columbia Discovery Fund (VCC) Inc. as at and for the period ended June 30, 2006 have not been reviewed by an auditor.

British Columbia Discovery Fund (VCC) Inc.

Statements of Net Assets

(Unaudited – prepared by management)

As at June 30, 2006 and December 31, 2005

	June 30, 2006	December 31, 2005
ASSETS		
Venture investments	$ 17,001,465	$ 15,184,580
Marketable securities	7,739,201	6,968,047
Funds held in Investment Protection Account (note 3)	4,487,007	4,331,593
Cash	2,208,870	2,249,379
Accounts receivable	56,790	-
Interest and dividends receivable	321,565	146,846
Subscriptions receivable	2,375	120,180
Prepaid expenses	21,562	5,731
Total Assets	31,838,835	29,006,356
LIABILITIES		
Accounts payable and accrued liabilities	103,658	90,780
Due to related parties (note 6)	89,265	278,645
Performance fees accrued on unrealized gains (note 4)	-	175,418
Total Liabilities	192,923	544,843
Net Assets	31,645,912	28,461,513
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	32,808,105	29,476,391
Deficit	(1,647,420)	(1,568,846)
Unrealized gains (losses) on venture investments	485,227	553,968
Total Shareholders' Equity	$ 31,645,912	$ 28,461,513
Common shares outstanding	3,779,120	3,376,812
Net Assets per Common Share (note 5)	**$ 8.37**	**$ 8.43**
Pricing Net Asset Value per Common Share (note 5 b))	**$ 8.89**	**$ 9.03**

See accompanying notes

On behalf of the Board of Directors:

"Harry Jaako"
Director

"John McEwen"
Director

British Columbia Discovery Fund (VCC) Inc.

Statements of Operations

(Unaudited – prepared by management)

For the six months ended June 30

	June 30, 2006	June 30, 2005
INVESTMENT INCOME		
Interest from marketable securities	$ 255,252	$ 200,830
Dividends from venture investments	136,661	-
Interest from venture investments	95,542	8,933
Total investment income	487,455	209,763
EXPENSES		
Management fees (note 4 and 6)	490,347	383,513
Trailer fees (note 2)	83,703	65,152
Fund administration and transfer agency fees	46,455	47,301
Office expenses and administrative services	39,777	19,482
Shareholder communications	33,807	24,956
Marketing expenses	19,284	6,079
Directors' fees and expenses (note 6)	11,952	13,001
Directors' and officers' insurance	11,800	8,363
Audit and advisory fees	2,971	9,583
Legal fees	1,351	17,842
Total expenses	741,447	595,272
Net Investment Loss	**(253,992)**	**(385,509)**
Unrealized gains (losses) on venture investments	(68,741)	1,399,252
Change in performance fees accrued on unrealized gains (note 4)	175,418	-
Increase (Decrease) in Net Assets from Operations	**(147,315)**	**1,013,743**
Per Common Share (based on weighted average number of shares outstanding)		
Net investment loss for the period	(0.07)	(0.14)
Unrealized gains (losses) on venture investments	(0.02)	0.51
Change in performance fees accrued on unrealized gains	0.05	0.00
Increase (Decrease) in Net Assets from Operations	**$ (0.04)**	**$ 0.37**

See accompanying notes

British Columbia Discovery Fund (VCC) Inc.

Statements of Changes in Net Assets

(Unaudited – prepared by management)

For the six months ended June 30

	June 30, 2006	June 30, 2005
Net Assets, beginning of the period	$ 28,461,513	$ 21,505,598
Operating Activities		
Increase (decrease) in net assets from operations	(147,315)	1,013,743
Capital Transactions		
Proceeds from issuance of common shares	3,663,925	3,055,763
Less: Share issue costs including sales commissions	(329,963)	(284,842)
Redemption of common shares	(2,248)	-
	3,331,714	2,770,921
Increase in Net Assets	3,184,399	3,784,664
Net Assets, end of the period	31,645,912	25,290,262
Unrealized Gains (Losses) on Venture Investments		
Balance, beginning of the period	553,968	(132,121)
Net increase (decrease) for the period	(68,741)	1,399,252
Balance, end of the period	$ 485,227	$ 1,267,131

See accompanying notes

British Columbia Discovery Fund (VCC) Inc.

Statements of Cash Flows

(Unaudited – prepared by management)

For the six months ended June 30

		June 30, 2006		June 30, 2005
Cash Flows from Operating Activities				
Increase (decrease) in net assets from operations	$	(147,315)	$	1,013,743
Items not affecting cash from operating activities				
Unrealized (gains) losses on venture investments		68,741		(1,399,252)
Change in accrued interest on marketable securities		12,256		74,703
Net change in non-cash working capital		(481,455)		(44,706)
Cash flows from operating activities		(547,773)		(355,512)
Cash Flows from Investing Activities				
Net change in investment protection account		(155,414)		455,386
Net change in marketable securities		(783,411)		1,455,613
Purchase of venture investments		(1,885,625)		(4,435,000)
Cash flows from investing activities		(2,824,450)		(2,524,001)
Cash Flows from Financing Activities				
Proceeds from issuance of common shares (note 5)		3,663,925		3,055,763
Share issue costs including sales commissions (note 5)		(329,963)		(284,842)
Redemption of common shares (note 5)		(2,248)		-
Cash flows from financing activities		3,331,714		2,770,921
Decrease in cash during the period		**(40,509)**		**(108,592)**
Cash, beginning of the period		2,249,379		2,144,320
Cash, end of the period		**2,208,870**		**2,035,728**
Supplemental Cash Flow Information				
Interest received	$	324,993	$	282,602

See accompanying notes

British Columbia Discovery Fund (VCC) Inc.

Statement of Investment Portfolio

(Unaudited – prepared by management)

As at June 30, 2006

MARKETABLE SECURITIES

Issuer	Par Value $	Maturity Date	Cost $	Fair Value $
Short-term Investments				
Canadian Imperial Bank of Commerce Bankers Acceptance 4.11%	1,004,000	July 5, 2006	999,983	1,003,437
Canadian Imperial Bank of Commerce Bankers Acceptance 4.15%	2,006,000	July 10, 2006	1,999,641	2,003,728
Canadian Imperial Bank of Commerce Bankers Acceptance 4.15%	1,304,000	July 17, 2006	1,299,266	1,301,486
Canadian Imperial Bank of Commerce Bankers Acceptance 4.17%	1,534,000	July 21, 2006	1,529,107	1,530,330
Canadian Imperial Bank of Commerce Bankers Acceptance 4.20%	1,907,000	July 31, 2006	1,900,001	1,900,220
Total Marketable Securities			**7,727,998**	**7,739,201**

See accompanying notes

British Columbia Discovery Fund (VCC) Inc.

Statement of Investment Portfolio

(Unaudited – prepared by management)

As at June 30, 2006

VENTURE INVESTMENTS

Investee		Number of Shares/ Par Value	Expiry Date/ Maturity Date	Cost $	Estimated Fair Value $
Public					
Cryopak Industries Inc.					
- Common shares		650,000		130,000	52,000
- Common share warrants		325,000	December 10, 2007	-	-
- 12% secured Convertible debenture	$	250,000	April 8, 2010	250,000	250,000
TIR Systems Ltd.					
- 7% secured Convertible debenture	$	2,000,000	January 27, 2011	2,000,000	2,000,000
- Common share warrants		400,000	October 27, 2008	-	-
Vigil Health Solutions Inc.					
- Common Shares		8,954,286		776,800	533,700
Private					
Day4 Energy Inc.					
- Class A Common shares		1,450,000		2,400,000	2,900,000
- Series D Common share warrants		200,000	March 31, 2009	-	-
Galeforce Solutions Inc.					
- Class B Preferred shares		14,509,252		608,333	608,333
- Class B Preferred share warrants		7,254,626	October 15, 2007	-	-
Idelix Software Inc.					
- Series 2 Preferred shares		1,800,000		530,002	530,002
- Series 3 Preferred shares		800,000		200,000	200,000
- Series 3 Preferred share warrants		400,000	September 15, 2006	-	-
Inimex Pharmaceuticals Inc.					
- A1 Preferred shares		2,450,020		1,000,000	1,000,000
- 12% Convertible Note	$	150,000	June 30, 2007	150,000	150,000
In Motion Technology Inc.					
- Series 1 Preferred shares		2,316,274		1,167,402	1,167,402
- Series 1 Preferred share warrants		1,158,137	March 22, 2010	-	-
Mobidia Technology Inc.					
- 8% Class A Preferred shares		1,590,908		1,784,090	1,784,090
Paradigm Environmental Technologies Inc.					
- Class A Voting Common shares		464,396		1,500,000	1,500,000
Tantalus Systems Corp.					
- Series A Preferred shares		845,417		1,508,360	1,902,188
- Series B Preferred shares		457,778		1,030,000	1,030,000
Vivonet Inc.					
- 6% Class B Preferred shares		4,280,822		1,481,250	1,393,750
Total venture investments, at estimated fair value					**17,001,465**
TOTAL INVESTMENTS					**24,740,666**
Other assets, net of liabilities					6,905,246
Net Assets					**31,645,912**

See accompanying notes

Notes to Financial Statements

(June 30, 2006)

These interim financial statements should be read in conjunction with the audited financial statements as at and for the year ended December 31, 2005. These statements follow the same accounting policies and methods of their application as those followed in the December 31, 2005 audited financial statements.

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 (VCC) 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 (DCC), Discovery Capital Management Corp. (the Manager), acts as investment manager to the Fund and assists the Fund in sourcing, selecting and monitoring the Fund's investments.

Common shares of the Fund are offered on a continuous offering basis at the pricing net asset value per common share of the Fund (see note 5 b)).

2 Significant accounting policies

The accompanying financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The significant accounting policies are as follows:

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates. Significant areas requiring the use of management estimates include estimations of the fair value of venture investments. Assumptions underlying investment valuations are limited by the availability of reliable data and uncertainty of predictions concerning future events. Accordingly, by their nature, investment valuations include a subjective element.

Marketable securities

Short-term marketable securities are recorded at amortized cost, which approximates fair value. Purchases and sales of marketable securities are recorded on a trade date basis.

Venture investments

Venture investments are recorded at their estimated fair value. Fair values for venture investments are estimated using the following methods:

a) Venture investments that are publicly traded securities, and that are not otherwise restricted, are recorded on the basis of the average closing market quotations over the preceding 20 trading days. A reasonable discount to market will normally be used if trading is restricted in any way.

Venture investments (continued)

b) The fair value of venture investments that are not publicly traded securities is estimated on the basis of the expected realizable value of the venture investments, on a going concern basis, if they were disposed of in an orderly fashion over a reasonable period of time to an unrelated third party acting at arm's length. New investments are carried at cost from the date on which the investment is made. An adjustment to cost is considered appropriate when supported by persuasive and objective evidence, such as a significant subsequent equity financing by an unrelated, sophisticated investor at a transaction price different from the carrying value. In addition, adjustments to carrying value are made when there is persuasive and objective evidence of a change in the value of the investment as indicated by an assessment of the financial condition of the investment based on operational results, forecasts and business developments since acquisition. Further details regarding the Fund's valuation methodology for venture investments that are not publicly traded securities are included in its annual prospectus.

   The process of estimating the fair value of venture investments for which no public 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.

Investment transactions are accounted for on a trade date basis. Realized gains and losses on such transactions are recorded in the statements of operations at that time. Unrealized gains and losses on venture investments are also recorded in the statements of operations.

Warrants and options are valued at the amount by which the estimated fair value of the underlying investment, into which the warrant or option would convert upon exercise, exceeds the exercise price of the warrant or option.

Convertible securities will generally be valued at the greater of their principal amount and their estimated fair value as if they had been converted, in each case with such estimated fair value being determined on the basis described above in respect of venture investments.

Foreign exchange

Foreign currency purchases and sales of investments and foreign currency dividend and interest income are translated into Canadian dollars at the rate of exchange prevailing at the time of the transactions. Realized and unrealized foreign currency gains or losses on venture investments are included in the statements of operations in ''realized gains (losses) on venture investments'' and ''unrealized gains (losses) on venture investments", respectively. Realized and unrealized foreign currency gains or losses on interest and dividend income from venture investments are included in the statements of operations in ''interest from venture investments'' and "dividends from venture investments".

As at June 30, 2006, the Fund held an investment in Vivonet Inc. that is denominated in United States dollars. The unrealized foreign currency loss included in the estimates of fair value of investments denominated in United States dollars on the Statement of Investment Portfolio is $87,500 as at June 30, 2006. (December 31, 2005 - $73,375).

Share issuance costs and sales commissions

Share issuance costs and sales commissions are recorded as a reduction of capital stock (see note 5 a)).

Investment income

Interest from marketable securities represents interest earned on operating cash accounts and bankers' acceptances and is recognized on an accrual basis.

Interest and dividend income from venture investments is recognized on an accrual basis.

Performance fees

Performance fees become payable to the Manager, subject to satisfaction of certain conditions, on the realized gains for cash and cash income from each venture investment of the Fund. Any amount payable on realized gains for cash and cash income at the financial statement date is recorded as a liability and expense for the Fund in the relevant period. In addition, an accrual is made for the performance fees that might become payable at a future date on the realized and unrealized gains in the venture investment portfolio.

Trailer fees

The Fund pays to each investment dealer having clients holding common shares a monthly trailer fee of 1/12 of 0.5% of the total pricing net asset value held by those clients. Trailer fees are calculated monthly and paid quarterly.

Net investment loss per share

Net investment loss per common share is calculated using the weighted average number of common shares outstanding, which for the period ended June 30, 2006 was 3,642,008 (June 30, 2005 – 2,765,449). Diluted loss per share has not been presented as no dilutive equity instruments have been granted or issued.

Income taxes

The Fund follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded to the extent it is more likely than not that future income tax assets will not be realized.

3 Investment protection account

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 investment protection accounts in amounts equal to 30% of the funds raised. As investments in eligible businesses are subsequently made, a drawdown from the investment protection accounts equal to 37.5% of the investment amount is available. These funds cannot be released without the consent of the administrator of the SBVCA. The amounts in the Fund's investment protection accounts at June 30, 2006 and December 31, 2005 were $4,487,007, and $4,331,593, respectively.

4 Management fees and performance fees

The Fund has entered into a management agreement with the Manager under which the Manager is paid an annual management fee of 2.75% of the pricing net asset value of the Fund, up to $100 million, plus 2.5% of the pricing net asset value of the Fund in excess of $100 million, calculated and paid monthly in arrears, as well as, subject to satisfaction of

4 Management fees and performance fees (continued)

certain conditions, a performance fee equal to 20% of realized gains and other cash income from each eligible venture investment of the Fund, calculated and paid quarterly in arrears. The payment of the management fee is subject to expense limitations set out in the SBVCA, including that the Fund not incur, in respect of any year, management fee expenses that exceed 3% of the aggregate equity capital it has raised. Payment of performance fees is also subject to such SBVCA expense limitations as may be applicable.

As at June 30, 2006, performance fees accrued on unrealized gains was $nil; accordingly, during the period, there was a change in performance fees accrued on unrealized gains in the amount of $175,418. This amount had previously been accrued at December 31, 2005 as a provision for the amount that would have been payable if the unrealized gains on venture investments had all been realized at that date.

5 Capital stock

Shareholders can require the Fund to redeem their shares at the pricing 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 in the case of the death of the owner, or annuitant under a registered plan that was the owner, as the case may be, 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.

a) Issued and outstanding

Authorized
500,000,000 common shares

Issued

	January 1 to June 30, 2006		January 1 to June 30, 2005	
	Number	**Amount**	**Number**	**Amount**
Balance - Beginning of period	3,376,812	$ 29,476,391	2,549,357	$ 22,540,637
Common shares issued	402,308	3,663,925	330,199	3,055,763
Common shares redeemed		(2,248)		
Less issue costs				
Sales commissions		(183,196)		(152,788)
Other share issue costs		(146,767)		(132,054)
Balance - End of period	3,779,120	$ 32,808,105	2,879,556	$ 25,311,558

Other share issue costs relate directly to the issuance of shares and include costs incurred by the Manager that are reimbursed by the Fund as set out in the Fund's prospectus (see note 6).

b) Pricing of common shares

For purposes of these financial statements, the Fund calculates its net assets in accordance with generally accepted accounting principles, and calculates its net assets per share by dividing the net assets of the Fund by the number of common shares that are issued and outstanding.

For share pricing purposes, the Fund calculates pricing net asset value per share by adding back to its net asset value amounts that would have been deferred and amortized prior to the release in 2003 of Canadian Institute of Chartered Accountants (CICA) Handbook Section 1100. This Section removed industry practice as a source of generally accepted accounting principles and, as a result, for purposes of calculating its net assets per common share, the Fund has recorded share issue costs and sales commissions as a reduction of capital stock and has expensed pre-operating costs incurred prior to July 1, 2003, all of which would previously have been deferred and amortized for accounting purposes.

The following is a reconciliation of pricing net asset value per share and net assets in accordance with generally accepted accounting principles (GAAP) per common share:

	June 30, 2006	June 30, 2005
Net assets in accordance with GAAP as reported	$ 31,645,912	$ 25,290,262
Add:		
Unamortized deferred share issue costs including sales commissions	1,895,859	1,784,170
Unamortized deferred pre-operating costs	60,433	90,901
Other financial statement adjustments	(17,626)	(6,547)
Pricing net asset value	$ 33,584,578	$ 27,158,786
Common shares outstanding at June 30	3,779,120	2,879,556
Pricing net asset value per common share	$ 8.89	$ 9.43
Net assets in accordance with GAAP per common share	$ 8.37	$ 8.78

b) Pricing of common shares (continued)

The calculation of pricing net asset value per common share assumes that:

i.) Sales commissions and share issue costs on common shares issued after June 30, 2003 would have been deferred and amortized over five years from the date of issue of the shares.
ii.) Sales commissions and share issue costs on common shares issued before June 30, 2003 would have been deferred and amortized over five years from June 30, 2003.
iii.) Pre-operating costs incurred in the period from inception to June 30, 2003 would have been deferred and amortized over the shorter of the expected period of benefit or five years.

The following is a summary of unamortized deferred share issue costs, including sales commissions, and unamortized deferred pre-operating costs:

	June 30, 2006	June 30, 2005
Share issue costs		
Balance - Beginning of period	$ 1,868,339	$ 1,745,007
Add:		
Sales commissions	183,196	152,788
Other share issue costs	146,767	132,054
	329,963	284,842
Less:		
Amortization of deferred share issue costs	(302,443)	(245,679)
Balance - End of period	$ 1,895,859	$ 1,784,170
Pre-operating costs		
Balance - Beginning of period	75,667	106,135
Add:		
Pre-operating costs	-	-
Less:		
Amortization of deferred pre-operating costs	(15,234)	(15,234)
Balance - End of period	$ 60,433	$ 90,901

6 Related party transactions

The following table summarizes related party fees and expenses payable in respect of the six-month periods ended June 30, 2006 and 2005:

	June 30, 2006	June 30, 2005
Directors' fees and expenses	$ 11,952	$ 13,001
Management fees	490,347	383,513
Reimbursement of expenses	35,774	25,259
Total related party fees and expenses	$ 538,073	$ 421,773
Due to related parties	$ 89,265	$ 75,098

Reimbursement of expenses comprises expenses that were payable to the Manager or to DCC (a company with common directors and the parent company of the Manager) relating to office and marketing expenses and directors' and officers' insurance, which the Manager or DCC paid on behalf of the Fund.

As at June 30, 2006, the Fund had invested $2,400,000 in Day4 Energy Inc. A director of the Fund is a co-founder and a significant shareholder of Day4 Energy Inc.

DCC also held investments in the following companies at the time the Fund's investment was made and at June 30, 2006: Cryopak Industries Inc., Vigil Health Solutions Inc., Idelix Software Inc., Tantalus Systems Corp. and TIR Systems Ltd.

7 Contingency

As a VCC, the Fund 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 Fund 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.

8 Comparative figures

Certain of the prior years' comparative figures have been reclassified to conform to the current year's financial statement presentation.