



BUILDING BC's  
FUTURE IN  
TECHNOLOGY

2004 ANNUAL REPORT

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*L-R: John McEwen, Patricia Parisotto, Todd Riley, Harry Jaako, Charles Cook*

## The Fund

British Columbia Discovery Fund (VCC) Inc. ("BC Discovery Fund" or the "Fund") is a diversified opportunity for investors to participate in the emerging technology industry in British Columbia. The Fund issues its shares under the Venture Capital Corporation (VCC) Program, a B.C. government initiative to promote economic diversification and investment in small businesses, including technology ventures. In addition to enabling participation in innovative, local companies, BC Discovery Fund provides retail investors access to private venture capital investment opportunities, which are often only accessible to institutional shareholders and "angel" investors.

Eligible individual investors in the Fund receive a tax credit equal to 30% of the amount invested, to a maximum of a \$60,000 tax credit per annum. The tax credit on investments into the Fund during the first 60 days of the year can be carried back and applied against the prior year's taxes payable. To the extent that the amount of the tax credit exceeds an individual's British Columbia taxes otherwise payable, the individual is entitled to a refund of the difference. Shares in the Fund are eligible for RRSPs, RRIAs and RESPs. The tax credit is also available to B.C. corporations to reduce B.C. taxes payable.

BC Discovery Fund is similar to the labour sponsored funds ("LSFs") available to investors in B.C., with added advantages that include:

- 30% investment tax credit on investments from a minimum of \$2,500 to a maximum of \$200,000 (vs. \$5,000 maximum investment level for LSFs); and
- Ability to request redemption after 5 years (vs. 8 year hold period for LSFs).

## The Manager

The Manager, Discovery Capital Management Corp. ("DCMC") is a wholly owned subsidiary of Discovery Capital Corporation, a Vancouver-based venture capital company with over 18 years of venture capital and technology industry experience in British Columbia. The principals of DCMC have enhanced value for over 250 technology ventures, with proven expertise in strategic planning, management development, innovative financing strategies, corporate governance, and positioning for liquidity. DCMC is focused on venture capital investment and fund management specializing in:

- information technology (software, hardware)
- communications (wireless, networking)
- health and life sciences (biotechnology, pharmaceuticals, bioinformatics)
- other advanced technologies (energy, environmental, advanced materials)

Historically, DCMC has delivered significant realized returns by executing on its value creation role and driving profitable exit strategies in a four to six year timeframe.

# BC DISCOVERY FUND



## 2004 Highlights

<b>February 9, 2004</b>	The Fund sells out its 2003 allocation of \$16 million, three weeks prior to the end of the 2003 RRSP contribution deadline.
<b>March 2004</b>	Portfolio company <b>Aspreva Pharmaceuticals Corporation</b> announces the completion of a US\$57 million venture capital financing, its second round of financing and the second largest life sciences venture capital financing in Canadian history.
<b>April 2004</b>	The Fund invests \$1.0 million in <b>Day4 Energy Inc.</b> , a solar energy company based in Burnaby, B.C. that is dedicated to producing affordable and efficient photovoltaic power generation systems for the world power markets.
<b>September 2004</b>	The Fund invests \$1.5 million as part of a \$16 million equity financing in <b>Tantalus Systems Corp.</b> , a designer and manufacturer of data communications networks for utilities.
<b>December 2004</b>	The Fund commits to invest \$1.0 million in <b>Inimex Pharmaceuticals Inc.</b> , a Vancouver-based private biopharmaceutical company focused on the development of new medicines that selectively augment innate immunity, the human body's first line of defense against infection.
<b>February 4, 2005</b>	The Fund sells out its 2004 allocation of \$10 million to remain the largest VCC fund in British Columbia.



## ***Our Opportunity - Your Opportunity***

According to the British Columbia Technology Clusters White Paper, the transformation and development of B.C.'s economy depends in large part on the emergence and growth of a healthy, vibrant and relevant technology sector. We have already seen the first steps in this direction, with world class technology clusters emerging in B.C. - information and communications technology, wireless, new media, alternative energy, life sciences, and environmental technologies.

Of equal importance, we have begun to see, at both provincial and federal government levels, the political will required to sustain these clusters. As a result of this political will, Canada and B.C. enjoy fundamental advantages that are the source of vibrant technology communities. Our social justice, rule of law, intellectual property protection, social and physical security, strong health and education, and quality of life, all rank at the top of the global scale. Few jurisdictions in the world can equal British Columbia in terms of these attributes.

To thrive, these clusters must be supported on four pillars: people, financing, research and development (R&D), and commercialization. Technology is knowledge intensive, driven by the ideas and innovation created by a talented workforce. These ideas generate the greatest benefit when shared within an R&D community. To provide value to society, this R&D must be shaped into useful solutions that meet the needs of citizens and businesses. Knowledgeable, patient and sustained capital is required to provide the means for companies to grow and commercialize these products and services.

### **Our Commitment Your Commitment**

British Columbia Discovery Fund (VCC) Inc. is absolutely committed to delivering the knowledgeable, patient and sustained capital that is the lifeblood of this transformation and development of the B.C. economy.

This daunting transformation must engage venture capital at all levels and from all sources. These sources must include government funding for early research in universities and institutes, families and friends of our entrepreneurs and the angel investors to nurture and mentor them, as well as Canada's institutional investors and foreign capital. However, in order for Canada to win in the competitive world of technology-based economies, Canada must also actively engage its citizens in the growth of the technology economy.

B.C.'s Small Business Venture Capital Act is an exemplary model for enabling venture stage investment. Through Venture Capital Corporations (VCCs) like BC Discovery Fund, this visionary legislation allows British Columbians, who are also committed to the importance of this economic transition, to invest affordably towards this important goal. Through the immediate benefit of the 30% Investment Tax Credit, and RRSP eligibility of the investment, an investor's capital at risk is substantially reduced. Due to features like (a) the fully refundable tax credit, should an individual investor have no tax to pay; (b) the choice to invest up to \$200,000, for a \$60,000 tax credit; (c) the ability of an investment in BC Discovery Fund to be placed in a locked-in RRSP; and (d) the ability

**The Fund's investment team: Harry Jaako, Maurice Li, John McEwen, Charles Cook**



to request redemption after five years, an investment in BC Discovery Fund offers significant financial planning advantages, in addition to participation in potentially successful emerging technology investments.

We are delighted to report that more than 2,500 British Columbians have committed to the transformation of the B.C. economy through their investment in BC Discovery Fund. Your Fund has, to the end of 2004, raised more investment capital for the development of B.C. technology companies than any of the hundreds of VCCs in B.C. since the Small Business Venture Capital Act came into force in the 1980's.

**Your Manager Our Mandate**

BC Discovery Fund's manager, Discovery Capital Management Corp., has already contributed to the growth of many of the most successful technology enterprises in British Columbia. The T-Net20 is the index of the 20 top public technology companies in B.C. Four companies funded in their early stages by Discovery Capital are, or have been, on that elite list - Sierra Wireless, INEX Pharmaceuticals, TIR Systems, and ALI Technologies (which was sold in 2002 to McKesson Corp. for \$530 million). At the time that Discovery's past VCC funds invested in these companies, they had a total pre-money value of far less than \$100 million, and during the period that they were held in Discovery's past VCC funds, they achieved an aggregate market capitalization of over \$2 billion, employing over 1,000 skilled technology professionals in British Columbia and across North

America. A fifth member of this noteworthy T-Net20 group is MacDonald Dettwiler (MDA), a company that has created over \$1 billion of shareholder value, co-founded and led for many years by Dr. John MacDonald, an independent director of BC Discovery Fund. The Discovery team is selecting new investments for BC Discovery Fund, and contributing to their growth, with the same philosophy, dedication and purpose.

**The Year in Review**

We have expanded our investment portfolio in 2004, as you will note elsewhere in this Annual Report, ensuring that we invest BC Discovery Fund's assets across a well-diversified selection of B.C.'s most promising technology ventures. You will note that we have already selected opportunities in most of B.C.'s most promising technology clusters. We will continue to commit our efforts in 2005 to building the technology successes that will help to define B.C.'s future, build our technology communities, employ our brightest talent, and deliver robust returns to our shareholders.

**Sincerely**

**Harry Jaako**

**John McEwen**



Invested Amount \$257,002



### Description of the Business

Aspreva Pharmaceuticals is an emerging pharmaceutical company focused on identifying, developing and commercializing new indications for approved drugs and drug candidates for underserved patient populations. Aspreva's strategy, which it calls "indication partnering", is to collaborate with pharmaceutical and biopharmaceutical companies to pursue new indication approvals which lie beyond these collaborators' strategic focus. For many drugs, there exists scientific and clinical data that suggests potential efficacy in the treatment of multiple diseases. Aspreva employs a proprietary screening process to evaluate such data and identify those drugs having potential for high therapeutic value and commercial value in underserved patient populations. Once a drug has been identified, Aspreva develops a clinical and marketing plan for the new indication and uses that plan as the basis for pursuing an indication partnership.

[www.aspreva.com](http://www.aspreva.com)

### Recent Milestones

- In January 2005, Aspreva announced that it filed a registration statement with the U.S. Securities and Exchange Commission and a preliminary prospectus with Canadian provincial regulatory securities authorities for a proposed initial public offering of its common shares.
- In June 2004, Aspreva announced the initiation of a global phase III study of CellCept® (mycophenolate mofetil) for myasthenia gravis (MG), its first partnering arrangement.
- In March 2004, Aspreva closed a US\$57 million private equity financing, believed to be one of the largest Series A financings reported in North America.

### Outlook

Aspreva continues to focus on the opportunities arising from its global partnership with F. Hoffmann-La Roche, while pursuing other partnering opportunities for therapeutic product expansion.



Invested Amount \$250,000



### Description of the Business

With facilities in Vancouver and Montreal, Cryopak is a leading provider of temperature-controlling products and solutions. Since 2000, Cryopak has grown rapidly through the acquisitions of Northland Ice-Gel and the Ice-Pak Group, and by consistently providing high quality products and solutions to a growing number of retail, pharmaceutical, and industrial customers. It develops, manufactures and markets quality products and solutions to some of North America's leading retailers and consumer goods companies, as well as to global pharmaceutical companies. Its clients include such well-known names as Rubbermaid, Wyeth Pharmaceuticals and Aventis Pasteur Canada.

[www.cryopak.com](http://www.cryopak.com)

Cryopak's retail products include reusable ice substitutes, flexible hot and cold compresses, reusable gel ice and instant hot and cold packs. These products are marketed under such popular brand names as Ice-Pak™, Flexible Ice™Blanket, Simply Cozy®, and Flex Pak™. Cryopak's brands are fundamental to the success of its retail business. In its pharmaceutical business, Cryopak engineers solutions and supplies products that help its customers safely transport their temperature sensitive pharmaceuticals. Over the past few years, Cryopak has evolved into a recognized player in this growing segment as it assists customers in optimizing their "cold chain" processes.

### Recent Milestones

- Cryopak has been successful in closely monitoring and reducing its discretionary costs, which has significantly reduced its net loss to date in fiscal 2005 as compared to fiscal 2004.
- Cryopak has also received approval to reorganize its capital structure and to restructure a portion of its convertible loan agreement in order to further reduce corporate overhead.

### Outlook

Cryopak continues to focus on growing its sales, with an emphasis on the pharma segment where it has added several new customers and increased business with existing accounts so far in fiscal 2005.

## Day4 Energy

Invested Amount

\$1,100,000



[www.day4energy.com](http://www.day4energy.com)

### Description of the Business

Day4 Energy is a solar energy company dedicated to producing affordable and efficient photovoltaic power generation systems for the world power markets. Producing electricity directly from the sun, or photovoltaics (PV), offers significant environmental and operational benefits over conventional fossil fuel and other renewable energy sources. However, PV electrical power generation has thus far been uneconomic because its costs have not been competitive with conventional generation without government subsidy. Day4 has developed new PV technology that will significantly reduce the cost of PV to the end-user, making future technology today's reality. Day4's goal is to become a major supplier of PV power generation systems and system components to industrial and utility clients around the world.

### Recent Milestones

- Commercial production levels achieved on Day4 proprietary manufacturing equipment.
- Design, construction, installation and testing of the first pilot installation of a Day4 sun concentrator system.
- Relationships established with a number of industry partners including RWESchott Solar, Q-Cells AG and ERSOL.
- Developed pre-commercial designs of PV power generation products for residential and building integrated markets.

### Outlook

During the course of the next 12 months, Day4 is planning to construct its first commercial production line capable of manufacturing products for residential as well as industrial, commercial and utility power markets. The company anticipates commencing commercial sales of the first generation of its products during the first half of 2006.



Invested Amount

\$530,002



[www.idelix.com](http://www.idelix.com)

### Description of the Business

IDELIX is a leading innovator in the area of information visualization. Its core product, the Pliable Display Technology (PDT) software development kit, incorporates *focus+context* viewing and editing techniques to address the growing concerns of information overload in 2D and 3D applications. PDT provides improved situational awareness, allowing decision makers to identify, visualize and interact with important detail within an image, without losing sight of surrounding information. Combining PDT with partner and client applications, IDELIX is reshaping the way in which businesses and individuals interact with on-screen information.

### Recent Milestones

- Defence Research and Development Canada (DRDC) contributes \$470,000 for research and development into the next generation of PDT.
- Several strategic partnerships solidified, including BAE Systems, Lockheed Martin, and Harris Corporation signed as customers.
- James Frey, Northrop Grumman TASC (retired), and Derek Burney, former CAE President, welcomed to the Board of Advisors.
- Three US patents granted; twenty-five pending.
- \$2.4M in private financing raised to continue market and technology development.

### Outlook

Solidifying its position in the Canadian and US Intelligence and defense markets, IDELIX is poised to move further into the spheres of CAD, modeling and simulation to make 2005 a breakthrough year in revenue. Ongoing research into "Smart Lenses" that will be "aware" of patterns, features and user needs will create an entire new generation of demand for PDT capabilities.



Invested Amount \$500,000



### Description of the Business

Inimex Pharmaceuticals is dedicated to the discovery, development and commercialization of new medicines based on the enhancement of innate immunity (the body's natural first line of defense). Inimex has identified and patented prospective drug candidates that treat and prevent infections based on a novel approach intended to overcome the issues of drug resistance. The new medicines being developed by Inimex that selectively stimulate innate immunity are expected to generate improved treatment options by avoiding drug resistance while preventing harmful side effects from excessive inflammation.

[www.inimexpharma.com](http://www.inimexpharma.com)

### Recent Milestones

- In December 2004, Inimex completed an \$8 million Series A venture capital financing, enabling accelerated development of Inimex's lead drug candidate as a new therapy against hospital acquired pneumonia.
- In September 2004, Inimex founding scientists received prestigious national and international awards recognizing their innovative infectious disease research.
- In October 2003, Inimex was selected by the Ottawa Life Sciences Council as one of the top ten life sciences investment and partnership prospects in Canada.

### Outlook

With the proceeds of its venture capital financing completed in 2004, Inimex plans to accelerate the development of its initial product toward human clinical trials while at the same time seeking to build a pipeline of new products against bacterial disease.



Invested amount \$1,508,360



### Description of the Business

Tantalus Systems develops, manufactures and markets two-way real-time data communications networks to monitor and control electric, gas and water utilities. Its long-range wireless networks unite a utility's applications, making automated meter reading, load management and distribution automation cost-effective and practical throughout industrial, urban and rural service areas.

[www.tantalus.com](http://www.tantalus.com)

### Recent Milestones

- Completed \$16 million equity financing, including participation by large energy industry investment firms, to fund commercial production and sales and marketing activity.
- Landed contract with Ontario's Chatham-Kent Hydro Inc. to supply the Tantalus Utility Network™ (TUNet™) for a 1000-endpoint residential deployment.
- Appointed high-profile, former operating executive of Puget Sound Energy to its Board to provide insight into utilities' adoption of networking technologies.
- Expanded pilot deployment of TUNet™ in Anaheim, California and installed two new customer deployments in the southeast United States.

### Outlook

With the proceeds of the equity financing completed in 2004, and the support of the financial partners which participated in the financing, Tantalus is well positioned to provide innovative solutions to the capacity and reliability challenges faced by utilities today.



Invested Amount \$166,000



## Description of the Business

Vigil Health Solutions develops and markets a customized, modular monitoring and care planning system for long-term care facilities. Vigil introduced the first dementia specific care technology to the aged care market and the Vigil System has been expanded to provide complete, innovative product solutions for the full continuum of care. Vigil's nurse call and dementia products facilitate the highest standard of care for cognitive residents while helping dementia residents enjoy a higher quality of life and greater dignity.

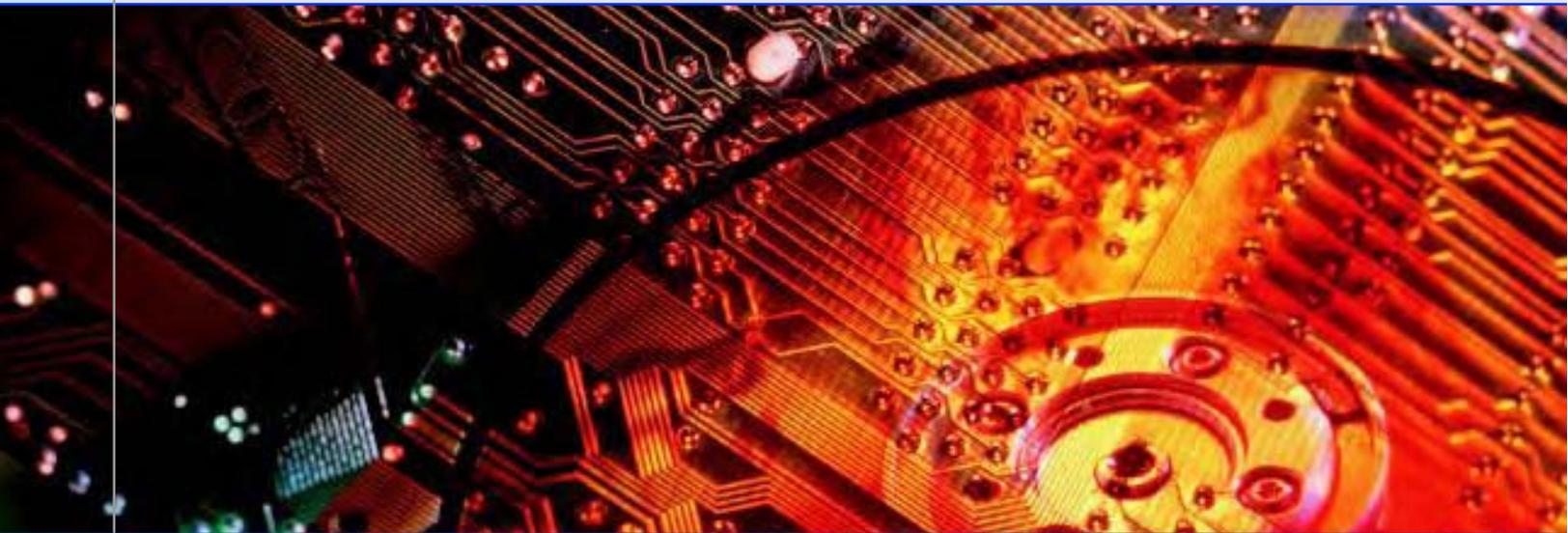
## Recent Milestones:

- Commissioned independent cost-benefit study which assessed the Vigil System to have immediate and significant return on investment potential for long-term care facilities.
- Received \$225,000 of orders for three new installations in Ohio which, when completed, will result in a total of 8 installations in Ohio.
- Entered into an agreement with a Finnish film sensor manufacturer for the distribution of a state-of-the-art bed-monitoring sensor to enhance the Vigil product line.

[www.vigilhealth.com](http://www.vigilhealth.com)

## Outlook

Vigil has expanded its sales and marketing team and is expecting to introduce new software and hardware enhancements to its product line. Vigil continues to develop long-term relationships with its customers in the North American long-term care market with the objective of increasing repeat customer installation orders.



## Selected Financial Information

<b>Statement of Operations Data:</b>	<b>Year ended December 31, 2004</b>	<b>Year ended December 31, 2003</b>
Investment Income	\$ 401,834	\$ 42,172
Loss	\$ (563,693)	\$ (276,503)
Change in unrealized (depreciation) appreciation of venture investments	\$ (211,493)	\$ 79,372
Total results of operations	\$ (775,186)	\$ (197,131)
Management expense ratio <sup>(1)</sup>	4.5%	3.8%

<b>Statement of Financial Position Data:</b>	<b>As at December 31, 2004</b>	<b>As at December 31, 2003</b>
Venture investments	\$ 4,179,243	\$ 995,372
Net assets	\$ 21,505,598	\$ 8,282,847
Net assets per Share	\$ 8.44	\$ 8.55
Pricing Net Asset Value per Share <sup>(2)</sup>	\$ 9.15	\$ 9.82

<sup>(1)</sup> Management expense ratio is calculated as total operating expenses for the year divided by net assets at the end of the year.

<sup>(2)</sup> Pricing Net Asset Value per Share is the price at which the Fund issues and redeems Shares. See note 4 to the financial statements.

## Overview

In early 2004, the Fund completed the sale of its fiscal 2003 tax credit allocation of \$16 million and commenced selling its fiscal 2004 tax credit allocation of \$10 million. In total, the Fund raised \$15.1 million in 2004, over 50% of which was raised in the first three months of the year, as is typical of venture capital and mutual funds which experience strong selling activity during the “RRSP selling season”.

The Fund experienced its first full year of operating activities in 2004. During 2003, the Fund was in its start-up phase until mid-year and a substantial part of its capital raising and initial investment activities occurred later in the year. As a consequence, the management expense ratio (“MER”) of the Fund, calculated as operating expenses divided by net assets of the Fund at year-end, was 4.5% for the year ended December 31, 2004, compared to 3.8% for the year ended December 31, 2003. Operating expenses were significantly higher in 2004 than in 2003 reflecting substantially higher management fees as a result of increased net assets under management from the beginning of 2004 compared to 2003. In addition, expenditures across all other expense categories were higher in 2004 than in 2003, generally reflecting increased selling activity and shareholder reporting costs, as well as a full year of fund administration costs. The Fund made three new venture investments and one follow-on investment in 2004, bringing its total to seven venture investments, and continued to expand its pipeline of potential investment opportunities.

**The Fund sold out its  
2004 tax credit  
allocation of \$10 million**



**Net Assets**

Net assets were \$21,505,598, or \$8.44 per share, at December 31, 2004 compared to net assets of \$8,282,847, or \$8.55 per share, at December 31, 2003. Net assets increased by \$13,222,751 as a result of gross proceeds of \$15,078,588 from sales of common shares during 2004 (excluding a redemption in the amount of \$4,879), offset by \$1,075,772 of issue costs, less total results of operations of \$(775,186). Gross proceeds from sales of common shares during 2004 were 61% higher than gross proceeds of \$9,381,567 during 2003.

**Operating Results**

Total results of operations for the year ended December 31, 2004 were \$(775,186) compared to \$(197,131) for the year ended December 31, 2003. The change in total results of operations in 2004 was due to the following:

- \$290,865 of a decrease in the change in unrealized (depreciation) appreciation of venture investments in 2004 compared to 2003, due mainly to a decline in the market value of the Fund's publicly traded venture investments;
- \$478,341 of increased management fee expense, due to increased net assets under management; and
- \$168,511 of increased marketing, operating, administration and selling fees, reflecting a full year of operating activity; offset by
- \$359,662 of increased investment income in 2004, comprised of increased interest revenue from increased funds invested in marketable securities, as well as interest and other income on venture investments made by the Fund.

**Investment Activities**

During 2004, the Fund made three new venture investments and one follow-on investment, which are set out below:

<b>Portfolio Company</b>	<b>Securities</b>	<b>Cost</b>
<b>Private</b>		
Day4 Energy Inc.	800,000 common shares 400,000 share purchase warrants	\$1,000,000
IDELIX Software Inc.	800,000 preference shares	280,002
Inimex Pharmaceuticals Inc.	1,225,010 preference shares	500,000
Tantalus Systems Corp.	837,978 preference shares	1,508,360
<b>Total Investments</b>		<b>\$3,288,362</b>

**Liquidity and Capital Resources**

At December 31, 2004, the Fund had cash and marketable securities of \$17,533,016 and total liabilities of \$211,476.

## AUDITORS' REPORT

### To the Shareholders of British Columbia Discovery Fund (VCC) Inc.

We have audited the statements of financial position of British Columbia Discovery Fund (VCC) Inc. as at December 31, 2004 and 2003, the statements of operations and deficit, changes in net assets and cash flows for the years ended December 31, 2004 and 2003 and the statement of investment portfolio as at December 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and 2003 and the results of its operations, changes in net assets and its cash flows for the years ended December 31, 2004 and 2003 and the investments held at December 31, 2004 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Vancouver, B.C.  
January 18, 2005

## STATEMENTS OF FINANCIAL POSITION

*As at December 31, 2004 and 2003*

	2004	2003
<b>Assets</b>		
Venture investments	\$ 4,179,243	\$ 995,372
Marketable securities (note 3)	15,388,696	6,787,473
Cash and cash equivalents (note 3)	2,144,320	619,427
Other assets	4,815	7,655
<b>Total assets</b>	<b>21,717,074</b>	<b>8,409,927</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	83,134	105,105
Due to related parties (note 6)	128,342	21,975
<b>Total liabilities</b>	<b>211,476</b>	<b>127,080</b>
<b>Net assets</b>	<b>21,505,598</b>	<b>8,282,847</b>
<b>Shareholders' Equity</b>		
Capital stock (note 4)	22,540,637	8,542,700
Deficit	(902,918)	(339,225)
Unrealized (depreciation) appreciation of venture investments	(132,121)	79,372
<b>Total shareholders' equity</b>	<b>21,505,598</b>	<b>8,282,847</b>
Common shares outstanding	2,549,357	968,660
<b>Net Assets per Common Share (note 4)</b>	<b>\$ 8.44</b>	<b>\$ 8.55</b>

*See accompanying notes*

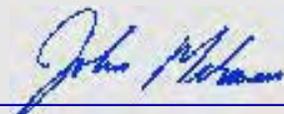
Contingency (note 7)

Commitment (note 9)

Approved by the Board of Directors



Harry Jaako  
*Director*



John McEwen  
*Director*

**STATEMENTS OF OPERATIONS AND DEFICIT***For the years ended December 31, 2004 and 2003*

	2004	2003
<b>Investment Income</b>		
Interest	\$ 301,834	\$ 42,172
Other	100,000	-
Total investment income	401,834	42,172
<b>Expenses</b>		
Directors' fees	24,742	13,774
Fund administration fees	97,496	46,363
Management fees	548,763	70,422
Marketing and shareholder communication	79,014	15,075
Operating expenses	17,556	8,270
Pre-operating costs (note 8)	-	90,036
Professional fees	103,570	62,245
Trailer fees	94,386	12,490
Total expenses	965,527	318,675
<b>Loss for the Year</b>	(563,693)	(276,503)
Change in unrealized (depreciation) appreciation of venture investments	(211,493)	79,372
<b>Total Results of Operations for the Year</b>	(775,186)	(197,131)
<b>Deficit, Beginning of Year</b>	(339,225)	(62,722)
Loss for the year	(563,693)	(276,503)
<b>Deficit, End of Year</b>	(902,918)	(339,225)
<b>Per Common Share</b> (based on weighted average number of shares outstanding (note 2))		
Loss for the year	(0.28)	(1.03)
Unrealized (depreciation) appreciation of venture investments	(0.11)	0.30
<b>Total Results of Operations for the Year</b>	<b>\$ (0.39)</b>	<b>\$ (0.73)</b>

*See accompanying notes*

## STATEMENTS OF CHANGES IN NET ASSETS

*For the years ended December 31, 2004 and 2003*

	2004	2003
<b>Net Assets, Beginning of Year</b>	\$ 8,282,847	\$ 42,318
<b>Operating Activities</b>		
Total results of operations for the year	(775,186)	(197,131)
<b>Capital Transactions</b>		
Proceeds from issuance of common shares (note 4)	15,078,588	9,381,567
Redemption of common shares (note 4)	(4,879)	-
Less: Share issue costs including sales commissions	(1,075,772)	(943,907)
	13,997,937	8,437,660
<b>Increase in Net Assets</b>	13,222,751	8,240,529
<b>Net Assets, End of Year</b>	21,505,598	8,282,847
<b>Unrealized (Depreciation) Appreciation of Venture Investments</b>		
Balance, beginning of year	79,372	-
Net (decrease) increase for the year	(211,493)	79,372
Balance, end of year	\$ (132,121)	\$ 79,372

*See accompanying notes*

**STATEMENTS OF CASH FLOWS***For the years ended December 31, 2004 and 2003*

	2004	2003
<b>Cash Flows from Operating Activities</b>		
Total results of operations for the year	\$ (775,186)	\$ (197,131)
Items not affecting cash		
Unrealized depreciation (appreciation) of venture investments	211,493	(79,372)
Unrealized appreciation of marketable securities	(76,109)	(12,677)
Non-cash investment income	(107,002)	-
Net change in non-cash working capital	87,236	(63,940)
	(659,568)	(353,120)
<b>Cash Flows from Investing Activities</b>		
Purchase of marketable securities	(8,525,114)	(6,774,796)
Purchase of venture investments	(3,288,362)	(916,000)
	(11,813,476)	(7,690,796)
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of common shares (note 4)	15,078,588	9,381,567
Redemption of common shares (note 4)	(4,879)	-
Share issue costs including sales commissions	(1,075,772)	(943,907)
	13,997,937	8,437,660
<b>Increase in Cash</b>	1,524,893	393,744
Cash, beginning of year	619,427	225,683
<b>Cash, End of Year</b>	2,144,320	619,427
<b>Supplemental Cash Flow Information</b>		
Interest received	\$ 201,804	\$ 38,054

*See accompanying notes*

## STATEMENT OF INVESTMENT PORTFOLIO

*As at December 31, 2004*

### Marketable Securities

Par Value \$	Issuer	Maturity Date	Cost \$	Market Value \$	Percentage of Net Assets
4,269,000	Canadian Imperial Bank of Commerce	January 31, 2005	4,260,120	4,260,398	20%
1,598,000	Canadian Imperial Bank of Commerce	February 4, 2005	1,584,817	1,594,367	7%
1,871,000	Canadian Imperial Bank of Commerce	February 4, 2005	1,855,564	1,866,746	9%
3,437,000	Canadian Imperial Bank of Commerce	February 4, 2005	3,399,605	3,429,925	16%
4,246,000	Canadian Imperial Bank of Commerce	February 4, 2005	4,199,804	4,237,260	20%
<b>Total Marketable Securities</b>			15,299,910	15,388,696	72%

### Venture Investments

Investee	Number of Securities	Security	Cost \$	Percentage of Net Assets
<b>Public</b>				
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%
<b>Private</b>				
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	5%
Day4 Energy Inc.	400,000	Warrants		
IDELIX Software Inc.	1,800,000	Preferred shares	530,002	3%
Inimex Pharmaceuticals Inc.	1,225,010	Preferred shares	500,000	2%
Tantalus Systems Corp.	837,978	Preferred shares	1,508,360	7%
<b>Total Venture Investments - at cost</b>			4,311,364	20%
Unrealized depreciation of venture investments			(132,121)	(1)%
<b>Total Venture Investments - at fair value</b>			4,179,243	19%
<b>Total Investments</b>			19,567,939	91%
Other assets - net of liabilities			1,937,659	9%
<b>Net Assets</b>			21,505,598	100%

*See accompanying notes*

## NOTES TO FINANCIAL STATEMENTS

*Years ended December 31, 2004 and 2003*

### 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 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 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 aggregate 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 (see note 4).

### 2 Significant accounting policies

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

#### **Use of estimates**

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

#### **Marketable securities**

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

#### **Venture investments**

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

- a) Venture investments that are publicly traded securities, and that are not otherwise restricted, are recorded on the basis of the average closing market quotations over the preceding 20 trading days. A reasonable discount to market will normally be used if trading is restricted in any way.
- b) Venture investments that are not publicly traded securities are initially recorded at cost for one year from the date the investment is made, unless an adjustment is considered appropriate and supported by persuasive and objective evidence, such as a significant subsequent equity financing by an unrelated, sophisticated investor at a transaction price different from the carrying value. In addition, downward adjustments to carrying value are made when there is persuasive and objective evidence of a decline in the value of the investment as indicated by an assessment of the financial condition of the investment based on operational results, forecasts and business developments since acquisition.

## NOTES TO FINANCIAL STATEMENTS

*Years ended December 31, 2004 and 2003*

After one year, venture investments that are not publicly traded securities are recorded at fair value. Fair value is estimated on the basis of the expected realizable value of the venture investments on a going concern basis if they were disposed of in an orderly fashion over a reasonable period of time to an unrelated third party acting at arm's length. Further details regarding the Fund's valuation methodology for venture investments that are not publicly traded securities are included in its annual prospectus.

The process of estimating the fair value of venture investments for which no public market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. These differences could be material.

Investment transactions are accounted for on a trade date basis. Realized gains and losses on such transactions are recorded in the statement of operations and deficit at that time. Unrealized appreciation and depreciation of venture investments is recorded in the statement of operations and deficit.

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

### **Share issuance costs and sale commission**

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

### **Investment income**

Interest income represents interest earned on operating cash accounts, bankers' acceptances and venture investments.

Other income consists of all non-interest income including securities received in lieu of interest or as a result of securities conversion penalties.

### **Loss per share**

Loss per common share is calculated using the weighted average number of common shares outstanding, which for the year ended December 31, 2004 was 1,972,769 (2003 - 267,193). Diluted loss per share has not been presented as no dilutive equity instruments have been granted or issued.

### **Income taxes**

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

### **3 Investment protection account**

Pursuant to the requirements of the SBVCA, a VCC that does not have 80% of its raised equity capital invested in eligible businesses is required to maintain an investment protection account in an amount equal to 30% of the funds raised. As investments in eligible businesses are subsequently made, a drawdown from the investment protection account 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 account at December 31, 2004 and 2003 were \$5,841,713 and \$2,553,625, respectively, and such amounts are included in marketable securities and cash and cash equivalents.

### **4 Capital stock**

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.

## NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2004 and 2003

### a) Issued and outstanding

#### Authorized

500,000,000 common shares

#### Issued

	2004		2003	
	Number	Amount	Number	Amount
Balance, beginning of year	968,660	\$ 9,643,667	26,210	\$ 262,100
Common shares issued for cash	1,581,224	15,078,588	942,450	9,381,567
Common shares redeemed for cash	(527)	(4,879)	-	-
Balance, end of year	2,549,357	24,717,376	968,660	9,643,667
Issue costs				
Balance, beginning of year		1,100,967		157,060
Sales commissions		753,929		469,078
Other share issue costs		321,843		474,829
Balance, end of year		2,176,739		1,100,967
Capital stock, net of issue costs		\$ 22,540,637		\$ 8,542,700

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 (note 6).

### b) Pricing of common shares

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

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

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

	2004	2003
Net assets in accordance with GAAP as reported	\$ 21,505,598	\$ 8,282,847
Add:		
Unamortized deferred share issue costs including sales commissions	1,745,007	1,042,249
Unamortized deferred pre-operating costs	106,135	137,481
Other financial statement adjustments	(18,067)	53,768
Pricing net asset value	23,338,673	9,516,345
Common shares outstanding at December 31	2,549,357	968,660
Pricing net asset value per common share	\$ 9.15	\$ 9.82
Net assets in accordance with GAAP per common share	\$ 8.44	\$ 8.55

## NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2004 and 2003

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

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

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

	2004	2003
<b>Share issue costs</b>		
Balance, beginning of year	\$ 1,042,249	\$ 157,060
Add:		
Sales commissions	753,929	469,078
Other share issue costs	321,843	474,829
Less:		
Amortization	(373,014)	(58,718)
Balance, end of year	\$ 1,745,007	\$ 1,042,249
<b>Pre-operating costs</b>		
Balance, beginning of year	\$ 137,481	\$ 62,722
Add:		
Pre-operating costs	-	90,035
Less:		
Amortized deferred pre-operating costs	(31,346)	(15,276)
Balance, end of year	\$ 106,135	\$ 137,481

### 5 Income taxes

For federal and provincial tax purposes, the Fund is a private corporation and is subject to tax at normal corporate rates.

Future income tax assets and liabilities are as follows:

	2004	2003
Non-capital losses carried forward	\$ 758,000	\$ 272,000
Share issue costs	747,000	432,000
Other	5,000	1,000
Valuation allowance	(1,510,000)	(705,000)
Net future income tax assets	\$ -	\$ -

Management believes that there is sufficient uncertainty regarding the realization of future income tax assets such that a full valuation allowance has been provided.

The Fund has accumulated the following non-capital losses which are available to reduce taxable income in future years:

<u>Amount \$</u>	<u>Expiry date</u>
64,000	2009
488,000	2010
987,000	2011
<u>1,539,000</u>	

## NOTES TO FINANCIAL STATEMENTS

*Years ended December 31, 2004 and 2003*

### 6 Related party transactions

During the years ended December 31, 2004 and 2003, the Fund incurred expenses of \$70,797 and \$185,848, respectively, which were payable to DCC (a company with common directors and the parent company of the Manager). These expenses relate to capital raising and shareholder reporting services provided to the Fund by DCC. In addition, the Fund reimbursed expenses of \$25,594 (2003 - \$23,242) related to miscellaneous office expenses and directors' and officers' insurance, which DCC paid on behalf of the Fund. As at December 31, 2004 and 2003, \$71,081 and \$nil, respectively, remained payable.

During the year ended December 31, 2004, the Fund incurred \$548,763 (2003 - \$87,765) in management fees to the Manager, a company with common directors. As at December 31, 2004 and 2003, \$57,261 and \$21,975, respectively, were owed to the Manager.

During the year ended December 31, 2004, the Fund invested \$1,100,000 in Day4 Energy Inc. A director of the Fund is a co-founder and a significant shareholder of Day4 Energy Inc.

DCC also held investments in the following companies at the time the Fund's investment was made and at December 31, 2004: Cryopak Industries Inc., Vigil Health Solutions Inc., IDELIX Software Inc., and Tantalus Systems Corp.

### 7 Contingency

As a VCC, the Fund has to comply with the legislative requirements of the SBVCA, including investing appropriately in eligible businesses and maintaining certain levels of investment for at least five years.

The Fund has a contingent liability to repay the tax credits granted to its shareholders by the Government of British Columbia if it does not comply with these requirements.

### 8 Pre-operating costs

Prior to the effective date of CICA Handbook Section 1100 of October 1, 2003, the Fund deferred all costs associated with its start-up and initial organization in the pre-operating period, which ended June 30, 2003. During the year ended December 31, 2003, the Fund adopted the provisions of this Section, and as a result, these costs have been reclassified as pre-operating costs in the statements of operations and deficit.

Pre-operating costs comprise the following:

	<b>2003</b>
Administration fees	\$ 38,631
Directors' fees	14,000
Management fees	17,343
Marketing and shareholder communication	10,224
Operating expenses	7,427
Professional fees	6,695
Interest income	(4,284)
	<b>\$ 90,036</b>

### 9 Commitment

The Fund has an Investment Administration Agreement with The Investment Administration Solution Inc. to provide certain transfer agency and back office administration services. The agreement specifies a minimum fee per month of \$5,500, and that the total fees will be at least \$258,000. As at December 31, 2004, \$126,000 has been paid. Minimum future payments in accordance with this agreement are as follows:

2005	\$ 66,000
2006	66,000
	<b>\$ 132,000</b>

### 10 Financial instruments

The Fund's financial instruments consist of venture investments and marketable securities which are valued at fair value and market value, respectively, as described in note 2.

The carrying values of the Fund's other financial assets and liabilities approximate their fair values due to their short-term maturities.

### 11 Comparative figures

Certain of the prior year's comparative figures have been reclassified to conform to the presentation adopted for the current year.

# CORPORATE OVERVIEW

## CORPORATE ADDRESS

### British Columbia Discovery Fund (VCC) Inc.

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Tel: (604) 683-3000  
Fax: (604) 662-3457  
Email: info@discoverycapital.com  
Website: www.bcdiscoveryfund.com

## FUND CODE

DCC 100

## FUND MANAGER

### Discovery Capital Management Corp.

A wholly owned subsidiary of Discovery Capital Corporation

## AUDITORS

PricewaterhouseCoopers LLP  
Chartered Accountants  
250 Howe Street, Suite 700  
Vancouver, B.C. V6C 3S7

## ADMINISTRATION

The Investment Administration Solution Inc.  
350 Bay Street, Suite 300  
Toronto, Ontario M5H 2S6  
Tel: 416-368-9569 ext. 333  
Fax: 416-368-7355

## ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of British Columbia Discovery Fund (VCC) Inc. will be held on April 26, 2005 at 2:30 p.m. at the Vancouver Marriott Pinnacle Hotel, 1128 West Hastings Street, Vancouver, B.C.

## OFFICERS AND DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>PRINCIPAL OCCUPATION</u>
<b>JOHN MCEWEN</b>	Director, Chief Executive Officer and Secretary	President and Co-CEO of Discovery Capital Corporation
<b>HARRY JAAKO</b>	Director and President	Chairman of the Board of Directors and Co-CEO of Discovery Capital Corporation
<b>NEIL DE GELDER</b>	Director and Chairman of the Board of Directors	Partner, Borden Ladner Gervais LLP
<b>DR. JOHN MACDONALD</b>	Director	Chairman and CEO of Day 4 Energy Inc.; Corporate director; formerly Chairman, MacDonald Dettwiler and Associates Ltd.
<b>DR. ALAN WINTER</b>	Director	President and CEO of Genome B.C. and Winteck Consulting Inc.
<b>CHARLES COOK</b>	Chief Financial Officer	Vice-President and CFO of Discovery Capital Corporation



John McEwen

Dr. John MacDonald

Dr. Alan Winter

Harry Jaako

Neil de Gelder

Charles Cook



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