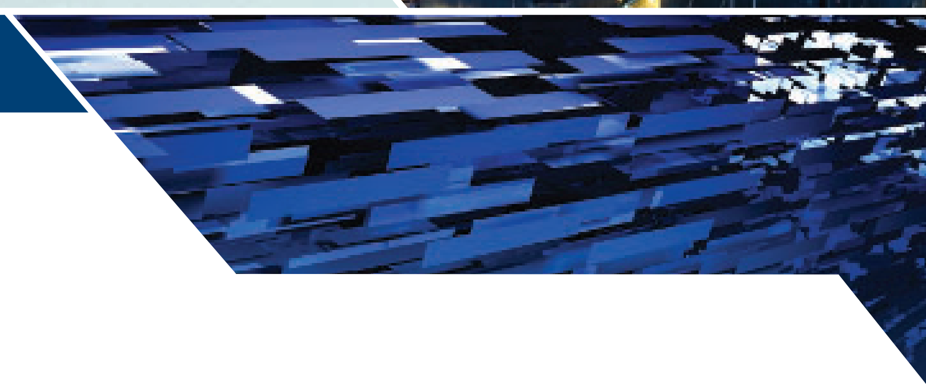
BC DISCOVERY FUND

Innovation to Commercialization



SEMI-ANNUAL REPORT

Building BC's Future in Technology | 2010

2010 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 #570 - 1285 West Pender Street, Vancouver, B.C. V6E 4B1; 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, 2010 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.equitycapital.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, 2010

At June 30, 2010, the Pricing Net Asset Value per Share of the Fund (the price at which the Fund sells and redeems its common shares) was $6.95, an increase of 0.14% during the six month period then ended. This slight increase is primarily due to realized and unrealized gains of approximately $1.0 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 $44,846,893 at June 30, 2010, an increase of $2,865,681, or 6.8%, from net assets of $41,981,212 at December 31, 2009. The increase in net assets is the net result of proceeds from sales of shares, net of share issue costs, of $2,310,496 and net assets from operations of $577,753 (see "Operating Results" below), offset by redemptions paid out of $22,568.

(Note that net assets for financial statement reporting purposes are presented in accordance with Canadian generally accepted accounting principles (GAAP) which differs from the net asset value for pricing purposes (Pricing Net Asset Value per Share) discussed in the preceding section. See disclosure in "Financial Highlights" below for additional discussion as to the nature of this difference.)

Operating Results

Net assets from operations increased by $577,753 during the six months ended June 30, 2010 (the "**2010 Interim Period**"). This compares to a decrease in net assets from operations of $2,705,804 during the six months ended June 30, 2009 (the "**2009 Interim Period**").

The increase in the 2010 Interim Period includes a realized gain of $353,822 as a result of the Fund having disposed of approximately $1.4 million of its holdings in privately-held portfolio company **Vivonet Inc.** Vivonet successfully completed a US$8.5 million treasury and secondary financing during the period, at a higher valuation than its previous financings. Consequently, in addition to this realized gain, the Fund also recorded a net unrealized gain of approximately $830,000 on its remaining Vivonet investment. This unrealized gain in Vivonet was offset by unrealized losses in the estimated fair values of the publicly-traded investments of the Fund; in particular, the value of **Vigil Health Solutions Inc.** declined by approximately $220,000 over the period.

The decrease in the 2009 Interim Period was mainly attributable to an unrealized loss of $2,089,634 on the Fund's venture investments and a bad debt expense of $368,390. The bad debt expense, as well as a portion of the unrealized loss equal to $720,250, related to the Fund's investment in privately-held, former 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. (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.) Further, during the 2009 Interim Period, the Fund also recorded a $585,607 unrealized loss on privately-held portfolio company **Paradigm Environmental Technologies Inc.** as a result of that company raising funds at a lower valuation.

Total investment income of $620,456 during the 2010 Interim Period was lower than total investment income of $662,438 during the 2009 Interim Period as increased dividends accrued on venture investments of the Fund were more than offset by decreased interest earned and accrued on venture investments, cash and marketable securities. Total expenses of $1,024,696 in the 2010 Interim Period were higher than total expenses of $910,218 during the 2009 Interim Period (excluding the aforementioned bad debt expense incurred in the 2009 Interim Period) mainly due to transaction costs of $80,333 relating to the Fund's partial disposition of its Vivonet holdings as well as $17,880 of additional audit and advisory fees. Management fees were also slightly higher in the 2010 Interim Period, reflecting the increased pricing net assets of the Fund between the two interim periods. The overall result was a net investment loss of $404,240 in the 2010 Interim Period compared to a net investment loss (excluding the bad debt expense) of $247,780 in the 2009 Interim Period.

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.

Investments and Investment Activities

During the 2010 Interim Period, the Fund made cash investments of $2,205,161 into seven existing portfolio companies**.** At June 30, 2010, 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, 2010 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, 2010 was 81% in venture investments and 19% in cash, marketable securities and other net assets – see "Summary of Investment Portfolio" below.

<u>SBVCA Allocation and Commitment</u>

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, equity capital authorizations to retail venture capital funds in British Columbia 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 of authorization available to all such retail venture capital funds on a "first-come, first-served" basis, once each such fund meets its annual authorization limit.

As at June 30, 2010, the Fund had sold approximately $0.44 million of its $10 million allocation ending February 15, 2011. Typically, a substantial portion of the sale of shares of the Fund occurs between the months of September and February.

As at July 31, 2010, the Fund is required to invest approximately $0.8 million in order to fulfill its minimum investment obligations as at December 31, 2009. The Fund has received an extension of time to satisfy its 2009 minimum investment obligations. The Manager estimates that the Fund is required to invest a further approximately $4.3 million in 2010 to fulfill its minimum investment obligations due as at December 31, 2010. In order to meet its minimum investment obligations in full by December 31, 2010 as well as 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

<u>Ongoing Impact of Market Conditions on Fund Liquidity and Ability to Raise Equity Capital</u>

The continuing effects of the credit crisis of 2008 and 2009 and resulting global economic slow-down have negatively impacted the Fund in several respects. Since the credit crisis, the Canadian venture capital market generally has suffered, with valuations of early-stage technology companies generally lower than the period before the economic downturn and exit opportunities (i.e. merger and acquisition or "going public" transactions) unavailable or slower in developing. As well, retail investors remain cautious about higher-risk, longer-term investment commitments such as an investment in the Fund. This combination of circumstances resulted in a considerably slower pace of sales of Shares in 2009 and reduced liquidity for the Fund. The prospect for raising equity capital remains challenging and very uncertain for the balance of 2010.

In spite of the adverse economic environment, several of the Fund's portfolio companies achieved record revenue and other positive business milestone targets in 2009 and are continuing to grow their businesses in 2010. The Manager is optimistic that the Fund's portfolio is well-positioned to take advantage of exit opportunities as and when market conditions for venture capital exits improve. Certain portfolio companies of the Fund are actively engaged in discussions pertaining to potential exit transactions. Since eleven of the Fund's fifteen portfolio companies generate revenues, the requirement for additional or follow-on investment in most of the Fund's portfolio companies has been reduced in aggregate The Manager continues to work closely with its portfolio investments, particularly with 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. As at June 30, 2010, holders of approximately 2,255,000 Shares are eligible to request redemptions.

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.

The Fund will have in excess of $13.4 million of "maturing" investments in 2010 (meaning those investments which have been held for the required length of time pursuant to the SBVCA and are no longer subject to prescribed investment requirements). However, the primary means by which the Fund will be able to meet unsatisfied redemption requests is through the Fund being able to exit portfolio investments and realize gains on those investments. The Manager continues to work diligently to achieve liquidity and profitable realizations; however, the timing and success of these realizations is typically out of the direct control of the Manager.

There is consequently 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

The Canadian Accounting Standards Board (AcSB) has confirmed that Canadian publicly accountable enterprises, which include investment funds and other reporting issuers, will be required to use International Financial Reporting Standards (IFRS) in replacement of current GAAP. Previously, the implementation of IFRS was to apply to the Fund's interim and annual financial statements effective January 1, 2011. However, on June 30, 2010, the AcSB issued an exposure draft proposing that mandatory adoption of IFRS by Canadian investment funds be deferred by one year. The Manager believes that the Fund qualifies for the deferral as proposed and, if the proposal is finalized, the Fund will not be required to report financial statements in accordance with IFRS until its 2012 interim and annual periods.

The adoption of IFRS may result in changes to significant accounting policies and affect the recognition and measurement of transactions and balances within the Fund's financial statements. At this time, the Manager cannot determine the impact of the adoption of IFRS, partly because there are certain areas, such as the requirement to consolidate investments, where requirements under IFRS remain under review as at June 30, 2010. The Fund has incurred and will incur additional audit and advisory fees as a result of the adoption of IFRS resulting in an adverse impact to Pricing NAV per Share. However, as at June 30, 2010, the Manager is not able to quantify the extent of this impact.

Related Party Transactions

The following table summarizes related party fees and expenses payable in respect of the six-month interim periods ending June 30, 2010 and June 30, 2009.

	2010 $	2009 $
Directors' fees and expenses	22,206	20,558
Management fees	617,813	602,379
Reimbursement of expenses	25,440	25,554
Total related party fees and expenses	665,459	648,491

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 are comprised of 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, 2010.

The Fund's Net Assets per Share

		For the years ended December 31, (1)				
	2010 (2)	**2009**	**2008**	**2007**	**2006**	**2005**
Net Assets, beginning of period (3)	$ 6.76	$ 7.58	$ 9.68	$ 8.28	$ 8.43	$ 8.44
Section 3855 transitional adjustment (4)	-	-	-	0.01	-	-
Increase (decrease) from operations:						
Total revenue	0.10	0.21	0.28	0.30	0.27	0.18
Total expenses	(0.16)	(0.38)	(0.39)	(0.43)	(0.41)	(0.48)
Realized gains (losses) for the period	0.05	(0.30)	-	0.04	-	0.13
Unrealized gains (losses) for the period	0.10	(0.29)	(2.27)	2.05	(0.01)	0.24
Performance fees accrued on unrealized gains	-	-	0.36	(0.44)	0.05	(0.06)
Total increase (decrease) from operations (3)	$ 0.09	$ (0.76)	$ (2.02)	$ 1.52	$ (0.10)	$ 0.01
Distributions:						
From income (excluding dividends)	-	-	-	-	-	-
From dividends	-	-	-	-	-	-

From capital gains	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-
Total Annual Distributions	-	-	-	-	-	-
Net Assets, end of period (3)	$ 6.82	$ 6.76	$ 7.58	$ 9.68	$ 8.28	$ 8.43

(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, 2010.

(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,				
	2010 (1)	**2009**	**2008**	**2007**	**2006**	**2005**
Total net asset value (000's) (2)	$45,684	$43,082	$43,880	$53,389	$33,144	$28,462
Number of shares outstanding (2)	6,571,159	6,210,663	5,593,942	5,512,592	4,001,829	3,376,812
Management expense ratio (3)	5.53%	6.19%	5.33%	7.19%	6.60%	7.99%
Bad debt expense	-	*0.83%*	-	-	-	-
Commissions and other share issue costs	*0.95%*	*1.07%*	*1.02%*	*2.43%*	*1.72%*	*2.46%*
Management, administrative and other fees and expenses	*4.58%*	*4.29%*	*4.31%*	*4.76%*	*4.88%*	*5.53%*
Trading expense ratio (4)	0.18%	0.00%	0.00%	0.00%	0.00%	0.02%
Portfolio turnover rate (5)	5.04%	3.44%	0.00%	9.99%	0.00%	9.86%
Pricing NAV per Share (2)	$6.95	$6.94	$7.84	$10.00	$8.74	$9.03

(1) This information is provided for the six-month interim period ended June 30, 2010.

(2) This information is provided as at June 30 for 2010 and as at December 31 for each of the years 2005 through 2009.

(3) Management expense ratio is based on total expenses for the stated period 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.

(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, 2010 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.

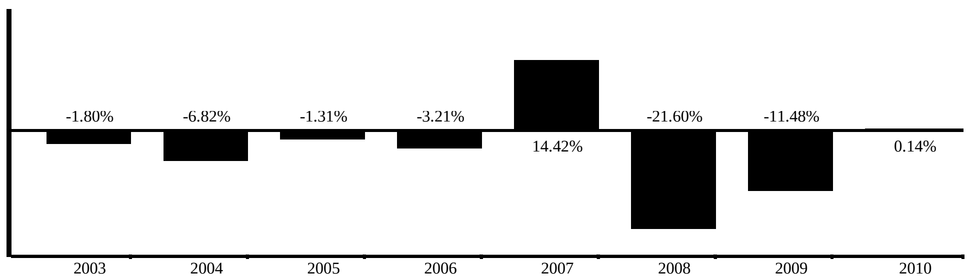
Past Performance

The following bar chart indicates 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 chart shows the performance of the Shares of the Fund for the six-month interim period ended June 30, 2010 and for each of the seven prior years ended December 31, 2003 through 2009 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 chart shows, 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.

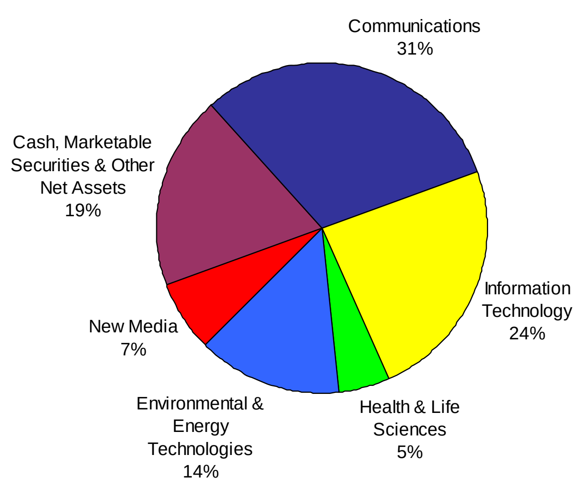
Return based on Pricing NAV per Share



Note: The information for 2010 shows the return over the six-month interim period ended June 30, 2010. The information for the years 2003 through 2009 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, 2010 (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 78% of net assets and its public company investments comprise 3% of net assets.

The largest holdings of the Fund are its investments in privately-held In Motion Technology Inc. and Mobidia Technology Inc., which constitute 13% and 12%, respectively, of the net assets of the Fund. Avigilon Corp., Tantalus Systems Corp., Paradigm Environmental Technologies Inc., Vivonet Inc. and Rx Networks Inc. each constitute between approximately 5% and 10% of the net assets of the Fund. The remaining eight investments of the Fund – GaleForce Solutions Inc., Gatekeeper Systems Inc., Inimex Pharmaceuticals Inc., Navarik Corp., MovieSet Inc., Day4 Energy Inc., Vigil Health Solutions Inc. and Lat49 Media Inc. - each constitute less than 5% of the net assets of the Fund.

BC DISCOVERY FUND

British Columbia Discovery Fund (VCC) Inc.

Interim Financial Statements

(Unaudited – prepared by management)

June 30, 2010

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, 2010 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, 2010 and December 31, 2009

	June 30, 2010	December 31, 2009
ASSETS		
Venture investments (note 2)	$ 36,164,816	$ 34,750,956
Funds held in Investment Protection Account (note 4)	3,235,716	3,162,720
Cash	2,900,029	1,741,415
Interest and dividends receivable	2,723,603	2,445,348
Accounts receivable	6,941	69,627
Subscriptions receivable	-	27,550
Prepaid expenses	16,875	6,838
Total Assets	45,047,980	42,204,454
LIABILITIES		
Accounts payable and accrued liabilities	82,097	107,369
Due to related parties (note 8)	118,990	115,873
Total Liabilities	201,087	223,242
Net Assets, representing shareholders' equity (note 7)	**44,846,893**	**41,981,212**
Common shares outstanding	**6,571,159**	**6,210,663**
Net Assets per Common Share (note 6 b))	**$ 6.82**	**$ 6.76**

Contingency (note 10)
Commitment (note 11)

See accompanying notes to the financial statements

Approved by 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, 2010	June 30, 2009
INVESTMENT INCOME		
Dividends from venture investments	$ 554,195	$ 480,603
Interest from venture investments	60,932	161,806
Interest from marketable securities	3,829	20,029
Other income	1,500	-
Total investment income	620,456	662,438
EXPENSES		
Management fees (notes 5 and 8)	617,813	602,379
Trailer fees	95,399	95,130
Transaction costs	80,333	-
Fund administration and transfer agency fees	57,180	53,392
Goods and services tax	47,616	39,741
Office expenses and administrative services	43,336	49,101
Directors' fees and expenses (note 8)	22,206	20,558
Shareholder communications	21,082	27,602
Audit and advisory fees	17,880	-
Directors' and officers' insurance	11,250	11,700
Marketing expenses	7,855	8,049
Legal fees	2,746	2,566
Bad debt (note 9)	-	368,390
Total expenses	1,024,696	1,278,608
Net Investment Loss	**(404,240)**	**(616,170)**
Realized gains on venture investments	353,822	-
Unrealized gains (losses) on investments	628,171	(2,089,634)
Increase (decrease) in Net Assets from Operations	**577,753**	**(2,705,804)**
Increase (decrease) in Net Assets from Operations per common share (based on weighted number of shares outstanding)	**$ 0.09**	**$ (0.46)**
Weighted average number of common shares outstanding	6,464,521	5,846,638

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, 2010		June 30, 2009
Net Assets - Beginning of the period	$	41,981,212	$	42,385,128
Operating Activities				
Increase (decrease) in net assets from operations		577,753		(2,705,804)
Capital Transactions				
Proceeds from issuance of common shares		2,523,977		2,753,755
Less: Sales commissions		(137,231)		(163,009)
Other share issue costs		(76,250)		(96,456)
Redemption of common shares		(28,726)		(104,000)
Contributed surplus on redemption of common shares		6,158		23,413
		2,287,928		2,413,703
Increase (decrease) in Net Assets		2,865,681		(292,101)
Net Assets - End of the period	**$**	**44,846,893**	**$**	**42,093,027**
Unrealized Losses on Investments				
Unrealized losses - Beginning of the period	$	(4,354,256)	$	(2,637,704)
Change during the period		628,171		(2,089,634)
Unrealized Losses - End of the period	**$**	**(3,726,085)**	**$**	**(4,727,338)**

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, 2010	June 30, 2009
Cash Flows used in Operating Activities		
Increase (decrease) in net assets from operations	$ 577,753	$ (2,705,804)
Items not affecting cash from operating activities		
Unrealized (gains) losses on venture investments	(628,171)	2,089,634
Realized gains on venture investments	(353,822)	-
Non-cash investment income	(22,212)	-
Net change in non-cash operating accounts	(220,211)	(413,764)
Net change in investment protection account	(73,196)	25,019
Net change in marketable securities	-	2,013,137
Purchase of venture investments	(2,205,161)	(2,171,732)
Proceeds from disposal of venture investments	1,795,706	-
Cash flows used in operating activities	(1,129,314)	(1,163,510)
Cash Flows from Financing Activities		
Proceeds from issuance of common shares (note 6)	2,523,977	2,753,755
Share issue costs including sales commissions (note 6)	(213,481)	(259,465)
Redemption of common shares (note 6)	(22,568)	(80,587)
Cash flows from financing activities	2,287,928	2,413,703
Increase in cash during the period	**1,158,614**	**1,250,193**
Cash - Beginning of the period	1,741,415	864,780
Cash - End of the period	**2,900,029**	**2,114,973**
Supplemental Cash Flow Information		
Interest received	$ 156,802	$ 25,206

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, 2010

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	1,171,500
Vigil Health Solutions Inc.					
Common shares		14,954,286		1,076,800	149,543
Total public venture investments				**3,876,800**	**1,321,043**
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		634,362		634,362	
Class C preferred share warrants		400,000	June 30, 2014	-	
Gatekeeper Systems Inc.					
Class A preferred shares		5,405,405		2,000,000	
Inimex Pharmaceuticals Inc. (notes 2 and 3)					
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		3,474,411		1,751,103	
6% Series 2B preferred shares		2,512,000		1,570,000	
6% Series 2C preferred shares		4,532,186		2,116,750	
Lat49 Media Inc.					
6% Class A preferred shares		3,609,187		702 719	
6% Class B preferred shares		4,503,233		889,832	
10% secured convertible note	$	150,000	October 29, 2010	150,000	
Carried forward				15,317,439	

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, 2010

VENTURE INVESTMENTS (continued)

Investee		Number of Shares/ Par $ Value	Expiry Date/ Maturity Date	Cost $	Estimated Fair Value $
Brought forward				15,317,439	
Mobidia Technology Inc.					
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		1,626,324		1,788,957	
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 warrants		73,856	October 20, 2019	-	
8% convertible note	$	400,000	On demand	400,000	
Navarik Corp.					
Common shares		1,149,425		1,000,000	
Paradigm Environmental Technologies Inc.					
Class A common shares		856,684		2,700,005	
Class A common share warrants		186,667	December 15, 2010	-	
12% secured convertible note	$	200,000	September 30, 2011	200,000	
Rx Networks Inc.					
8% Series A2 preferred shares		5,888,889		2,650,000	
8% convertible note	$	255,000		255,000	
Tantalus Systems Corp.					
Common shares		1,690,562		3,064,140	
10% Class A preferred shares		438,596		500,000	
Vivonet Inc. (notes 2 and 3)					
Class B preferred shares		4,280,822		1,481,250	
Class C preferred shares		5,598,646		1,683,623	
Total private venture investments, at cost				**36,013,956**	
Unrealized loss on private venture investments				(1,170,183)	
Total private venture investments					**34,843,773**
Total venture investments, at estimated fair value					**36,164,816**
Other assets, net of liabilities					8,682,077
Net Assets					**44,846,893**

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, 2009.

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 – Share capital.

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 accounting standards – Financial instruments and Capital disclosures

a) 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.

In June 2009, the CICA issued amendments to Section 3862 – *Financial Instruments – Disclosures* to expand the disclosures required in respect of fair value measurements recognized in financial statements. For the purpose of these expanded disclosures, a three-level hierarchy has been introduced as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

See note 12 – Risks associated with financial instruments.

b) 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.

See note 13 – Capital disclosure.

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. These techniques may include recent arm's length 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 held within the Investment Protection Account (see note 4) and are highly liquid short-term interest-bearing securities with maturity dates of less than 90 days at inception. They 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".

Share issuance costs and sales commissions

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

Investment income

Interest from marketable securities represents interest earned on operating cash accounts and bankers' acceptances.

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

Transaction Costs

Transaction costs, such as commissions, incurred in the purchase and sale of investments, are recorded as an expense in the statements of operations as required under Section 3855 - *Financial Instruments - Recognition and Measurement*.

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 financial statement date.

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

The Canadian Accounting Standards Board (AcSB) has confirmed that Canadian publicly accountable enterprises, which include investment funds and other reporting issuers, will be required to use International Financial Reporting Standards (IFRS) in replacement of current GAAP. Previously, the implementation of IFRS was to apply to the Fund's interim and annual financial statements effective January 1, 2011. However, on June 30, 2010, the AcSB issued an exposure draft proposing that mandatory adoption of IFRS by Canadian investment funds be deferred by one year. The Manager believes that the Fund qualifies for the deferral as proposed and, if the proposal is finalized, the Fund will not be required to report financial statements in accordance with IFRS until its 2012 interim and annual periods.

The adoption of IFRS may result in changes to significant accounting policies and affect the recognition and measurement of transactions and balances within the Fund's financial statements. At this time, the Manager cannot determine the impact of the adoption of IFRS, partly because there are certain areas, such as the requirement to consolidate investments, where requirements under IFRS remain under review as at June 30, 2010. The Fund has incurred and will incur additional audit and advisory fees as a result of the adoption of IFRS resulting in an adverse impact to Pricing NAV per Share. However, as at June 30, 2010, the Manager is not able to quantify the extent of this impact.

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 – Significant accounting policies.

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

The following table sets out the hierarchy of the fair values of the venture investments of the Fund as at June 30, 2010 based on the following criteria:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Venture investments				
Public venture investments (listed equity securities)	1,321,043	-	-	1,321,043
Private venture investments	-	-	34,843,773	34,843,773
	1,321,043	**-**	**34,843,773**	**36,164,816**

The following table sets out a reconciliation of all movements in the fair value of the venture investments categorized within Level 3 between January 1 and June 30, 2010.

Private venture investments	**$**
Opening Balance	**33,156,099**
Total realized gains	353,822
Total unrealized gains	902,184
Purchases	2,227,374
Dispositions	(1,795,706)
Transfers into or out of Level 3	-
Closing Balance	**34,843,773**

Total realized and unrealized gains are presented in the Statement of Operations and included in increase in net assets from operations as follows:

Realized gains on venture investments	$353,822
Unrealized gains on investments	$628,171

As at June 30, 2010, 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 the fair value of investments denominated in United States dollars on the Statement of Investment Portfolio is $45,935 as at June 30, 2010 (December 31, 2009 – loss of $118,970).

See note 12 – 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, 2010 and December 31, 2009 were $3,235,716 and $3,162,720, 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 first six months of 2010, the Manager was paid $nil in respect of realized gains on venture investments (2009 - $nil). As at June 30, 2010, the Fund recorded a liability of $nil (December 31, 2009 - $nil) in respect of performance fees accrued on unrealized gains.

6 Share Capital

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.

The Fund has suspended redemptions since December 19, 2008. See note 13 – Capital disclosure.

a) Issued and outstanding

Authorized

500,000,000 common shares

Issued

	January 1 to June 30, 2010		January 1 to June 30, 2009	
	Number of shares	**Amount $**	**Number of shares**	**Amount $**
Balance - Beginning of period	6,210,663	52,030,211	5,593,942	47,992,823
Common shares issued	363,741	2,523,977	362,343	2,753,755
Common shares redeemed	(3,245)	(28,726)	(10,775)	(104,000)
Less: Issue costs				
Sales commissions		(137,231)	-	(163,009)
Other share issue costs		(76,250)	-	(96,456)
Balance - End of period	6,571,159	54,311,981	5,945,510	50,383,113

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 – Related party transactions.

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.

Increase/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, 2010 was 6,464,521 (June 30, 2009 – 5,846,638). Diluted increase/decrease per share has not been presented as no dilutive equity instruments have been granted or issued.

For share pricing purposes, the Fund calculates Pricing NAV per Share by adjusting for the impact of adoption of Section 3855 - *Financial Instruments – Recognition and Measurement* effective January 1, 2007 and adding back to its net assets 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 share capital 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 NAV per Share and net assets in accordance with GAAP per common share:

	June 30, 2010	June 30, 2009
Net assets in accordance with GAAP as reported	$44,846,893	$42,093,027
Section 3855 adjustments:		
Change in method for estimating fair value of venture investments	-	24,229
Change in method for estimating fair value of marketable securities	360	85
Add:		
Unamortized deferred share issue costs including sales commissions	809,847	1,459,138
Other financial statement adjustments	26,460	126,893
Pricing net asset value	$45,683,560	$43,703,372
Common shares outstanding as at June 30	6,571,159	5,945,510
Pricing NAV per Share	$6.95	$7.35
Net assets in accordance with GAAP per common share	$6.82	$7.08

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.

The calculation of Pricing NAV per Share assumes that sales commissions and share issue costs on common shares would have been deferred and amortized over five years from the date of issue of the shares.

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

	June 30, 2010 $	June 30, 2009 $
Share issue costs		
Balance - Beginning of period	1,135,371	1,659,355
Add:		
Sales commissions	137,231	163,009
Other share issue costs	76,250	96,456
Less:		
Amortization	(539,005)	(459,682)
Balance - End of period	809,847	1,459,138

7 Shareholders' equity

A reconciliation of share capital to net assets, representing shareholders' equity, is as follows:

	June 30, 2010 $	December 31, 2009 $
Share capital (net, per note 6 a))	54,311,981	52,030,211
Accumulated deficit	(5,739,003)	(5,694,743)
Unrealized losses on investments	(3,726,085)	(4,354,256)
Net assets, representing shareholders' equity	44,846,893	41,981,212

8 Related party transactions

The following table summarizes related party fees and expenses payable in respect of the six months ended June 30, 2010 and 2009:

	2010 $	2009 $
Directors' fees and expenses	22,206	20,558
Management fees	617,813	602,379
Reimbursement of expenses	25,440	25,554
	665,459	648,491
Due to related parties	118,990	114,645

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, 2010, the Fund had invested $2,800,000 (December 31, 2009 - $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, 2010 (in respect of beneficial entitlements of DCC's former shareholders): Vigil Health Solutions Inc. and Tantalus Systems Corp.

9 Bad debt

On May 6, 2009, a receiver was appointed over the assets and undertaking of the Fund's former 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. ("Lat49"). As a result of this sale, Idelix had 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.

Effective July 15, 2009, the Fund acquired an equity interest of approximately $1.4 million in Lat49 as a result of the aforementioned Idelix receivership process and sale of assets. The Fund had been the largest secured creditor of Idelix and its interest in Lat49 resulted substantially from the receivership sale. Lat49 concurrently completed a $1.5 million equity financing, in which the Fund also participated. The Fund realized a loss of approximately $1.7 million on its equity investment in Idelix.

10 Contingency

As a VCC, the Fund must comply with the legislative requirements of the SBVCA, including investing appropriately in eligible small businesses ("ESBs") 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. The Manager estimates that the Fund was required to have invested a minimum of approximately $41.6 million in ESBs as at December 31, 2009. The Fund received relief from this requirement and, as at June 30, 2010, it is required to invest a further amount of approximately $1.2 million in ESBs to have satisfied its required minimum investment level to December 31, 2009. Up to the end of July 2010, this amount had reduced to approximately $0.8 million.

11 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, was renewed for a three-year period commencing January 1, 2007 and was renewed for a further three-year period commencing January 1, 2010. The Fund paid a total of $543,521 under this agreement during the first two terms. The minimum payment of fees required under the IA Agreement is $66,000 per year during 2010, 2011 and 2012.

12 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 other price risk).

a) Credit Risk

Credit risk is the risk associated with the inability of a third party to fulfill payment obligations to the Fund. 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 Fund is subject to significant liquidity risk because it is exposed to weekly redemption requests, which may be made by shareholders who have held their shares for at least five years from the date of issuance, and because its ability to meet its financial obligations depends significantly on the success of its portfolio investments and its ability to raise new equity capital. 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 its portfolio 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. As a result of the continuing effects of the credit crisis and global economic slow-down experienced in 2008 and 2009, the potential of the Fund to achieve successful liquidity events within its venture investment portfolio has been adversely impacted and the environment in which the Fund raises equity capital for investment and to sustain operations has also become more challenging. 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 also note 13 – Capital Disclosure, specifically with respect to the status of the Fund's ability to meet redemption requests.

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. Currency risk arises from financial instruments that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Fund. The Fund invests primarily in Canadian securities of Canadian companies; however, it does have investments in two private companies which are in U.S. denominated dollars for which there is exposure to currency risk. These investments represented approximately 12% of net assets as at June 30, 2010. See note 3 - Financial instruments.

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) Other Price Risk

Other price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to the individual financial instrument or its issuer, or all factors affecting a market or market segment. The Fund is exposed to significant market risk since its portfolio investments are early stage technology companies, the majority of which are private, that generally have a limited history of operations and whose business activities tend to be speculative and present a high 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 maximum risk resulting from financial instruments is equivalent to their fair value.

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.

13 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 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 note 4 – Investment protection account and note 10 – Contingency 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 and has not been able to reinstate redemptions since then. 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.

14 Comparative figures

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

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