BC DISCOVERY FUND

Innovation to Commercialization

SEMI-ANNUAL REPORT

Building BC's Future in Technology

2009

2009 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, 2009 is posted on the Fund's website.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

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.tted.gov.bc.ca**.

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.

Results of Operations – Six months ended June 30, 2009

At June 30, 2009, the Pricing Net Asset Value per Share of the Fund (the price at which the Fund sells and redeems its common shares) was $7.35, a decrease of 6.25% during the six month period. This decrease is primarily due to unrealized losses of $2.1 million in the estimated fair value of the Fund's venture investments, as explained below under "Operating Results".

In 2008, the Fund commenced redemptions, as shares sold in early 2003 became eligible for redemption after the minimum required five-year hold period had elapsed. The Fund paid out $5.2 million in redemptions during 2008, and suspended redemptions in late December 2008. See also "Recent Developments" below.

Net Assets

Net assets for financial statement reporting purposes were $42,093,027 at June 30, 2009, a decrease of $292,101, or 0.7%, from net assets of $42,385,128 at December 31, 2008. The decrease in net assets is the net result of the negative impacts of a loss of $2,705,804 from operations (see "Operating Results" below) and redemptions paid out of $80,587, offset by proceeds from sales of shares, net of share issue costs, of $2,494,290.

Operating Results

Net assets from operations decreased by $2,705,804 during the six months ended June 30, 2009 (the "**2009 Interim Period**"). This compares to a decrease in net assets from operations of $5,507,850 during the six months ended June 30, 2008 (the "**2008 Interim Period**").

The decrease in the 2009 Interim Period is mainly attributable to an unrealized loss of $2,089,634 on the Fund's venture investments and a bad debt expense of $368,390. This bad debt expense, as well as a portion of the unrealized loss equal to $720,250, relates to the Fund's investment in privately-held portfolio company **Idelix Software Inc.** ("Idelix") which, during the 2009 Interim Period, was placed into receivership. The receiver completed the sale of substantially all of the then remaining assets of Idelix in June 2009, which essentially comprised a business undertaking called "Lat49", an on-line advertising platform technology, to a new company called **Lat49 Media Inc.** ("Lat49"). As a result of this sale, Idelix had no further business undertaking or assets, and the Fund wrote off $368,390 of unpaid interest accrued by the Fund on its security holdings of Idelix. Further, the Fund also recorded a $585,607 unrealized loss on privately-held portfolio company **Paradigm Environmental Technologies Inc.** during the 2009 Interim Period, as a result of that company raising funds at a lower valuation.

Subsequent to June 30, 2009 and concurrent with the completion of an equity financing by Lat49 on July 15, 2009, the Fund realized a loss of approximately $1.7 million on its investment in Idelix and acquired an equity interest of $1.4 million in Lat49.

The decrease in the 2008 Interim Period was mainly attributable to a decline of approximately $3.6 million in the estimated fair value of publicly-traded portfolio company **Day4 Energy Inc.**, and a write-down of approximately $2.1 million in the estimated fair value of its investment in privately-held **Tantalus Systems Corp.**

Other factors affecting changes in net assets from operations during the 2009 Interim Period compared to the 2008 Interim Period are explained as follows:

- There was a net investment loss of $247,780, before the $368,390 bad debt expense explained above. Total investment income of $662,438 was lower than total investment income of $813,762 during the 2008 Interim Period, mainly due to considerably decreased interest earned on lower balances of cash and marketable securities. Offsetting the decline in investment income, total expenses, excluding the bad debt expense, were $910,218 during the 2009 Interim Period, lower by approximately 18% over total expenses of $1,105,757 for the 2008 Interim Period. Management and trailer fees were both lower, as they reflected the decreased pricing net assets of the Fund between the two interim periods. Combined other expenses were $182,590 in the 2009 Interim Period, lower by approximately 16% over combined expenses of $216,446 in the 2008 Interim Period.
- There was no increase or decrease in performance fee accrual in the 2009 Interim Period, as there was no change in the accounting accrual made for performance fees payable at the beginning and end of the period (nil balance at each date). By contrast, in the 2008 Interim Period, there was a decrease of $1,091,173 in the performance fee accrual on unrealized gains, which had the effect of increasing net assets from operations by that amount during that period. Almost all of the accrual that existed at June 30, 2008 related to the Fund's investment in Day4 Energy which, as explained earlier in this Report, has dramatically declined in value, thus eliminating the accrual. As explained under "Management Fees" below, performance fees are only actually paid upon achievement of certain conditions.

Given the high risk nature of the Fund's venture investments in emerging technology companies, particularly those in early-stage, privately-held companies, operating results of the Fund will be highly variable from period to period.

<u>Investments and Investment Activities</u>

During the 2009 Interim Period, the Fund made cash investments of $2,171,732 into five existing portfolio companies**.** At June 30, 2009, the Fund's portfolio comprised venture investments in fifteen emerging technology companies, diversified across its targeted technology sectors. Thirteen of the Fund’s investments at June 30, 2009 are in private companies, representing 96% of the total estimated fair value of the Fund’s venture investment portfolio at that date.

The Fund’s asset mix at June 30, 2009 was 83% in venture investments and 17% in cash, marketable securities and other net assets – see “Summary of Investment Portfolio” below.

SBVCA Allocation and Commitment

The Fund was authorized under the SBVCA to issue up to $13 million of its shares in each of the periods commencing January 1 and ending February 15, 2010, 2011 and 2012, respectively. Effective June 10, 2009, authorizations to retail venture capital funds were restructured, such that the authorization of the Fund was reduced to $10 million in each of the aforementioned periods, with the ability to access a further up to $16 million pool available to all retail venture capital funds on a “first-come, first-served” basis, once each such fund meets its annual authorization limit.

As at June 30, 2009, the Fund had sold approximately $0.31 million of its $10 million allocation ending February 15, 2010. Typically, a substantial portion of the sale of shares of the Fund occurs between the months of September and February.

In order to meet its minimum investment obligations in 2009, of which approximately $2.2 million had been invested as at June 30, 2009, and ongoing operational expenses, the Fund must continue to raise capital or generate liquidity and realize gains from exits from its venture investment portfolio in order to have sufficient funds.

Recent Developments

Impact of Market Conditions

The credit crisis and global economic slow-down has impacted and will continue to impact operating conditions for companies in all sectors and, at least in the near-term, valuations of all businesses. The Fund invests in early-stage technology businesses in British Columbia, the prospects for which are normally subject to a great degree of risk and which, 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, and the Fund has experienced that in the case of its investment in publicly-traded Day4 Energy Inc., which has seen a substantial decline in market value since its initial public offering in late December 2007. However, smaller companies also have the potential to recover faster in market recoveries and, longer term, the Manager remains optimistic for key portfolio holdings of the Fund to contribute to performance as market conditions for small cap, technology and clean technology stocks improve. The Manager is working closely with its portfolio investments, particularly all its privately-held investments, to ensure their viability and ultimate success.

Redemptions Update

Pursuant to the requirements of the SBVCA, the sources of funds available to the Fund to meet redemption requests are investment income from investments, realized portfolio gains and “mature investments” in accordance with the SBVCA, which are essentially portfolio investments that have been held by the Fund for the minimum required five-year time period. **On December 19, 2008, the Fund announced that it had satisfied approximately $5.2 million of redemption requests in 2008, which were all of the funds it had available to satisfy redemption requests up until that time, and had suspended redemptions.** Such redemptions satisfied by the Fund represented 610,862 of approximately 968,000 Shares issued in December 2002 and in 2003 the holders of which had become eligible during 2008 to request redemption of their Shares. During

2009, holders of an additional approximately 1.58 million Shares issued in 2004 have or will become eligible to request redemption of their Shares. During 2009, the suspension of redemptions has continued, and the Fund has made no redemptions other than those which are permitted early redemptions in accordance with the policy of the Fund as a consequence of the death of shareholders.

The ability of the Fund to meet Redemption Requests in any year is dependent upon a number of factors which are highly variable and difficult to predict. These include, principally, the performance of the Fund's venture capital investments and the rate at which they mature, including the timing of the Fund's ability to enter into and exit those investments and the amount of gain or loss that the Fund realizes on those investments. As the Fund does not have significant "maturing" investments in 2009, and cumulative investment income earned to date has been substantially expended in satisfying redemption requests as of December 19, 2008, the primary means by which the Fund will be able to meet unsatisfied redemption requests in the near-term is through the Fund being able to exit further portfolio investments and realize gains on those investments. The Manager continues to work diligently to achieve liquidity and profitable realizations; although economic and financial conditions appear to have improved somewhat from the severely depressed conditions earlier in 2009, near-term opportunities for generating liquidity and realizing gains on the portfolio investments of the Fund may continue to be very limited.

There is no assurance that the Fund will be in a position to redeem Shares in any year. Therefore, **shareholders and investors are cautioned that the redemption period applicable to Shares purchased by them may, for practical purposes, be longer than five years and they should expect to hold their Shares for longer than five years. The Fund cannot predict the date on which it will re-commence redeeming its Shares.**

Future Accounting Change

In February 2008, the CICA Accounting Standards Board confirmed that publicly accountable enterprises will be required to apply International Financial Reporting Standards (IFRS) in 2011, in replacement of GAAP. The implementation of IFRS will apply to the Fund's interim and annual financial statements beginning on or after January 1, 2011, including the restatement of comparative amounts for 2010. The impact of the adoption of IFRS on the Fund's financial statements is under review.

The key elements of the Fund's transition to IFRS will include the disclosure of the qualitative impact in the 2009 annual financial statements, the disclosures of the quantitative impact, if any, in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS. The Manager has determined that there is likely to be no impact to net assets per share as a result of the changeover to IFRS. The Manager currently anticipates the impact of the application of IFRS on the Fund's accounting policies and implementation decisions will be primarily in the areas of additional note disclosures in the financial statements.

Related Party Transactions

The following table summarizes related party fees and expenses payable in respect of the six-month interim periods ending June 30, 2009 and June 30, 2008.

	2009 **$**	**2008** **$**
Directors' fees and expenses	20,558	26,657
Management fees	632,498	769,436
Reimbursement of expenses	25,613	28,156
Total related party fees and expenses	678,669	824,249

Management fees and performance fees are payable to Discovery Capital Management Corp. (the "Manager") 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 comprises expenses that were payable to the Manager relating to capital raising, governance and shareholder reporting services provided to the Fund by the Manager, as well as miscellaneous office expenses and directors' and officers' insurance, which the Manager paid on behalf of the Fund.

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 five fiscal years and the six-month interim period ended June 30, 2009.

The Fund's Net Assets per Share

		For the years ended December 31, (1)				
	2009 (2)	**2008**	**2007**	**2006**	**2005**	**2004**
Net Assets, beginning of period (3)	$ 7.58	$ 9.68	$ 8.28	$ 8.43	$ 8.44	$ 8.55
Section 3855 transitional adjustment (4)	-	-	0.01	-	-	-
Increase (decrease) from operations:						
Total revenue	0.11	0.28	0.30	0.27	0.18	0.20
Total expenses	(0.22)	(0.39)	(0.43)	(0.41)	(0.48)	(0.48)
Realized gains (losses) for the period	-	-	0.04	-	0.13	-
Unrealized gains (losses) for the period	(0.36)	(2.27)	2.05	(0.01)	0.24	(0.11)
Performance fees accrued on unrealized gains	-	0.36	(0.44)	0.05	(0.06)	-
Total increase (decrease) from operations (3)	$ (0.46)	$ (2.02)	$ 1.52	$ (0.10)	$ 0.01	$ (0.39)
Distributions:						
From income (excluding dividends)	-	-	-	-	-	-
From dividends	-	-	-	-	-	-
From capital gains	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-
Total Annual Distributions	-	-	-	-	-	-
Net Assets, end of period (3)	$ 7.08	$ 7.58	$ 9.68	$ 8.28	$ 8.43	$ 8.44

(1) This information is derived from the Fund's audited annual financial statements. The net assets per share presented in the financial statements differs from the net asset value calculated for fund pricing purposes (Pricing NAV per Share). An explanation of these differences can be found in note 6 to the financial statements. Differences are mainly due to deferred share issue costs being included in the Fund's Pricing NAV per Share and the Fund using average closing market prices over the preceding twenty trading days to estimate the value of its publicly-traded portfolio investments for Pricing NAV per Share instead of the closing bid prices at period-end required for the financial statements.

(2) This information is provided for the six-month interim period ended June 30, 2009.

(3) Net assets are 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.

(4) The Fund adopted Section 3855, "Financial Instruments – Recognition and Measurement" of the *CICA Handbook – Accounting* effective January 1, 2007, applying its provisions retroactively, without restatement of prior periods. Accordingly, only net assets at the beginning of the year ended December 31, 2007 was required to be adjusted to provide for the transitional adjustment resulting from the adoption of Section 3855 as at January 1, 2007.

Ratios and Supplemental Data

		For the years ended December 31,				
	2009 (1)	**2008**	**2007**	**2006**	**2005**	**2004**
Total net asset value (000's) (2)	$43,703	$43,880	$53,389	$33,144	$28,462	$21,506
Number of shares outstanding (2)	5,945,510	5,593,942	5,512,592	4,001,829	3,376,812	2,549,357
Management expense ratio (3)	5.34%	5.33%	7.19%	6.60%	7.99%	12.13%
Commissions and other share issue costs	*1.18%*	*1.02%*	*2.43%*	*1.72%*	*2.46%*	*6.39%*
Management, administrative and other fees and expenses	*4.16%*	*4.31%*	*4.76%*	*4.88%*	*5.53%*	*5.74%*
Trading expense ratio (4)	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%
Portfolio turnover rate (5)	0.00%	0.00%	9.99%	0.00%	9.86%	0.00%
Pricing NAV per Share (2)	$7.35	$7.84	$10.00	$8.74	$9.03	$9.15

(1) This information is provided for the six-month interim period ended June 30, 2009.

(2) This information is provided as at June 30 for 2009 and as at December 31 for each of the years 2004 through 2008.

(3) Management expense ratio is based on total expenses for the stated period (except as noted hereafter) and is expressed as an annualized percentage of weekly average net asset value during the period, which is the basis for determining the Pricing Net Asset Value per Share of the Fund. Total expenses for the six months ended June 30, 2009 exclude bad debt expense and have thereafter been annualized to reflect an entire year.

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

(5) 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, and the greater the chance of an investor receiving taxable gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

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 nil or minimal 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 6(b) of the June 30, 2009 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 sourcing, evaluating and negotiating investment opportunities for 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.

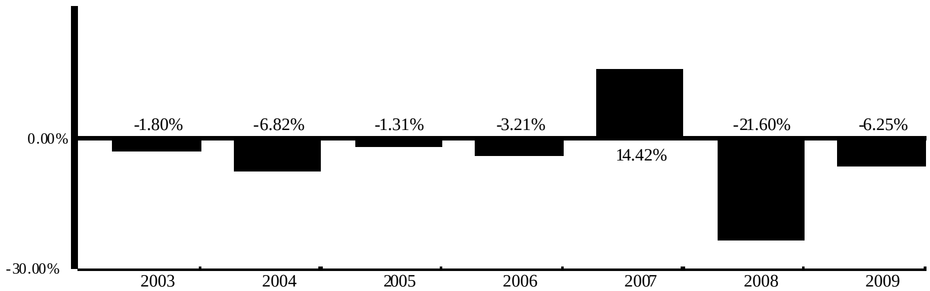
Past Performance

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, redemption, distribution or other optional charges payable by any shareholder that would have reduced returns or performance.

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, 2009 and for each of the six prior years ended December 31, 2003 through 2008 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 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) for Shares of the Fund. The charts do not take into account the 30% tax credit received on the purchase price of an investment in Shares of the Fund.

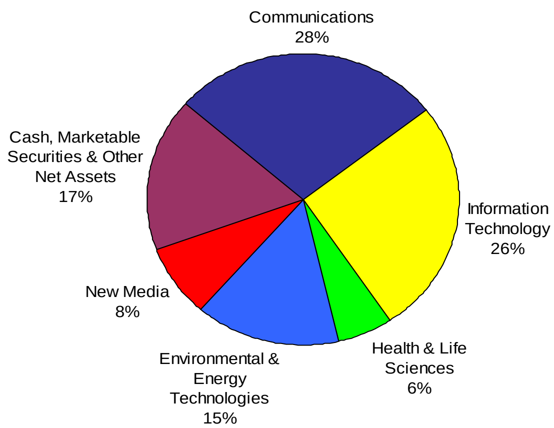
Return based on Pricing NAV per Share



Note: The information for 2009 shows the return over the six-month interim period ended June 30, 2009. The information for the years 2003 through 2008 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, 2009 (based on net assets of the Fund):



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

The Fund has positions in fifteen portfolio companies, thirteen of which are privately-held and two of which are publicly-trading. The Fund's privately-held investments comprise 79% of net assets and its public company investments comprise 4% of net assets.

The largest holding of the Fund is its investment in privately-held Mobidia Technology Inc., which constitutes 11.7% of the net assets of the Fund. The next largest holdings are privately-held Vivonet Inc. and In Motion Technology Inc., at approximately 10% each. Tantalus Systems Corp., Rx Networks Inc., Avigilon Corp., Paradigm Environmental Technologies Inc. and Inimex Pharmaceuticals Inc. each constitute between 5% and 7% of the net assets of the Fund. The remaining seven investments of the Fund – Gatekeeper Systems Inc., MovieSet Inc., Lat49 Media Inc., Day4 Energy Inc., GaleForce Solutions Inc., Navarik Corp. and Vigil Health Solutions Inc. - each constitute less than 5% of the net assets of the Fund.

British Columbia Discovery Fund (VCC) Inc.

Interim Financial Statements

(Unaudited – prepared by management)

June 30, 2009

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, 2009 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, 2009 and December 31, 2008

	June 30, 2009	December 31, 2008
ASSETS		
Venture investments (note 2)	$ 34,903,864	$ 34,816,561
Marketable securities (note 2)	-	2,016,947
Funds held in Investment Protection Account (note 4)	3,206,585	3,232,999
Cash	2,114,973	864,780
Interest and dividends receivable	1,966,026	1,697,184
Accounts receivable	66,631	66,631
Subscriptions receivable	4,750	-
Prepaid expenses	16,875	7,288
Total Assets	42,279,704	42,702,390
LIABILITIES		
Accounts payable and accrued liabilities	72,032	128,694
Due to related parties (note 7)	114,645	188,568
Total Liabilities	186,677	317,262
Net Assets, representing shareholders' equity	**42,093,027**	**42,385,128**
Common shares outstanding	**5,945,510**	**5,593,942**
Net Assets per Common Share (note 6 b))	**$ 7.08**	**$ 7.58**

Contingency (note 9)
Commitment (note 10)
Subsequent Events (note 13)

See accompanying notes to the financial statements

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, 2009	June 30, 2008
INVESTMENT INCOME		
Dividends from venture investments	$ 480,603	$ 264,734
Interest from venture investments	161,806	235,838
Interest from marketable securities	20,029	313,190
Total investment income	662,438	813,762
EXPENSES		
Management fees (notes 5 and 7)	632,498	769,436
Bad debt (note 8)	368,390	-
Trailer fees	95,130	119,875
Fund administration and transfer agency fees	56,237	63,515
Office expenses and administrative services	50,740	45,177
Shareholder communications	28,871	26,458
Directors' fees and expenses (note 7)	20,558	26,657
Directors' and officers' insurance	11,700	13,700
Marketing expenses	8,722	8,873
Legal fees	3,437	688
Audit and advisory fees	2,325	31,378
Total expenses	1,278,608	1,105,757
Net Investment Loss	**(616,170)**	**(291,995)**
Unrealized losses on investments	(2,089,634)	(6,307,028)
Decrease in performance fee accrual (notes 2 and 5)	-	1,091,173
Decrease in Net Assets from Operations	**(2,705,804)**	**(5,507,850)**
Decrease in Net Assets from Operations per common share (based on weighted number of shares outstanding)	**$ (0.46)**	**$ (0.98)**
Weighted average number of common shares outstanding	5,846,638	5,632,564

See accompanying notes to the financial statements

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, 2009	June 30, 2008
Net Assets - Beginning of the period	$ 42,385,128	$ 53,388,692
Operating Activities		
Decrease in net assets from operations	(2,705,804)	(5,507,850)
Capital Transactions		
Proceeds from issuance of common shares	2,753,755	2,432,504
Less: Sales commissions	(163,009)	(128,366)
Other share issue costs	(96,456)	(81,882)
Redemption of common shares	(104,000)	(1,018,440)
Contributed surplus (excess paid) on redemption of common shares	23,413	(85,056)
	2,413,703	1,118,760
Decrease in Net Assets	(292,101)	(4,389,090)
Net Assets - End of the period	**$ 42,093,027**	**$ 48,999,602**
Unrealized Gains (Losses) on Investments		
Unrealized gains (losses) - Beginning of the period	$ (2,637,704)	$ 10,197,643
Change during the period	(2,089,634)	(6,307,028)
Unrealized Gains (Losses) - End of the period	**$ (4,727,338)**	**$ 3,890,615**

See accompanying notes to the financial statements

British Columbia Discovery Fund (VCC) Inc.

Statements of Cash Flows

(Unaudited – prepared by management)

For the six months ended June 30

	June 30, 2009	June 30, 2008
Cash Flows from Operating Activities		
Decrease in net assets from operations	$ (2,705,804)	$ (5,507,850)
Items not affecting cash from operating activities		
Unrealized losses on venture investments	2,089,634	6,307,028
Non-cash investment income	-	(403,479)
Decrease in performance fees accrued on unrealized gains	-	(1,091,173)
Net change in non-cash working capital	(413,764)	(68,060)
Net change in investment protection account	25,019	2,276,186
Net change in marketable securities	2,013,137	4,573,672
Purchase of venture investments	(2,171,732)	(7,812,703)
Cash flows from operating activities	(1,163,510)	(1,726,379)
Cash Flows from Financing Activities		
Proceeds from issuance of common shares (note 6)	2,753,755	2,432,504
Share issue costs including sales commissions (note 6)	(259,465)	(210,248)
Redemption of common shares (note 6)	(80,587)	(1,103,496)
Cash flows from financing activities	2,413,703	1,118,760
Increase (decrease) in cash during the period	**1,250,193**	**(607,619)**
Cash - Beginning of the period	864,780	3,706,870
Cash - End of the period	**2,114,973**	**3,099,251**
Supplemental Cash Flow Information		
Interest received	$ 25,206	$ 485,247

See accompanying notes to the financial statements

British Columbia Discovery Fund (VCC) Inc.

Statement of Investment Portfolio

(Unaudited – prepared by management)

As at June 30, 2009

VENTURE INVESTMENTS

Investee		Number of Shares/ Par $ Value	Expiry Date/ Maturity Date	Cost $	Estimated Fair Value $
Public					
Day4 Energy Inc.					
Common shares		1,650,000		2,800,000	1,155,000
Vigil Health Solutions Inc.					
Common shares		14,954,286		1,076,800	373,857
Common share warrants		3,000,000	January 30, 2010		
Total public venture investments				**3,876,800**	**1,528,857**
Private					
Avigilon Corporation					
6% Class A preferred shares		2,500,000		2,500,000	
GaleForce Solutions Inc.					
8% Class B preferred shares		920,775		795,833	
12% Class C preferred shares		350,000		350,000	
12% secured convertible note	$	67,500	September 24, 2009	67,500	
Gatekeeper Systems Inc.					
Class A preferred shares		5,405,405		2,000,000	
Idelix Software Inc. (note 13)					
Series 2 preferred shares		1,800,000		530,002	
Series 3 preferred shares		800,000		200,000	
10% secured convertible note	$	2,151,000	July 31, 2008	2,151,000	
Inimex Pharmaceuticals Inc. (note 2)					
8% Series A1 preferred shares		277,819		1,000,000	
8% Series B1 preferred shares		458,212		1,206,840	
In Motion Technology Inc.					
6% Series 1 preferred shares		2,316,274		1,167,402	
Series 1 preferred share warrants		1,158,137	March 22, 2010	-	
6% Series 2 preferred shares		2,512,000		1,570,000	
6% secured convertible note	$	1,500,000	August 15, 2009	1,500,000	
Carried forward				15,038,577	

See accompanying notes to the financial statements

British Columbia Discovery Fund (VCC) Inc.

Statement of Investment Portfolio

(Unaudited – prepared by management)

As at June 30, 2009

VENTURE INVESTMENTS (continued)

Investee		Number of Shares/ Par $ Value	Expiry Date/ Maturity Date	Cost $	Estimated Fair Value $
Brought forward				15,038,577	
Mobidia Technology Inc. (note 13)					
Class A - Series 1 preferred shares		1,590,908		1,784,090	
Class A - Series 2 preferred shares		925,926		1,250,000	
Class A - Series 3 preferred shares		1,399,052		1,538,958	
Common shares		519,721		439,452	
MovieSet Inc.					
Class A - 1 preferred shares		2,954,255		1,500,000	
Class A - 1 preferred share warrants		123,093	June 8, 2019	-	
Class A - 1 preferred share options		984,752	December 31, 2009	-	
8% secured convertible note	$	250,000	On demand	250,000	
Navarik Corp.					
Common shares		1,149,425		1,000,000	
Common share warrants		1,149,425	March 26, 2010	-	
Paradigm Environmental Technologies Inc.					
Class A voting common shares		856,684		2,700,005	
Class A voting common share warrants		186,667	December 15, 2010	-	
Rx Networks Inc.					
8% Series A2 preferred shares		5,888,889		2,650,000	
Tantalus Systems Corp.					
Common shares		1,690,562		3,064,140	
Vivonet Inc. (note 2)					
6% Class B preferred shares		4,280,822		1,481,250	
6% Class C preferred shares		5,847,382		1,736,462	
10% secured convertible note	$	974,000	On demand	974,000	
10% secured convertible note	$	347,730	May 11, 2012	347,730	
Total private venture investments, at cost				**35,754,664**	
Unrealized gains on private venture investments				(2,379,657)	
Total private venture investments, at estimated fair value					**33,375,007**
Total venture investments, at estimated fair value					**34,903,864**
Other assets, net of liabilities					7,189,163
Net Assets					**42,093,027**

See accompanying notes to the financial statements

These unaudited interim financial statements should be read in conjunction with the audited financial statements of British Columbia Discovery Fund (VCC) Inc. (the Fund) as at and for the year ended December 31, 2008.

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.

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 (Pricing NAV per Share). See note 6.

2 Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies are as follows:

Adoption of new accounting standards

a) Section 3855 - Financial Instruments - Recognition and Measurement

The Canadian Institute of Chartered Accountants (CICA) issued Section 3855 - Financial Instruments - Recognition and Measurement, effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Among other things, Section 3855 requires all financial assets and liabilities to be initially measured at their fair value and to be classified according to their characteristics. Investment companies are exempt from the requirement to classify but are required to record their financial assets and liabilities at fair value.

Section 3855 further requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for these securities. Previously, fair value under GAAP was based on the last traded price. Accordingly, venture investments that are publicly traded securities, and not otherwise restricted, are now recorded on the basis of the closing bid price at period-end. The fair value of financial assets that are not traded in an active market are to be measured based on a valuation technique which establishes an estimated price of that asset in an arm's length transaction motivated by normal business considerations at any measurement date.

Section 3855 also requires that transaction costs, such as commissions, incurred in the purchase and sale of investments, be recorded as an expense in the statements of operations. Prior to 2007, the practice was to add these expenses to the cost of securities purchased or to deduct them from the proceeds of sale.

The Canadian securities regulatory authorities had previously granted general relief on an interim basis to investment funds that are reporting issuers from complying with Section 3855, for the purposes of calculating and reporting of net asset value other than for financial statement reporting purposes. Effective September 8, 2008, amendments to National Instrument 81-106 - Investment Fund Continuous Disclosure (NI 81-106) came into effect to address the implications of Section 3855. As a result, the Fund will continue to use its Pricing NAV per Share (see note 6 b)) as the price at which the Fund will sell and redeem common shares, and will calculate net assets and net assets per share of the Fund in accordance with GAAP for financial statement reporting purposes only.

In accordance with the decision made by the Canadian securities regulators, the Fund has incorporated adjustments arising from its adoption of Section 3855 effective January 1, 2007 in its reconciliation between the net assets for financial statement reporting purposes and the net asset value for determination of Pricing NAV per Share – see note 6 b).

b) Section 3862 - Financial Instruments – Disclosures and Section 3863 - Financial Instruments – Presentation

The CICA issued Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation to enhance the disclosure requirements and carrying forward unchanged the presentation requirements pertaining to the nature and extent of risks arising from financial instruments and how those risks are managed. These standards were adopted by the Fund in 2008, with no impact on the recognition or measurement of the Fund's financial instruments.

c) Section 1535 - Capital Disclosures

The CICA also issued Section 1535 – Capital Disclosures requiring disclosure of information pertaining to an entity's capital and how it is managed. This standard was adopted by the Fund in 2008, with no impact on the Fund's results of operations or net assets.

Use of estimates

The preparation of financial statements in conformity with GAAP 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 and as such actual values may differ materially from estimates of fair values.

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 closing bid price at period-end. A reasonable discount to market will normally be used if trading is restricted in any way.

b) For venture investments that are not publicly traded securities (i.e., those not traded in an active market), the Fund uses valuation techniques in order to estimate fair value on the basis of an arm's length transaction motivated by normal business considerations. The initial transaction price of a venture investment is considered to be a reasonable approximation of its fair value on the date on which the investment is made. Thereafter, valuation techniques are used to consider various inputs which may indicate a change to that fair value. Such techniques may include recent arm's length market transactions between knowledgeable, willing parties or multiple-based techniques where there is a track record of the relevant performance criteria used in such multiples. Where appropriate, the Fund applies the International Private Equity and Venture Capital Valuation Guidelines as being an acceptable valuation technique commonly used in the venture capital fund marketplace.

   The process of estimating the fair value of venture investments for which there is no active market is inevitably based on inherent measurement uncertainties and it is reasonably possible that 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.

Convertible securities, which are also usually not traded in any market, will generally be valued at their estimated fair value, which takes into account interest rates, credit risks and the equity conversion value, the latter being determined in the same manner as venture investments.

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.

Marketable securities

Marketable securities are highly liquid short-term interest-bearing securities with maturity dates of less than 90 days at inception and are recorded at current market prices based on quotes provided by a recognized investment dealer. Purchases and sales of marketable securities are recorded on a trade date basis.

Foreign exchange
To the extent applicable in any period, foreign currency purchases and sales of venture 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 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, 2009, the Fund held investments in Inimex Pharmaceuticals Inc. and Vivonet Inc. that are denominated in United States dollars. The unrealized foreign currency gain included in the estimates of fair value of investments denominated in United States dollars on the Statement of Investment Portfolio is $165,533 as at June 30, 2009 (December 31, 2008 - $317,972).

Share issuance costs and sales commissions
Share issuance costs and sales commissions are recorded as a reduction of capital stock. See note 6.

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 performance fees based on the amount that would have been payable had the Fund disposed of its venture investments at their estimated fair value at the period-end date.

Decrease in Net Assets from Operations per common share
Decrease in Net Assets from Operations per common share is calculated using the weighted average number of common shares outstanding, which for the six months ended June 30, 2009 was 5,846,638 (June 30, 2008 – 5,632,564). 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.

Future accounting change

In February 2008, the CICA Accounting Standards Board confirmed that publicly accountable enterprises will be required to apply International Financial Reporting Standards (IFRS) in 2011, in replacement of GAAP. The implementation of IFRS will apply to the Fund's interim and annual financial statements for its fiscal period beginning on January 1, 2011, including the restatement of comparative amounts for fiscal 2010. The impact of the adoption of IFRS on the Fund's financial statements is under review.

The key elements of the Fund's transition to IFRS will include the disclosure of the qualitative impact in the 2009 annual financial statements, the disclosures of the quantitative impact, if any, in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS. The Manager has determined that there is likely to be no impact to net assets per share as a result of the changeover to IFRS. The Manager currently anticipates the impact of the application of IFRS on the Fund's accounting policies and implementation decisions will be primarily in the areas of additional note disclosures in the financial statements.

3 Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of venture investments and marketable securities are estimated in accordance with the valuation policies described in note 2.

The fair value of other financial assets and liabilities approximate their carrying value due to the short-term nature of these instruments.

See note 11 – Risks associated with financial instruments.

4 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, 2009 and December 31, 2008 were $3,206,585, and $3,232,999, respectively.

5 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 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.

During the six months ended June 30, 2009, the Manager was paid $nil in respect of realized gains on venture investments (2008 - $nil).

As at June 30, 2009, the Fund recorded a liability of $nil (2008 - $nil) in respect of performance fees accrued on unrealized gains.

6 Capital stock

Shareholders of the Fund are entitled to redeem their shares at the Pricing NAV per Share 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. Such prohibitions or restrictions are likely to result in the redemption period applicable to shares exceeding five years.

a) Issued and outstanding

Authorized
500,000,000 common shares

Issued

	January 1 to June 30, 2009			January 1 to June 30, 2008		
	Number		**Amount**	**Number**		**Amount**
Balance - Beginning of period	5,593,942	$	47,992,823	5,515,592	$	47,589,053
Common shares issued	362,343		2,753,755	253,285		2,432,504
Common shares redeemed	(10,775)		(104,000)	(117,761)		(1,018,440)
Less issue costs:						
Sales commissions			(163,009)			(128,366)
Other share issue costs			(96,456)			(81,882)
Balance - End of period	5,945,510	$	50,383,113	5,651,116	$	48,792,869

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 8.

b) Pricing of common shares

For purposes of these financial statements, the Fund calculates its net assets in accordance with GAAP, 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 NAV per Share by adjusting for the impact of adoption of Section 3855 (see note 2) and adding back to its net asset value amounts that would have been deferred and amortized prior to the release in 2003 of CICA Handbook Section 1100. Section 1100 removed industry practice as a source of GAAP 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.

b) Pricing of common shares (continued)

The following is a reconciliation of Pricing NAV per Share and net assets in accordance with GAAP per common share:

	June 30, 2009	June 30, 2008
Net assets in accordance with GAAP as reported	$ 42,093,027	$ 48,999,602
Section 3855 adjustments:		
Change in method for estimating fair value of venture investments	24,229	493,047
Change in method for estimating fair value of marketable securities	85	3,412
Add:		
Unamortized deferred share issue costs including sales commissions	1,459,138	1,859,503
Other financial statement adjustments	126,893	80,049
Pricing net asset value	$ 43,703,372	$ 51,435,613
Common shares outstanding at June 30	5,945,510	5,651,116
Pricing NAV per Share	$ 7.35	$ 9.10
Net assets in accordance with GAAP per common share	$ 7.08	$ 8.67

The section 3855 adjustments in the above reconciliation are explained as follows:

i.) Change in method for estimating fair value of venture investments. This adjustment arises because, under GAAP, the Fund is now required to estimate the fair value of its publicly-traded venture investments based on the bid price for these securities whereas, under the valuation policies of the Fund used to calculate Pricing NAV per Share, such securities are valued based on the average of their closing prices over the preceding twenty days.

ii.) Change in method for estimating fair value of marketable securities. This adjustment arises because, under GAAP, the Fund is required to record these securities at current market prices based on quotes provided by a recognized investment dealer whereas, under the valuation policies of the Fund used to calculate Pricing NAV per Share, these securities (which are typically held to maturity) are recorded at cost plus accrued interest.

b) Pricing of common shares (continued)

The calculation of Pricing NAV per 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.

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

	June 30, 2009	June 30, 2008
Share issue costs		
Balance - Beginning of period	$ 1,659,355	$ 2,100,391
Add:		
Sales commissions	163,009	128,366
Other share issue costs	96,456	81,882
	259,465	210,248
Less:		
Amortization	(459,682)	(451,136)
Balance - End of period	$ 1,459,138	$ 1,859,503

7 Related party transactions

The following table summarizes related party fees and expenses payable in respect of the six-month periods ended June 30, 2009 and 2008:

	June 30, 2009	June 30, 2008
Directors' fees and expenses	$ 20,558	$ 26,657
Management fees	632,498	769,436
Reimbursement of expenses	25,613	28,156
Total related party fees and expenses	$ 678,669	$ 824,249
Due to related parties	$ 114,645	$ 136,367

Reimbursement of expenses comprises expenses that were payable to the Manager relating to capital raising, governance and shareholder reporting services provided to the Fund by the Manager as well as miscellaneous office expenses and directors' and officers' insurance, which the Manager paid on behalf of the Fund.

As at June 30, 2009, the Fund had invested $2,800,000 (December 31, 2008 - $2,800,000) in Day4 Energy Inc. A director of the Fund is a co-founder, executive officer and a significant shareholder of Day4 Energy Inc.

Discovery Capital Corporation (DCC) (the former parent company of the Manager which had directors and officers common to the Fund) also held investments in the following companies at the time the Fund's investment was made and at June 30, 2009 (in respect of beneficial entitlements of DCC's former shareholders): Vigil Health Solutions Inc., Idelix Software Inc. and Tantalus Systems Corp.

8 Bad debt

On May 6, 2009, a receiver was appointed over the assets and undertaking of the Fund's private portfolio company Idelix Software Inc. ("Idelix"). In June 2009, the receiver completed the sale of substantially all of the then remaining assets of Idelix, which essentially comprised a business undertaking called "Lat49", an on-line advertising platform technology, to a new company called Lat49 Media Inc. As a result of this sale, Idelix has no further business undertaking or assets. Accordingly, unpaid interest of $368,390 accrued by the Fund on its security holdings of Idelix and previously included by the Fund in interest income was written off. See note 13 for a description of the Fund's interest in Lat49 Media Inc.

9 Contingency

As a VCC, the Fund must 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.

10 Commitment

The Fund has an Investment Administration Agreement (the IA Agreement) with The Investment Administration Solution Inc. to provide certain transfer agency and back office administration services. The fee for the provision of these services is calculated on the basis of the number of shareholders of the Fund, subject to a minimum of $5,500 per month. The IA Agreement had an initial term expiring December 31, 2006, during which the Fund paid total minimum required fees of $258,000. The IA Agreement was renewed for a three-year period commencing January 1, 2007 and is renewable for a further three-year period commencing January 1, 2010. The minimum payment of fees required under the IA Agreement in 2009 is $66,000.

11 Risks associated with financial instruments

Investment activities of the Fund expose it to a variety of financial risks, including credit risk, liquidity risk and market risk (which includes currency risk, interest rate risk and equity risk).

a) Credit Risk

Credit risk is the risk associated with the inability of a third party to fulfill payment obligations. The Fund limits its exposure to credit risk for its cash by investing in high quality short-term investments – typically bankers' acceptances of a large Canadian bank. From time to time, the Fund invests in convertible debt securities of its portfolio investment companies. Typically, the Fund expects that these securities will be converted to equity investments in the portfolio companies within a period of eighteen months. Because the Fund invests in early stage technology companies that generally have a limited history of operations and whose business activities tend to be speculative, in the event that the Fund did not convert its debt security into an equity security of the portfolio company, it is very possible that the Fund may not have its debt obligation fulfilled in its entirety by the portfolio company. Interest and dividends receivable on debt and equity securities of the Fund's portfolio companies are also subject to credit risks and are managed through active review of the venture investment portfolio.

b) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. The Manager mitigates this risk by managing the expenses of the Fund within the limitations of the SBVCA, which permit up to 20% of equity capital raised to be used for expenses. The Fund may also meet its financial obligations from retained earnings (included in shareholders' equity), so its ability to meet financial obligations also depends significantly on the success of its portfolio investments. Because the Fund invests in early stage technology companies that generally have a limited history of operations and whose business activities tend to be speculative, there is no assurance that such investments will be successful. Further, the Fund has invested principally in securities of companies for which there is no public market and there is no assurance that a liquid public market will develop or a liquidity event will be achieved. The Manager of the Fund attempts to mitigate liquidity risk by becoming actively involved with each of the Fund's portfolio investments and by attempting to select investments that have a path to liquidity. See note 12.

c) Market Risk

Market risk is the risk that the fair value of the Fund's financial instruments will fluctuate as a result of changes caused by factors specific to a financial instrument or its issuer or by factors generally affecting a market or market segment.

i) Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund invests primarily in Canadian securities of Canadian companies; however it does have two investments in U.S. denominated dollars for which there is exposure to currency risk. These investments represented less than 10% of net assets as at June 30, 2009. See note 2, Foreign exchange.

ii) Interest Rate Risk

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or fair values of financial instruments. The Fund invests primarily in equity securities and in the event it invests in debt instruments, it only invests in fixed interest-bearing instruments and will hold these instruments to maturity or, more typically, convert them to equity. The Fund typically invests its cash in short term bankers' acceptances which have minimal sensitivity to interest rate fluctuations as they are virtually always held to maturity. As such, the Fund does not have significant exposure to interest rate risk.

iii) Equity Risk

Equity risk is the risk that the market value of the Fund's equity investments will fluctuate in response to specific company developments and prospects as well as changes in economic conditions. The Fund is exposed to significant market risk since its portfolio investments are early stage technology companies that generally have a limited history of operations and whose business activities tend to be speculative and present a risk of loss of capital. The Manager of the Fund attempts to mitigate this risk through a careful selection of portfolio investments within the overall objectives of the Fund and by constant monitoring of those investments.

The process of estimating the fair value of venture investments for which there is no active market is inevitably based on inherent measurement uncertainties and is based on techniques and assumptions that emphasize qualitative over quantitative information and analysis. Accordingly, there is no reasonable quantitative basis to estimate the potential effect of changing the assumptions to reasonably possible alternative assumptions on the estimated fair value of the venture investment portfolio.

12 Capital disclosure

As a venture capital corporation registered under the SBVCA, the Fund receives authorizations to raise certain amounts of equity capital over specified periods. The Fund had received an authorization to raise up to $13 million of its shares during the period ended February 15, 2010 and up to a further $13 million of its shares in each of the periods commencing January 1 and ending February 15, 2011 and 2012, respectively. In June 2009, this authorization was adjusted to $10 million in each of these periods, with the ability to receive additional authorization should the limit be met in any period. The objective of the Fund is to raise at least the maximum authorized in any period; however, the ability to do so is subject to overall financial market conditions and competition from other investment funds. Proceeds from share issues are the only source of capital to the Fund.

The Fund utilizes its equity capital primarily to invest in emerging technology companies that meet its investment criteria, in compliance with the investment pacing requirements of the SBVCA. The Manager is responsible for monitoring the capital requirements of the Fund and ensuring that all relevant requirements of the SBVCA are met, and also for allocating funds between new investment opportunities and existing investments of the Fund. A further requirement under the SBVCA is that 30% of the funds raised by the Fund must be maintained in an investment protection account until investments are made in eligible businesses. See notes 4 and 9 with respect to the Fund's compliance in these matters.

The overall capital level of the Fund is also impacted by redemptions of its shares. Shareholders of the Fund may request redemption of their shares after five years from the issue date. The Manager manages such requests within the constraints set forth in the Articles of the Fund and the requirements of the SBVCA. Pursuant to such constraints and requirements, the Fund redeemed $5,236,656 of its shares in 2008, but suspended redemptions on December 19, 2008. The ability of the Fund to meet redemption requests in any year is dependent upon a number of factors which are highly variable and difficult to predict, including the performance of the Fund's venture investments, the rate at which they mature and become liquid and the amount of gain or loss that the Fund realizes on those investments.

13 Subsequent events

Effective July 15, 2009, the Fund acquired an equity interest of $1.4 million in Lat49 Media Inc., which had acquired the "Lat49" business undertaking of Idelix as a result of the receivership process and sale described in note 8. The Fund had been the largest secured creditor of Idelix and its interest in Lat49 Media Inc. resulted substantially from the receivership sale. Lat49 Media Inc. concurrently completed a $1.5 million equity financing, in which the Fund also participated.

On July 24, 2009, Mobidia Technology Inc. closed on an equity financing of $1.24 million. The Fund invested $250,000 as part of this financing.

14 Comparative figures

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

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