



British Columbia Discovery Fund (VCC) Inc.
Interim Financial Statements
(Unaudited – prepared by management)

September 30, 2004

NOTICE – These interim financial statements have not been reviewed by an auditor.

British Columbia Discovery Fund (VCC) Inc.

Statements of Financial Position

(Unaudited – prepared by management)

	September 30, 2004	December 31, 2003
ASSETS		
Venture investments, at estimated fair value	\$ 3,748,158	\$ 995,372
Marketable securities, at market value (note 3)	14,666,404	6,787,473
Cash	231,291	619,427
Accounts receivable and other assets	8,050	7,655
Total Assets	18,653,903	8,409,927
LIABILITIES		
Accounts payable and accrued liabilities	57,376	105,105
Due to related parties (note 4)	49,542	21,975
Total Liabilities	106,918	127,080
Net Assets	18,546,985	8,282,847
SHAREHOLDERS' EQUITY		
Share capital (note 5)	19,310,570	8,542,700
Deficit	(700,379)	(339,225)
Unrealized appreciation (depreciation) of venture investments	(63,206)	79,372
Total Shareholders' Equity	\$ 18,546,985	\$ 8,282,847
Common shares outstanding	2,173,896	968,660
Net Asset Value per Common Share	\$ 8.53	\$ 8.55

See accompanying notes

On behalf of the Board of Directors:

"Harry Jaako"

Director

"John McEwen"

Director

British Columbia Discovery Fund (VCC) Inc.

Statements of Operations and Deficit

(Unaudited – prepared by management)

	For the three months ended		For the nine months ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
REVENUE				
Investment income	\$ 79,888	\$ 15,219	\$ 313,592	\$ 15,219
	79,888	15,219	313,592	15,219
EXPENSES				
Administration fees	24,196	23,152	72,731	23,152
Directors' fees	6,692	6,774	19,243	6,774
Management fees	144,477	22,175	385,915	22,175
Marketing and shareholder communication	47,151	14,597	145,505	14,597
Operating expenses	4,225	3,988	13,312	3,988
Pre-operating costs (note 2)	-	(23)	-	90,035
Professional fees	3,383	4,236	38,040	4,236
Total expenses	230,124	74,899	674,746	164,957
Loss for the Period	(150,236)	(59,680)	(361,154)	(149,738)
Increase (decrease) in unrealized appreciation of venture investments	(138,386)	71,143	(142,578)	75,886
Total Results of Operations for the Period	(288,622)	11,463	(503,732)	(73,852)
Deficit, beginning of the period	(550,143)	(152,780)	(339,225)	(62,722)
Loss for the period	(150,236)	(59,680)	(361,154)	(149,738)
Deficit, end of the period	(700,379)	(212,460)	(700,379)	(212,460)
Per Common Share (based on weighted average number of shares outstanding)				
Loss for the period	(0.09)	(0.47)	(0.23)	(1.18)
Unrealized appreciation (depreciation) of venture investments	(0.09)	0.56	(0.09)	0.60
Total Results of Operations for the Period	\$ (0.18)	\$ 0.09	\$ (0.32)	\$ (0.58)

See accompanying notes

British Columbia Discovery Fund (VCC) Inc.

Statements of Changes in Net Assets

(Unaudited – prepared by management)

	For the three months ended		For the nine months ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Net Assets, beginning of the period	\$ 16,774,314	\$ 2,066,486	\$ 8,282,847	\$ 42,318
Operating Activities				
Total results of operations for the period	(288,622)	11,463	(503,732)	(73,852)
Capital Transactions				
Proceeds from issuance of common shares (note 5)	2,216,641	960,556	11,597,594	3,370,700
Less: Share issue costs including sales commissions (note 5)	(155,348)	(90,441)	(829,724)	(391,102)
	2,061,293	870,115	10,767,870	2,979,598
Increase in net assets for the period	1,772,671	881,578	10,264,138	2,905,746
Net Assets, end of the period	18,546,985	2,948,064	18,546,985	2,948,064
Unrealized Appreciation (Depreciation) of Venture Investments				
Balance, beginning of the period	75,180	4,743	79,372	-
Net increase (decrease) for the period	(138,386)	71,143	(142,578)	75,886
Balance, end of the period	\$ (63,206)	\$ 75,886	\$ (63,206)	\$ 75,886

See accompanying notes

Statements of Cash Flows*(Unaudited – prepared by management)*

	For the three months ended		For the nine months ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Operating Activities				
Total results of operations for the period	\$ (288,622)	\$ 11,463	\$ (503,732)	\$ (73,852)
Items not affecting cash				
Decrease (increase) in unrealized appreciation of venture investments	138,386	(71,143)	142,578	(75,886)
Decrease (increase) in unrealized appreciation of marketable securities	14,442	(1,980)	(13,758)	(2,871)
Non-cash investment income	-	-	(107,002)	-
Net change in non-cash working capital	21,140	(218,488)	(20,557)	(428,809)
Cash flows used in operating activities	(114,654)	(280,148)	(502,471)	(581,418)
Investing Activities				
Purchase of marketable securities	(1,169,534)	(933,346)	(7,865,173)	(2,097,079)
Purchase of venture investments	(1,508,360)	(250,000)	(2,788,362)	(416,000)
Cash flows used in investing activities	(2,677,894)	(1,183,346)	(10,653,535)	(2,513,079)
Financing Activities				
Proceeds from issuance of common shares (note 5)	2,216,641	960,556	11,597,594	3,370,700
Share issue costs including sales commissions (note 5)	(155,348)	(90,441)	(829,724)	(391,102)
Cash flows from financing activities	2,061,293	870,115	10,767,870	2,979,598
Net Decrease in Cash, during the period	(731,255)	(593,379)	(388,136)	(114,899)
Cash, beginning of the period	962,546	704,163	619,427	225,683
Cash, end of the period	\$ 231,291	\$ 110,784	\$ 231,291	\$ 110,784

See accompanying notes

British Columbia Discovery Fund (VCC) Inc.

Statement of Investment Portfolio

(Unaudited – prepared by management)

As at September 30, 2004

MARKETABLE SECURITIES

Par Value \$	Issuer	Maturity Date	Cost \$	Market Value \$	Percentage of Net Assets
<i>Short-term Investments</i>					
3,621,000	Canadian Imperial Bank of Commerce	Dec 29, 2004	3,600,179	3,600,408	19%
4,246,000	Canadian Imperial Bank of Commerce	Feb 04, 2005	4,199,804	4,214,287	23%
3,437,000	Canadian Imperial Bank of Commerce	Feb 04, 2005	3,399,605	3,411,328	18%
1,598,000	Canadian Imperial Bank of Commerce	Feb 04, 2005	1,584,817	1,584,817	9%
1,871,000	Canadian Imperial Bank of Commerce	Feb 04, 2005	1,855,564	1,855,564	10%
Total Marketable Securities			14,639,969	14,666,404	79%

VENTURE INVESTMENTS

Investee	Number of Securities	Security	Cost \$	Percentage of Net Assets
<i>Public</i>				
Cryopak Industries Inc.	892,857	Common Shares	250,000	1%
Cryopak Industries Inc.	446,428	Warrants	-	-
Vigil Health Solutions Inc.	474,286	Common Shares	166,000	1%
<i>Private</i>				
Aspreva Pharmaceuticals Corp.	42,030	Common Shares	257,002	1%
Aspreva Pharmaceuticals Corp.	8,406	Warrants	-	-
Day4 Energy Inc.	800,000	Common Shares	1,100,000	6%
Day4 Energy Inc.	400,000	Warrants	-	-
Idelix Software Inc.	1,800,000	Preferred Shares	530,002	3%
Tantalus Systems Corp.	837,978	Series A Preferred	1,508,360	8%
Total venture investments, at cost			3,811,364	20%
Unrealized depreciation of venture investments			(63,206)	0%
Total Venture Investments, at Estimated Fair Value			3,748,158	20%
Total Investments			18,414,562	
Other assets, net of liabilities			132,423	1%
Net Assets			18,546,985	100%

See accompanying notes

British Columbia Discovery Fund (VCC) Inc.

Notes to Financial Statements

(September 30, 2004)

These interim financial statements should be read in conjunction with the audited financial statements as at December 31, 2003. These statements follow the same accounting policies and methods of their application as those followed in the December 31, 2003 audited financial statements.

1 Nature of operations

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

A wholly owned subsidiary of Discovery Capital Corporation (DCC), Discovery Capital Management Corp. (the Manager), acts as investment manager to the Fund and assists the Fund in sourcing, selecting and monitoring the Fund's investments. 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 net asset value of the Fund, up to \$100 million, plus 2.5% of the net asset value of the Fund in excess of \$100 million, calculated and paid monthly in arrears, as well as, subject to satisfaction of certain conditions, a performance fee equal to 20% of the realized gains for cash and cash income from each eligible investment of the Fund, calculated and paid quarterly in arrears. The payment of the management fee is subject to 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 equity capital it has raised.

Common shares of the Fund are offered on a continuous offering basis at the pricing net asset value per common share of the Fund determined, for pricing purposes only, on the valuation date that falls on or occurs immediately after the date on which the common shares are subscribed for (see note 5).

2 Change in accounting policy

During the year ended December 31, 2003, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 1100, Generally Accepted Accounting Principles. This section removed industry practice as a source of generally accepted accounting principles, and as a result, the Fund has recorded share issue costs and sales commissions as a reduction of share capital and has expensed pre-operating costs, all of which would previously have been deferred and amortized.

3 Marketable securities

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

4 Related party transactions

Due to related parties at September 30, 2004 is \$49,542 (December 31, 2003 - \$21,975) comprising \$49,174 (December 31, 2003 - \$21,975) payable to the Manager in respect of management fees and \$368 (December 31, 2003 - \$nil) of recoverable expenditures payable to DCC, a company having two directors in common with the Fund and the parent company of the Manager.

Notes to Financial Statements

(September 30, 2004)

5 Share capital

Shareholders can require the Fund to redeem their shares at the net asset value per common share of the Fund at any time after five years from the original share issue date, or at any time 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.

Authorized

500,000,000 common shares

Issued

	<u>September 30, 2004</u>		<u>September 30, 2003</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Balance - Beginning of period	968,660	\$ 9,643,667	26,210	\$ 262,100
Common shares issued for cash	<u>1,205,236</u>	<u>11,597,594</u>	<u>338,284</u>	<u>3,370,700</u>
Balance - End of period	<u>2,173,896</u>	<u>21,241,261</u>	<u>364,494</u>	<u>3,632,800</u>
Less: Issue costs				
Balance - Beginning of period		1,100,967		157,060
Sales commissions		579,880		168,535
Other share issue costs		<u>249,844</u>		<u>222,567</u>
Balance - End of period		<u>1,930,691</u>		<u>548,162</u>
Capital stock - Net of issue costs		<u>\$ 19,310,570</u>		<u>\$ 3,084,638</u>

Other share issue costs relate directly to the issuance of shares and include costs incurred by DCC that are reimbursed by the Fund as set out in the Fund's prospectus.

Pricing of common shares

For purposes of these financial statements, the Fund calculates its net assets in accordance with generally accepted accounting principles (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.

Notes to Financial Statements

(September 30, 2004)

5 Share capital (continued)

For share pricing purposes, the Fund calculates pricing net asset value per share by adding back to its net asset value amounts that would have been deferred and amortized prior to the release of CICA Handbook Section 1100 (see Change in Accounting Policy, note 2). The following is a reconciliation of pricing net asset value per share and net assets in accordance with GAAP per common share:

	September 30, 2004
Net assets in accordance with GAAP as reported	\$ 18,546,985
Add:	
Unamortized deferred share issue costs including sales commissions	1,608,402
Unamortized deferred pre-operating costs	114,337
Other financial statement adjustments	<u>11,391</u>
Pricing net asset value	<u>20,281,115</u>
Common shares outstanding	<u>2,173,896</u>
Pricing net asset value per common share	\$ <u>9.33</u>
Net assets in accordance with GAAP per common share	\$ <u>8.53</u>

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

- (a) 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.
- (b) 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.
- (c) Pre-operating costs incurred in the period from inception to June 30, 2003 would have been deferred and amortized over the shorter of the expected period of benefit or five years.

Notes to Financial Statements

(September 30, 2004)

5 Share capital (continued)

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

	September 30, 2004
Share issue costs	
Balance – Beginning of period	\$ 1,042,249
Add:	
Sales commissions	579,880
Other share issue costs	249,844
Less:	
Amortized deferred share issue costs including sales commissions	<u>(263,571)</u>
	\$ <u>1,608,402</u>
 Pre-operating costs	
Balance – Beginning of period	\$ 137,481
Less:	
Amortized deferred pre-operating costs	<u>(23,144)</u>
	\$ <u>114,337</u>

6 Contingencies

The Fund has a contingent liability to repay the tax credits granted to its shareholders by the Government of British Columbia. Where a VCC has met all of the legislative requirements and has invested appropriately in eligible small businesses and has maintained these levels of investment for at least five years, there will be no such liability to repay the tax credits.