BUILDING BC'S FUTURE IN TECHNOLOGY | 2005

ANNUAL REPORT

BC DISCOVERY FUND

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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 venture capital investment fund, which provides investors the opportunity 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, RRIFs 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 19 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)
- energy technology (alternative energy, software, hardware)
- other advanced technologies (environmental, advanced materials, industrial)

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.

2005 Highlights

February 3, 2005	The Fund sells out its 2004 allocation of $10 million, three weeks prior to the end of the 2004 RRSP contribution deadline.
March 2005	Portfolio company **Aspreva Pharmaceuticals Corporation** announces the completion of a US$91 million initial public offering, only 18 months after the Fund made its venture investment into the company.
November 2005	The Fund divests of its holdings in **Aspreva Pharmaceuticals Corporation**, resulting in a realized gain of $582,000 and generating an annual internal rate of return on the investment of approximately 75%.
December 2005	In its most active year to date, the Fund invests a total amount of $10.9 million during 2005, including $7.6 million in five new Eligible Small Businesses - **In Motion Technology Inc., Mobidia Technology Inc., Paradigm Environmental Technologies Inc., TIR Systems Ltd. and Vivonet Inc.**
January 2006	The Fund's portfolio includes 3 of the 7 new companies added to the **2006 Ready to Rocket 25** list prepared by Rocket Builders Inc. - a noteworthy achievement as the list identifies the top private BC-based information technology companies expected to out-perform in 2006.
February 2006	The Fund sold $9 million of its $10 million 2005 allocation to remain the largest VCC fund in British Columbia.

Your fund, **British Columbia Discovery Fund (VCC) Inc.** ("BC Discovery Fund"), found itself on the world stage after the opening of B.C. Canada Place in Torino in the lead-up to the 2006 Olympic and Paralympic Winter Games.

BC Discovery Fund was represented at **B.C. Biotech Day** on January 23, 2006, held in British Columbia's stunning log house in the heart of Torino. The invited pharmaceutical and biotech experts from Italy, Switzerland, and Germany were very curious about the dramatic rise of B.C.'s biotechnology sector - and the venture capital funds that support our thriving biotech community. In its brief existence, BC Discovery Fund has become recognized as a noteworthy venture capital player in British Columbia.

BC Discovery Fund shared the Torino podium with its former portfolio company, **Aspreva Pharmaceuticals Corporation**, a truly unique success story on the world's biotechnology stage. BC Discovery Fund was an early private investor in Victoria-based Aspreva, which subsequently raised US$57 million in additional venture capital, primarily from US-based venture funds, and then completed a US$91 million IPO early in 2005. Less than two years after BC Discovery Fund participated in its seed financing, Aspreva achieved revenue of US$76.5 million and earnings of US$19.7 million in 2005. BC Discovery Fund invested in Aspreva with the expectation of early liquidity and a significant gain, and having achieved those results ahead of plan, divested its interest in Aspreva during the year.

Looking back on its successful launch period, 2005 was the year in which BC Discovery Fund truly found the wind beneath its wings.

Diversified Portfolio

With eleven investee companies already in the Fund's portfolio family, BC Discovery Fund has achieved a richly diversified mix of assets. Investments now bridge all of our targeted technology sectors, as well as a healthy and balanced spread between early stage, mid-stage and later stage investments.

Aggressive Investment Pacing

Under the *Small Business Venture Capital Act* of British Columbia, BC Discovery Fund must invest its capital within two years after the year in which it is raised. BC Discovery Fund has met this aggressive investment target in 2005, creating high-value jobs and potential shareholder value, and driving the economic benefits that investors and government economic development officials desire from funds that raise investment capital with tax credit incentives.

Industry Recognition

In 2005, our venture industry peers from across Western Canada accorded BC Discovery Fund's portfolio selections with significant recognition. In November 2005, the **Vancouver IT Financing Forum** venture industry panel selected 5 out of 11 of BC Discovery Fund's investee companies to be among only 38 companies from across Western Canada that presented before an audience of international venture capital investors. In January 2006, noted B.C. information technology consulting group, Rocket Builders Inc., added 7 new companies to the **Ready to Rocket 25** list - their list of the top 25 private growth companies in the information technology sector in B.C. Three of the newcomers were portfolio companies of BC Discovery Fund.

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

Delivering on Important Public Policy Goals

The B.C. Government and Leading Edge B.C. are justifiably proud of the *Small Business Venture Capital Act*, and the Venture Capital Corporations that are registered under this program. Having invested heavily in university-based research, and having added 25,000 new student seats to B.C.'s technology-related post-secondary education system, the B.C. Government knows that early stage venture capital sources in B.C. must be developed and expanded. Specialty early stage venture funds such as BC Discovery Fund are needed to bridge the commercialization funding gap in B.C. that is preventing more robust growth of the technology economy.

Lobbying Hard for Expanded Opportunities

BC Discovery Fund continues to lobby the B.C. Government to expand the Venture Capital Corporation program in the Province, highlighting the following key considerations:

- BC Discovery Fund has shown that it can invest successfully in early stage companies in B.C.
- BC Discovery Fund has invested at the aggressive pace required by the B.C. Government, which far exceeds the pace of investment required of labour sponsored funds in the Province.
- BC Discovery Fund must have the capacity to continue to invest in the portfolio companies that it supports when these companies require additional capital.
- BC Discovery Fund is required to continuously invest in B.C., unlike institutional venture capital funds, from which investment comes and goes with economic cycles. BC Discovery Fund can be relied on to continuously commercialize the output from B.C.'s R&D infrastructures.
- BC Discovery Fund re-cycles the wealth of British Columbians into the B.C. economy, keeping these assets working at home, rather than migrating to opportunities abroad.

BC Discovery Fund seeks Government approval to raise more capital, which will allow it to achieve a more viable size for a sustainable venture fund, estimated by the B.C. Government in 2002 to be in excess of $100 million under management. At this level, BC Discovery Fund would be ideally positioned to invest in new early stage opportunities, support its existing portfolio companies, and apply economies of scale to its management and administration to keep fund expenses reasonable.

We also believe that BC Discovery Fund must continuously have at least three years of approved funding allocation, in order to offer its new investors, existing shareholders, and retail distribution channels the comfort of continuing, sustainable operations into the future.

We welcome and encourage shareholders and investment dealers alike to join our efforts in convincing Victoria that expanding the successful Venture Capital Corporation program will stimulate B.C's technology sector, grow B.C.'s economy, and generate better returns for British Columbians wishing to profit from B.C.'s world-class technology successes.

Harry Jaako

John McEwen

Cryopak Industries Inc.

Public (TSX Venture: CYK)
Invested Amount $380,000

Description of Business

With ISO 9001:2000 facilities in Vancouver and Montreal, Cryopak is a leading provider of temperature-controlling products and solutions serving global pharmaceutical companies, as well as some of North America's leading retailers and consumer goods companies. Its clients include such well-known names as GlaxoSmithKline, Sanofi-Pasteur, Wal-Mart, Costco, Sunbeam, and Rubbermaid.

In its retail business, Cryopak develops, manufacturers and sells reusable ice substitutes, flexible hot and cold compresses, reusable gel ice and instant hot and cold packs. These products are marketed under the brand names Ice-Pak™, Flexible Ice™ Blanket, Simply Cozy®, and Flex Pak™, brands that are fundamental to the success of Cryopak's retail business. In its pharmaceutical business, Cryopak engineers solutions and supplies products that help its customers safely transport their temperature sensitive vaccines. 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.

www.cryopak.com

Recent Milestones

- Achieved significant progress in restructuring its balance sheet by negotiating a resolution to 70% of an outstanding convertible loan.
- Raised $2.7 million in equity capital.
- Achieved several of its key internal milestones for growing its pharmaceutical package segment, including:
  - penetration of the European market place,
  - securing its dominant market position in Canada by adding new business with GlaxoSmithKline, and
  - hiring a new VP of Pharmaceutical Services-Compliance.

Outlook

Cryopak continues to grow its overall gross sales and control discretionary expenditures. Cryopak has expanded its global capabilities in the pharmaceutical package segment in Europe and is optimistic of levering the local partnerships it has developed in those markets into expanding business opportunities. On the operating side, Cryopak continues to search for ways to improve gross margins, particularly in light of the strengthening of the Canadian dollar which makes the Company's export sales less profitable.

Day4 Energy

Private
Invested Amount $2,400,000

Description of Business

Day4 Energy is a solar energy company dedicated to producing affordable and efficient photovoltaic (PV) power generation solutions that will enable off-grid and grid-connected PV systems to grow to become a significant part of the world's electrical generation infrastructure. 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.

With its patented proprietary technology for contacting and interconnecting crystalline silicon PV cells and an innovative PV concentrator system, Day4's solar power solution is able to generate power at significantly lower costs than other solar power systems.

www.day4energy.com

Recent Milestones

- Construction of manufacturing facilities commenced, with commercial production volumes expected to be reached in the second quarter of 2006.
- Equity financing received from Chrysalix Energy II US Limited Partnership, an investor in technology-based clean energy companies, as well as an additional investment from BC Discovery Fund.
- Initial flat-panel product defined and developed and PV cell supply secured to enable production of 2 to 3 megawatts of flat-panel product in 2006.
- Development of concentrator receiver completed.
- Relationships developed with installers and dealers in the Southwest USA.

Outlook

During the course of the next 12 months, Day4 will complete official product certification tests and commence commercial manufacturing of the first generation of its products. Commercial sales of these products will be largely generated through sales of flat panel products through networks of dealers and integrators in North America and the European Union. In addition, the Company will complete the design and testing of the Day4™ concentrator product and begin to market this product in the commercial, industrial and utility markets.

Private
Invested Amount $730,000

Description of Business

IDELIX is a leading innovator in the area of information visualization. Its core product, the Pliable Display Technology (PDT) software development kit, provides *detail-in-context* viewing and editing techniques to address the growing challenges of information overload and on-screen data clutter. PDT provides improved situational awareness and aids comprehension by enhancing data visualization and interaction, de-cluttering multi-layered imagery, maps, video, web and other converged content. Combining PDT with partner and customer applications, IDELIX is improving the way businesses and individuals view and edit information.

IDELIX partners that have included PDT in their software and web-based applications include Harris Corporation, Boeing S&IS Mission Systems, ITT Industries, the Canadian Department of National Defence, Defence Research and Development Canada, and the US National Geospatial-Intelligence Agency.

www.idelix.com

Recent Milestones

- In October 2005, signed a collaborative agreement with Harris Corporation (HC) to incorporate PDT in US federal government contracts for which HC is the prime contractor.
- IDELIX signed its first two contracts with the Department of National Defence (Canada).
- In October 2005, received a strategic investment from In-Q-Tel, the investment arm of the Central Intelligence Agency (CIA).
- One patent granted in 2005 for a total of four granted and 29 pending.
- $1.5M in private financing raised to continue market and technology development.

Outlook

2005 was a year of validation for Pliable Display Technology and IDELIX. Marked by the opportunity to participate in hurricane relief efforts led by the National Geospatial-Intelligence Agency, and the strategic investment from In-Q-Tel, IDELIX achieved further growth in the Defence and Intelligence market, moving into development of applications featuring its revolutionary data viewing and interaction technology. In addition, IDELIX is taking advantage of the ever more competitive online search market, developing PDT data exploration and fusion capabilities for online information portals and online map sites. IDELIX will aggressively pursue this market in 2006 with combined business development, product, and technology efforts.

Private
Invested Amount $1,000,000

Description of 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). The new medicines being developed by Inimex that selectively stimulate innate defences are expected to generate improved treatment options by avoiding drug resistance while preventing harmful side effects from excessive inflammation. Inimex' first in class products show promise for the safe and effective treatment of a broad spectrum of serious unmet medical needs in infectious disease, cancer, and inflammatory disease.

Recent Milestones

- In November 2005, selected as one of the Top 10 Investment Prospects in Canada's Top 10 Life Science Companies Competition for the fourth year in a row.
- Identified its optimized proprietary compound, IMX942, for clinical development as a novel therapy for infections associated with fever and neutropenia (white blood cell depletion) in cancer patients undergoing chemotherapy.
- Completion of technical milestones ahead of schedule, including significant strides in drug design to make them smaller and less costly to manufacture, and demonstration of safety and effectiveness of Inimex technology in animal disease models, including pneumonia, in inflammation models, and in deep wound infections.
- Selected as a strategic partner/subcontractor in a US$8.7 million grant from the Gates Foundation and the Foundation for the National Institute of Health in the United States to the University of British Columbia for a five year drug development program.

www.inimexpharma.com

Outlook

In 2005, Inimex was able to complete an important set of milestones ahead of schedule which triggered the release of further funds from its investors and put the Company in a strong position for 2006. Inimex has selected its initial clinical development candidate, IMX 942, and is proceeding to implement a clinical development plan targeting neutropenia caused by chemotherapy regimes.

In Motion Technology

Private
Invested Amount $1,130,000

www.inmotiontechnology.com

Description of Business

In Motion Technology is a leader in developing innovative mobile Local Area Network (mLAN) solutions that help enterprises and government agencies extend their IT infrastructure to critical mobile workforces. With mounting reliance on secure data communications, these organizations are looking for robust, secure and cost-effective wireless solutions for collecting, coordinating and disseminating sensitive information. By transparently integrating wireless local and wide area network technology, In Motion allows mobile professionals, while in transit or at scene, to access mission critical information and communications facilities applications over virtual private networks.

In Motion provides a complete solution for LAN "mobilization", including a patent pending line of communications hubs optimized for rugged, vehicular centric environments as well as proprietary software to provide networking and systems functions inside the communications hub and the customer's data center.

Recent Milestones:

- In Motion's flagship product, the onBoard™ Mobile Gateway 1000 (oMG 1000), certified by Cingular Wireless for use with its new U.S. wide high-speed wireless data network.
- oMG 1000 launched successfully with American Medical Response, the leading ambulance service provider in the U.S. as flagship customer.
- Cingular Wireless launched its new "Wireless WAN Connectivity" service positioning the oMG 1000 for mobile, mission critical applications.
- oMG 1000 certified by Northrop Grumman for use in its Department of Homeland Security oriented wireless network offerings.
- oMG 1000 awarded the 2005 Product Innovation Award for Public Safety Networking by global market research and consulting firm, Frost & Sullivan.

Outlook

With the reference customers, partners, and industry recognition as well as equity financing secured in 2005, In Motion Technology is well positioned to provide the advanced mobile data communications requirements of mission critical mobile enterprises and government agencies.

Mobidia

Private
Invested Amount $1,500,000

www.mobidia.com

Description of Business

Mobidia is a software company that has taken a revolutionary approach to lower the barriers to adoption of high value IP multimedia services over wireless networks from both a carrier and a subscriber perspective. Mobidia's .wave™ software solution provides adaptive intelligent overlay technology for carriers that can monitor, classify and manage each data type's real-time requirements, optimize data transmission, provide protocol mediation and admission control, perform cross-layer optimization and traffic conditioning, adapt to changing network conditions, and provide the carrier a view of the end-user device and experience.

Mobidia's unique patent pending technologies provide strong differentiators for carriers to support greater network efficiency, superior data transmission management, improved overall quality of service, reduced support costs, and seamless switching between networks.

Recent Milestones

- In February 2005, BC Discovery Fund invested in a $0.5 million seed financing round as part of its commitment to invest up to $2.0 million into the Company.
- In July 2005, Mobidia completed a fully syndicated $2.5 million second round venture capital financing, including an additional $1.0 million from BC Discovery Fund.

Outlook

With the proceeds of its venture capital financing completed in 2005, Mobidia is accelerating development, as well as sales and marketing initiatives, for its wireless network software technologies.

PARADIGM ENVIRONMENTAL TECHNOLOGIES INC.

Private
Invested amount $1,500,000

Description of Business

Paradigm is a privately held environmental technology company that has developed a patented technology called *MicroSludge*™ for wastewater treatment plants that significantly enhances the anaerobic digestion process, thereby reducing operating costs and increasing plant capacity. With the addition of *MicroSludge*, the volume of residual biosolids that must be disposed of by a wastewater treatment plant can typically be reduced by 50% or more. *MicroSludge* enables anaerobic digesters to generate substantially increased volumes of methane, which can be readily converted to electricity and heat, giving wastewater treatment plants the ability to be energy self-sufficient.

Paradigm is at the commercialization stage, concentrating its efforts on the placement of commercial *MicroSludge* units with initial reference customers serving large urban areas.

www.paradigmenvironmental.com

Recent Milestones

- In June 2005, Paradigm completed a $4.6 million financing, including a $1.5 million investment from BC Discovery Fund.
- In June 2005, Paradigm entered into a strategic alliance with APV, the world's largest supplier of homogenizers, which are a key component of Paradigm's proprietary product, *MicroSludge*. With an engineering staff of nearly 1,000 people located in 48 countries and an extensive service network, APV has the ability to support *MicroSludge* installations in virtually any location in the world.

Outlook

With the proceeds of the equity financing completed in 2005, and the support of its new strategic partner, Paradigm is well positioned to bring *MicroSludge* technology to market. Initial efforts will be focused on evaluating the performance of the installation of Paradigm's first commercial *MicroSludge* unit at North America's third largest wastewater treatment plant in Los Angeles County. This unit, valued at $2 million, will meet approximately 4% of the *MicroSludge* capacity required for this plant. Paradigm intends to install *MicroSludge* units for evaluation at other large wastewater treatment plants that also have the capability of becoming significant *MicroSludge* customers.

Tantalus
Your Power. Your Data. One Wireless Network.

Private
Invested amount $2,088,360

Description of Business

Founded in 1989, 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 advance metering, outage management, power quality monitoring, load management, and distribution automation cost-effective and practical throughout both urban and rural service areas.

Recent Milestones

- In December 2005, Tantalus completed a $9.4 million private equity financing with a financing syndicate led by large, energy industry venture investment firms that had invested $16 million in 2004.
- Posted key sales wins in 2005, including several projects in Ontario (which is leading North America in the adoption of smart metering technology), as well as numerous deployments in the United States.
- In 2005, the Tantalus Utility Network earned three high profile international awards, including *Top Wireless Communication Solution for the Public Sector Applications*, awarded by the Wireless Innovations Network and *Best Wireless Equipment* product award from the United Telecom Council.

www.tantalus.com

Outlook

With the continued financial support of Tantalus' key institutional shareholders representing a strong endorsement for the Company and its technology, Tantalus is well positioned to continue to exploit the early market success of its wireless communications network, TUNet®.

TIR®

Public (TSX: TIR)
Invested Amount $2,000,000

Description of Business

TIR Systems Ltd., a world leader in delivering specialty lighting systems, is building the foundations for tomorrow's lighting. Through sound innovation and proven technical capability, TIR is developing, designing and marketing the core technologies that will allow Solid State Lighting (SSL) to move to the forefront of mainstream lighting.

TIR's industry-leading technology platform, LEXEL™, is TIR's SSL solution designed to serve the general white illumination market and become an industry standard in bringing the benefits of SSL to mainstream lighting applications. Incorporating light emitting diodes (LEDs), TIR's solution uses up to 80% less energy to produce the same amount of light as a conventional light source. LEXEL™ combines breakthroughs in thermal design, optics, and feedback to provide precise color temperature control and dimming in a cost effective design.

www.tirsys.com

Recent Milestones

- In January 2006, TIR announced the completion of a $30.0 million convertible debenture financing, including $4.0 million from Zumtobel AG of Austria, the largest lighting fixture manufacturer in Europe, and $2.0 million from BC Discovery Fund.
- In October 2005, TIR entered into design collaboration agreements with the Genlyte Group (GLYT:NASDAQ) of Kentucky, one of the largest manufacturers of lighting fixtures in the world, and Lighting Services Inc., a highly regarded manufacturer of museum and high-end retail specification grade lighting systems, to develop products based on LEXEL™ technology.
- In April 2005, TIR launched its breakthrough LEXEL™ technology platform at Lightfair in New York.

Outlook

Having launched the LEXEL™ in April 2005, TIR has been working on initiatives to ensure the timely commercialization of this ground-breaking technology. With the proceeds from its $30 million convertible debenture financing, signing of commercial development agreements with three leading lighting fixture innovators, and strong additions to its management team and directors, TIR believes it is well positioned to accelerate adoption of LED-based white Solid State Lighting into the mainstream of the US$91 billion lighting market.

vigil®
HEALTH SOLUTIONS

Public (TSX Venture: VGL)
Invested Amount $421,000

Description of 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 its proprietary technology platform, the Vigil Integrated Care Management System™, has been expanded to provide comprehensive product solutions for the full continuum of care. Vigil's innovative emergency response and monitoring solutions facilitate the highest standard of care for cognitive residents while helping dementia residents enjoy a higher quality of life and greater dignity.

www.vigilhealth.com

Recent Milestones

- In December 2005, provided demonstrations of its next generation technology, the Vigil Wireless Dementia System, at the White House Conference on Aging in Washington, DC, and was the only Canadian company selected to exhibit.
- In November 2005, released its next-generation wireless call system (patent pending), offering facilities easier installation at a lower cost and providing significant enhancements to target the growing independent living and continuing care retirement communities market.
- Completed a change in sales model which has resulted in increased order bookings and revenues; increase in repeat business from existing multifacility corporate clients.
- Secured three new corporate (multifacility) clients.
- In August 2005, appointed Greg Peet, former President and CEO of A.L.I. Technologies Inc., as Chairman of the Board.

Outlook

Vigil remains focused on securing new corporate clients and developing repeat business from new and existing corporate clients. The Company has also targeted certain states and metropolitan areas in the U.S. that are seeing the most growth in new construction of long-term facilities. The Company is continuing to expand its product line to position itself as an integral technology supplier to the long-term care industry.

VIVONET

Private
Invested Amount $1,481,250

Description of Business

Founded in 1999, Vivonet is a rapidly expanding software company providing business solutions to the retail industry, based on an ASP model. The Company has achieved significant penetration into the automotive collision repair market and has had early success as it enters the hospitality and general retail markets. As a result of its ASP model, Vivonet's products offer the utility of major enterprise level solutions at significantly lower cost. As well, Vivonet distinguishes itself from its competitors by aggregating the transaction data created by its customers in a single database, giving the company the unique ability to market the industry level market intelligence it captures.

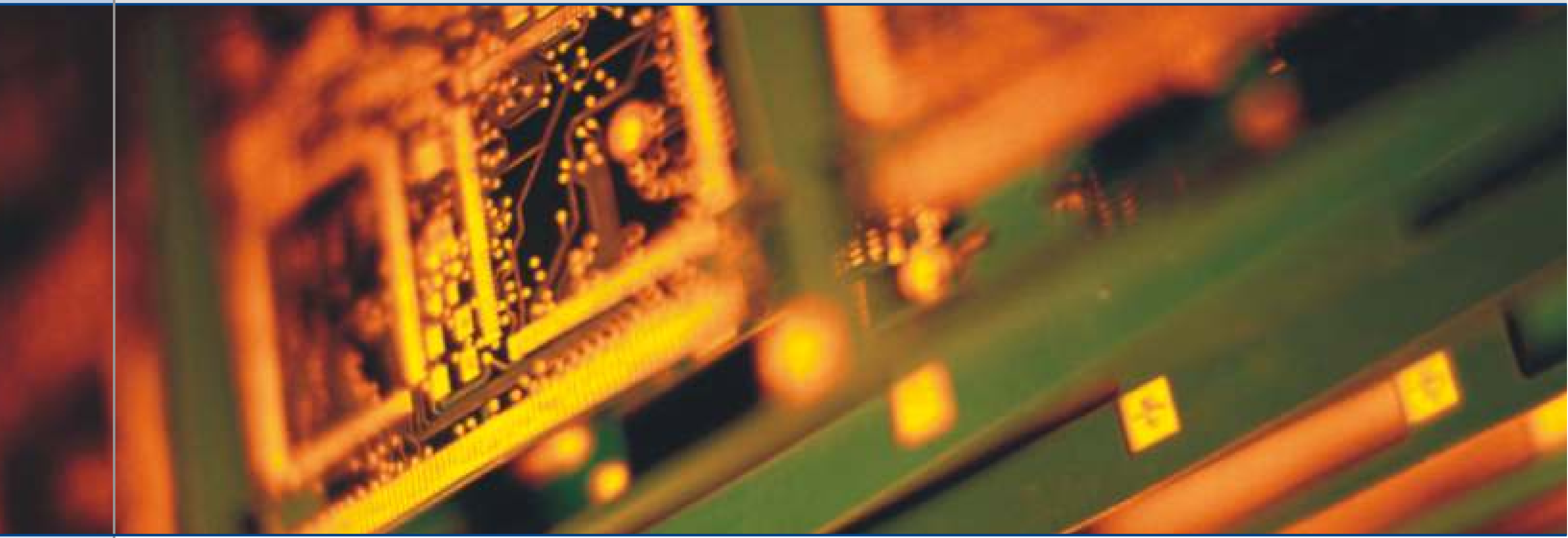
www.vivonet.com

Recent Milestones

- In late 2005, Vivonet closed a US$3.05 million financing, including US$1.25 million from BC Discovery Fund.
- In October 2005, Vivonet entered into an agreement with Global Payments Inc. (NYSE: GPN) to jointly market Vivonet's Halo point-of-sale system to the hospitality industry. Global Payments is one of the world's largest processors of credit card payment transactions.
- Vivonet was one of three BC Discovery Fund portfolio companies named to the 2006 "Ready to Rocket" list identifying the top 25 private B.C. information technology companies as selected by Rocket Builders Inc.

Outlook

The recent financing for Vivonet accomplishes two objectives: first, it provides the growth capital the Company needs to achieve its revenue growth targets and second, it broadens the base of experience and expertise the Company has available to assist it in delivering value to its customers, shareholders and partners. Vivonet is projecting substantial revenue growth in 2006.



The following information discusses financial data derived from the audited financial statements of British Columbia Discovery Fund (VCC) Inc. (the "Fund") contained in this Annual Report, and should be read in conjunction with those financial statements.

Shareholders may also contact the Fund to request a copy of its proxy voting policy or proxy voting disclosure record by calling the following toll free number 1-877-553-3863; by writing to the Fund at 5th Floor, 1199 West Hastings Street, Vancouver, B.C. V6E 3T5; by visiting the Fund's website at www.bcdiscoveryfund.com; or SEDAR at www.sedar.com.

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.

Investment Objectives and Strategies

The investment objectives of the Fund are to achieve long-term capital appreciation and to contribute to the growth in value and employment of the technology industry in British Columbia by making diverse investments in small businesses which satisfy the eligibility requirements of the *Small Business Venture Capital Act* (British Columbia) ("SBVCA"). The Fund targets investments in the areas of information technology; communications; health and life sciences; energy technology; and other technologies, including industrial and environmental technologies.

The investment strategy of the Fund specifies, generally, how the manager of the Fund will source and select investments for the Fund, how the manager will add value to the investments made by the Fund, and how the manager will generate liquidity for the investments made by the Fund. The manager of the Fund evaluates investments based on the quality of the management teams, the size and accessibility of the market opportunities, and the proprietary technologies that are owned or are in development. In implementing the investment strategy of the Fund, the manager has available to it the experience, expertise, resources and deal flow developed by Discovery Capital Corporation ("DCC") over the past twelve years.

Risk

There are significant risks to an investment in shares of the Fund, and an investment should only be undertaken by investors who have sufficient financial resources to enable them to assume those risks and who have no need for immediate liquidity of their investment. The amount of equity capital the Fund is entitled to raise is authorized by the British Columbia government, which has the discretion to reduce the amount the Fund may raise on a tax incentive basis. The Fund is currently authorized under the SBVCA to issue up to $10 million of its shares during each of the periods

The Fund accelerated its investing activity in 2005, completing 16 investment transactions.

ended February 15, 2007, 2008 and 2009, and there is no assurance the Fund will receive authorization to issue additional shares on a tax incentive basis under the SBVCA in future time periods. A detailed discussion of the risks associated with an investment in shares of the Fund can be found in its prospectus dated March 20, 2006.

Results of Operations - Year ended December 31, 2005

In early 2005, the Fund completed the sale of its fiscal 2004 tax credit allocation of $10 million and commenced selling its fiscal 2005 tax credit allocation of $10 million. Sales of Shares were generally slower during 2005, reflecting slower sales experienced generally by venture capital funds in British Columbia during that period, as compared to the same period in the prior year. This, combined with the Fund's higher $16 million tax credit allocation for fiscal 2003, which sold largely in early 2004, resulted in the Fund raising $7.6 million in 2005 compared to $15.1 million in 2004.

The Fund experienced its second full year of operating activities in 2005. Net assets increased by 32% during 2005, rising to a total of $28,461,513 at December 31, 2005. Operating expenses, excluding performance fee expense, were $1,257,645 in 2005, a 30% increase over operating expenses of $965,527 in 2004. The increase was primarily due to increased management fee and trailer fee expenses, which are both calculated on the basis of Pricing Net Assets of the Fund. Investing activity of the Fund increased in 2005, as it completed 16 investment transactions in new and existing portfolio companies.

Net Assets

Net assets were $28,461,513 at December 31, 2005, an increase of $6,955,915 from net assets of $21,505,598 at December 31, 2004. The increase is a result of gross proceeds from sales of Shares during 2005 of $7,590,391 (excluding redemptions in the amount of $40,178), offset by $614,459 of issue costs and an increase of $20,161 from operations - see "Operating Results" below.

Operating Results

Net assets from operations increased by $20,161 for the year ended December 31, 2005, a significant improvement over the decrease of $(775,186) for the year ended December 31, 2004. The positive change of $795,347 which occurred in 2005 was as a result of the following:

- $897,582 of an increase in unrealized gains on venture investments in 2005 compared to 2004, due mainly to appreciations in the estimated fair value of certain of the Fund's private investments based on the value of financing transactions undertaken by them during the year;
- $362,180 of net realized gains in 2005;

- $127,755 of increased investment income in 2005, comprised of increased interest revenue from marketable securities, as well as increased interest and dividend income from venture investments;

offset by

- $175,418 of performance fees accrued in respect of unrealized gains on venture investments as at December 31, 2005 (see notes 2 and 4 to the audited financial statements);
- $124,634 of performance fee expense payable as a result of realized gains on the disposition of the Fund's venture investment in Aspreva Pharmaceuticals Inc.;
- $239,655 of increased management fee expense, due to increased net assets under management; and
- $52,463 of increased expenses other than management fees and performance fees, with trailer fees accounting for the majority of the increase.

Investments and Investment Activities

During 2005, the Fund invested a total amount of $10,877,649, comprised of $3,266,399 in existing portfolio companies and $7,611,250 in five new Eligible Small Businesses - Mobidia Technology Inc., Paradigm Environmental Technologies Inc., In Motion Technology Inc., Vivonet Inc. and TIR Systems Ltd. The Fund also completed its first portfolio exit - a successful divestiture of its investment position in Aspreva Pharmaceuticals Inc., for gross proceeds of $890,801 and a realized gain of $582,400.

The Fund's asset mix at December 31, 2005 was 54% venture investments and 46% cash, marketable securities and other net assets. After its first three full years of operation, the Fund has established a portfolio comprising venture capital investments in eleven emerging technology companies, diversified across its targeted technology sectors. Eight of the Fund's investments at December 31, 2005 are in private companies, representing 83% of the Fund's total venture investment portfolio at that date.

SBVCA Commitment

The Fund was required to have invested $13,732,702 as at December 31, 2005 under the minimum investment obligations of the SBVCA, and had met those obligations with total eligible investments of $13,942,250 at that date. By December 31, 2006, the Fund expects to be required to invest a further $9.0 million to meet its minimum obligations as at that date. At December 31, 2005, the Fund had cash, marketable securities and funds held in Investment Protection Accounts of $13,549,019.

The Fund continues to be presented with attractive investment opportunities and expects to be able to fulfill its minimum investment obligations in 2006.

Related Party Transactions

The following table summarizes related party fees and expenses payable in respect of the years ending December 31, 2005, 2004 and 2003.

	2005	2004	2003
Directors' fees and expenses	$ 24,668	$ 24,742	$ 13,774
Management fees	788,418	548,763	70,422
Performance fees	124,634	-	-
Reimbursement of expenses	107,569	96,391	209,090
Total related party fees and expenses	$ 1,045,289	$ 669,896	$ 293,286

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

During the year ended December 31, 2005, the Fund invested $1,300,000 (2004 - $1,100,000) in Day4 Energy Inc. John MacDonald, 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, 2005: Cryopak Industries Inc., Vigil Health Solutions Inc., Idelix Software Inc., Tantalus Systems Corp. and TIR Systems Ltd.

Financial Highlights

Net Asset Value (NAV) per Share	2005	2004	2003
Net Asset Value, beginning of year (1)	$8.44	$8.55	$1.61
Increase (decrease) from operations:			
Total revenue	0.18	0.20	0.16
Total expenses	(0.48)	(0.48)	(1.18)
Realized gains (losses) for the period	0.13	-	-
Unrealized gains (losses) for the period	0.24	(0.11)	0.29
Performance fees accrued on unrealized gains	(0.06)	-	-
Total increase (decrease) from operations (1)	$0.01	$(0.39)	$(0.73)
Distributions:			
From income (excluding dividends)	-	-	-
From dividends	-	-	-
From capital gains	-	-	-
Return of capital	-	-	-
Total Annual Distributions	-	-	-
Net Asset Value, end of year (1)	$8.43	$8.44	$8.55

(1) Net asset value is based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

Ratios and Supplemental Data	2005	2004	2003
Net assets (000's) (1)	$28,462	$21,506	$8,283
Number of shares outstanding (1)	3,376,812	2,549,357	968,660
Management expense ratio (2)	7.9%	12.1%	35.7%
Portfolio turnover rate (3)	10%	-	-
Trading expense ratio (4)	0.02%	-	-
Pricing NAV per Share (1)	$9.03	$9.15	$9.82

(1) This information is provided as at December 31 of the year shown.

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of weekly average net assets during the period.

(3) 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 year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

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

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

Management Fees

The Manager is paid an annual management fee equal to 2.75% of the Pricing NAV of the Fund up to $100 million and 2.50% of the Pricing NAV of the Fund in excess of $100 million. 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 will be paid quarterly, in arrears, subject to applicable SBVCA expense limitations. 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 such performance fee to the Manager in respect of the quarter in which termination occurs and in respect of the following eight quarters, subject to applicable SBVCA expense limitations.

Services provided by the Manager include the overall day-to-day management of the Fund, including sourcing, evaluating and negotiating investment opportunities for the Fund; monitoring the financial and operating performance of the portfolio companies and providing assistance to management where necessary; and ensuring that the Fund's accounting, regulatory and transfer agency requirements are established, maintained and administered to meet the various regulatory requirements of the Fund. Trailer fees and sales commissions are included in the expenses paid by the Fund directly.

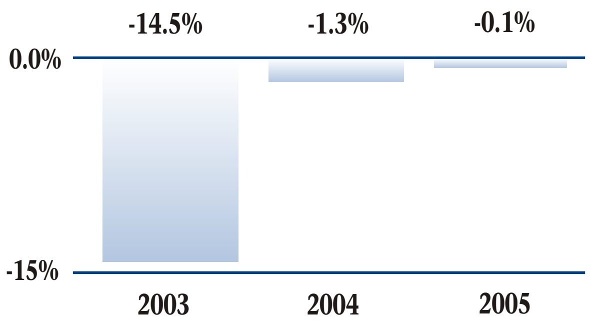
Past Performance

The following bar charts and tables indicate the past performance of the Shares of the Fund and will not necessarily indicate how the Fund will perform in the future. The information does not take into account sales, redemption, distribution or other optional charges payable by any shareholder that would have reduced returns or performance.

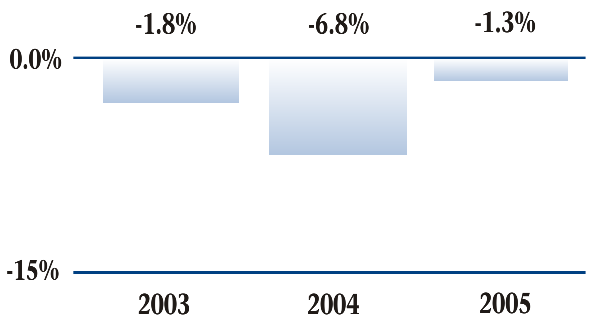
Year-by-Year Returns

The following bar charts show the annual performance of the Shares of the Fund for each year shown and illustrate how the Fund's performance has varied in each of 2003, 2004 and 2005. The Fund was incorporated on November 6, 2002 and offered Shares at a price of $10.00 per Share until June 30, 2003. The charts show, in percentage terms, how much an investment held on January 1 of each financial year would have increased or decreased by December 31 of each 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 GAAP NAV



Return based on Pricing NAV



Annual Compound Returns

The following table shows the annual compound total return of Shares of the Fund compared with the Globe Labour-Sponsored Peer Index ("Globe Peer Index") and the S&P/TSX Capped Information Technology Index for each period indicated. The Globe Peer Index is the average, as calculated by Globefund, of returns of all labour sponsored funds and venture capital corporations reported on the Globefund database (see www.globefund.com). The S&P/TSX Capped Information Technology Index consists of technology constituents derived from a pool of S&P/TSX Composite Index stocks (see www.tsx.com). As there is no appropriate securities market index that reflects the long-term venture capital investment mandate of the Fund, these indices were determined to be the most suitable for the performance comparison purposes required by Form 81-106F1, Content of Annual Management Report of Fund Performance. Returns are calculated to December 31, 2005.

	1 Year Return/(Loss)	Return/(Loss) Since Inception (1)
BCDF - GAAP NAV	(0.1)%	(6.6)%
BCDF - Pricing NAV	(1.3)%	(4.0)%
Globe Peer Index	(1.1)%	(2.2)%
S&P/TSX Capped Information Technology Index	(13.0)%	15.7%

(1) Inception is considered to be July 1, 2003 as, prior to that date, the Fund offered its Shares at a price of $10.00 per Share.

After Tax Credit Return Analysis

Buying Shares of the Fund generates a 30% tax credit normally unavailable on the purchase of mutual funds. These tax credits represent a substantial financial benefit which the Fund believes should also be considered when calculating returns.

The following table illustrates compound annual returns on Shares held in an RRSP after taking into account the maximum 30% tax credit available. It does not take into account the tax benefits associated with contributing the Shares to an RRSP for a tax deduction, as that benefit is available in respect of many investments. Returns are calculated to December 31, 2005.

	1 Year Return/(Loss)	**Return/(Loss) Since Inception** (1)
Purchase price (2)	$ 9.15	$ 10.00
Tax credit rate	30%	30%
Net capital invested (3)	$ 6.41	$ 7.00
December 31, 2005 price	$ 9.03	$ 9.03
Return (excl. tax credit) (4)	(1.3)%	(4.0)%
Return from tax credit (5)	7.4%	7.4%
After tax credit return (5)	6.1%	3.4%

(1) Inception is considered to be July 1, 2003 as, prior to that date, the Fund offered its Shares at a price of $10.00 per Share.

(2) This is the purchase price as of January 1 in the year of purchase. The purchase price is the Pricing NAV per Share.

(3) Net capital invested equals the purchase price minus the tax credits received on the purchase. It assumes that the tax credits were fully claimed and allowed at the same time as the purchase was made.

(4) This is the annual, compound return associated with the increase in the Pricing NAV per Share since the time of purchase.

(5) This is the annual, compound return associated with the increase in the net capital invested over a 5 year period (the typical minimum holding period before redemption can occur). The redemption price for Shares is their full Pricing NAV per Share at redemption, without deduction for any tax credits received by the purchaser. This is illustrated as follows: If there was no growth at all in the Pricing NAV per Share over time, the net capital invested would essentially grow to a redemption claim equal to the purchase price over 5 years. For example, in the "since inception" column, the $7.00 net capital invested would grow to a redemption claim on the full purchase price of $10.00 over 5 years. That represents 7.4% annual, compound growth over that period. Note that the return element in note 4 accounts for the return associated with changes in Pricing NAV per Share over time (which may be negative). The tax credit return element described in this note 5 is the return associated with the tax credits only. When the two return components of note 4 and 5 are added, the sum is the after tax credit return.

Summary of Investment Portfolio

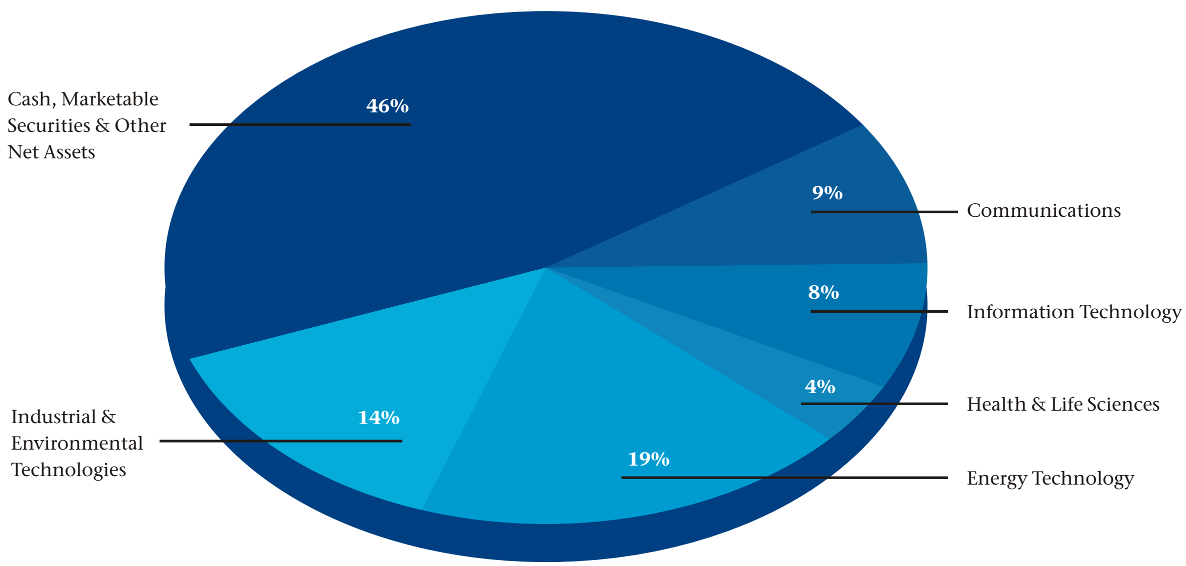
The Fund was incorporated on November 6, 2002 and was in the start-up stage until June 30, 2003. During the fiscal period ended December 31, 2002, the Fund's principal activities related to incorporating, registering as a venture capital corporation and commencing to sell Shares. As at December 31, 2002, the Fund had raised $262,100 of equity capital.

During the year ended December 31, 2003, the Fund raised an additional $9,381,567 of equity capital, resulting in a total of $9,643,667 of equity capital raised as at December 31, 2003, and made four Eligible Investments.

During the year ended December 31, 2004, the Fund raised an additional $15,078,588 of equity capital, resulting in a total of $24,717,376 of equity capital raised as at December 31, 2004, and made an additional three Eligible Investments, for a total of seven Eligible Investments.

During the year ended December 31, 2005, the Fund raised an additional $7,590,391 of equity capital, resulting in a total of $29,476,391 of equity capital raised as at December 31, 2005. The Fund also invested a total of $10,877,649 in five new and seven existing Eligible Small Businesses, and divested entirely of its position in one Eligible Small Business, leaving it with investments in a total of eleven Eligible Small Businesses as at December 31, 2005.

The following illustrates a portfolio breakdown of the Fund as at December 31, 2005:



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

The Fund has positions in eleven portfolio companies - see the Statement of Investment Portfolio in the audited financial statements of the Fund for details of the nature of the Fund's investments in these companies.

AUDITORS' REPORT

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

We have audited the statements of net assets of **British Columbia Discovery Fund (VCC) Inc.** as at December 31, 2005, 2004 and 2003, the statement of investment portfolio as at December 31, 2005 and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2005, 2004 and 2003. 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, 2005, 2004 and 2003, the investments held at December 31, 2005 and the results of its operations, changes in net assets and its cash flows for the years ended December 31, 2005, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Vancouver, B.C.
January 20, 2006

STATEMENTS OF NET ASSETS

As at December 31, 2005, 2004 and 2003

	2005	2004	2003
Assets			
Venture investments	$ 15,184,580	$ 4,179,243	$ 995,372
Marketable securities	6,968,047	10,364,404	4,412,726
Funds held in investment protection account (note 3)	4,331,593	5,841,713	2,549,879
Cash	2,249,379	1,235,729	395,854
Interest and dividends receivable	146,846	39,870	7,864
Subscriptions receivable	120,180	51,300	44,695
Prepaid expenses	5,731	4,815	3,537
Total Assets	29,006,356	21,717,074	8,409,927
Liabilities			
Accounts payable and accrued liabilities	90,780	77,634	98,105
Due to related parties (note 7)	278,645	133,842	28,975
Performance fees accrued on unrealized gains (note 4)	175,418	-	-
Total Liabilities	544,843	211,476	127,080
Net Assets	28,461,513	21,505,598	8,282,847
Shareholders' Equity			
Capital stock (note 5)	29,476,391	22,540,637	8,542,700
Deficit	(1,568,846)	(902,918)	(339,225)
Unrealized gains (losses) on venture investments	553,968	(132,121)	79,372
Total Shareholders' Equity	$ 28,461,513	$ 21,505,598	$ 8,282,847
Common shares outstanding	3,376,812	2,549,357	968,660
Net Assets per Common Share (note 5)	$ 8.43	$ 8.44	$ 8.55
Pricing Net Asset Value per Common Share (note 5(b))	$ 9.03	$ 9.15	$ 9.82

Contingency (note 8)
Commitment (note 10)

See accompanying notes

Approved by the Board of Directors

Harry Jaako
Director

John McEwen
Director

STATEMENTS OF OPERATIONS

For the years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
Investment Income			
Interest from marketable securities	$ 377,855	$ 290,590	$ 38,054
Interest from venture investments	67,631	11,244	4,118
Dividends from venture investments	84,103	-	-
Other income from venture investments	-	100,000	-
Total investment income	529,589	401,834	42,172
Expenses			
Management fees (notes 4 and 7)	788,418	548,763	70,422
Trailer fees (note 2)	135,816	94,386	12,490
Performance fees on realized gains (notes 4 and 7)	124,634	-	-
Fund administration and transfer agency fees	96,431	97,496	46,363
Office expenses and administrative services	73,269	60,522	12,435
Audit and advisory fees	47,871	42,262	25,414
Shareholder communications	29,816	43,191	10,210
Directors' fees and expenses (note 7)	24,668	24,742	13,774
Marketing expenses	22,014	35,823	4,865
Legal fees	21,755	4,561	27,604
Directors' and officers' insurance	17,587	13,781	5,062
Pre-operating costs (note 9)	-	-	90,036
Total expenses	1,382,279	965,527	318,675
Net Investment Loss	(852,690)	(563,693)	(276,503)
Realized gains on venture investments	362,180	-	-
Unrealized gains (losses) on venture investments	686,089	(211,493)	79,372
Performance fees accrued on unrealized gains (note 4)	(175,418)	-	-
Increase (Decrease) in Net Assets from Operations	20,161	(775,186)	(197,131)
Per Common Share			
(based on weighted average number of shares outstanding)			
Net investment loss for the year	(0.30)	(0.28)	(1.02)
Realized gains on venture investments	0.13	-	-
Unrealized gains (losses) on venture investments	0.24	(0.11)	0.29
Performance fees accrued on unrealized gains	(0.06)	-	-
Increase (Decrease) in Net Assets from Operations	$ 0.01	$ (0.39)	$ (0.73)

See accompanying notes

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
Net Assets, beginning of year	$ 21,505,598	$ 8,282,847	$ 42,318
Operating Activities			
Increase (decrease) in net assets from operations	20,161	(775,186)	(197,131)
Capital Transactions			
Proceeds from issuance of common shares	7,590,391	15,078,588	9,381,567
Less: Share issue costs including sales commissions	(614,459)	(1,075,772)	(943,907)
Redemption of common shares	(40,178)	(4,879)	-
	6,935,754	13,997,937	8,437,660
Increase in Net Assets	6,955,915	13,222,751	8,240,529
Net Assets, end of year	28,461,513	21,505,598	8,282,847
Unrealized Gains (Losses) on Venture Investments			
Balance, beginning of year	(132,121)	79,372	-
Net increase (decrease) for the year	686,089	(211,493)	79,372
Balance, end of year	$ 553,968	$ (132,121)	$ 79,372

See accompanying notes

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
Cash Flows from Operating Activities			
Increase (decrease) in net assets from operations	$ 20,161	$ (775,186)	$ (197,131)
Items not affecting cash from operating activities			
Unrealized (gains) losses on venture investments	(686,089)	211,493	(79,372)
Realized gains on venture investments	(362,180)	-	-
Non-cash investment income	-	(107,002)	-
Change in accrued interest on marketable securities	25,307	(39,985)	(12,677)
Net change in non-cash working capital	156,595	44,507	(108,634)
Cash flows from operating activities	(846,206)	(666,173)	(397,814)
Cash Flows from Investing Activities			
Net change in investment protection account	1,510,120	(3,291,834)	(2,542,379)
Net change in marketable securities	3,371,050	(5,911,693)	(4,403,796)
Purchase of venture investments	(10,877,649)	(3,288,362)	(916,000)
Proceeds from disposal of venture investments	920,581	-	-
Cash flows from investing activities	(5,075,898)	(12,491,889)	(7,862,175)
Cash Flows from Financing Activities			
Proceeds from issuance of common shares (note 5)	7,590,391	15,078,588	9,381,567
Share issue costs including sales commissions (note 5)	(614,459)	(1,075,772)	(943,907)
Redemption of common shares (note 5)	(40,178)	(4,879)	-
Cash flows from financing activities	6,935,754	13,997,937	8,437,660
Increase in cash during the year	1,013,650	839,875	177,671
Cash, beginning of year	1,235,729	395,854	218,183
Cash, end of year	$ 2,249,379	$ 1,235,729	$ 395,854
Supplemental Cash Flow Information			
Interest received	$ 450,468	$ 201,804	$ 38,054

See accompanying notes

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2005

MARKETABLE SECURITIES

Issuer	Par Value $	Maturity Date	Cost $	Fair Value $
Short-term Investments				
Canadian Imperial Bank of Commerce Bankers' Acceptance 3.11%	3,015,000	January 27, 2006	2,999,925	3,008,101
Canadian Imperial Bank of Commerce Bankers' Acceptance 3.16%	1,000,000	January 31, 2006	995,090	997,330
Canadian Imperial Bank of Commerce Bankers' Acceptance 3.07%	1,965,000	February 6, 2006	1,950,066	1,958,928
Canadian Imperial Bank of Commerce Bankers' Acceptance 3.10%	1,007,000	February 8, 2006	999,357	1,003,688
Total Marketable Securities			**6,944,438**	**6,968,047**

VENTURE INVESTMENTS

Investee	Number of Shares/ Par Value	Expiry date/ Maturity Date	Cost $	Estimated Fair Value $
Public				
Cryopak Industries Inc.				
- Common shares	650,000		130,000	119,795
- Common share warrants	325,000	Dec.10, 2007	-	-
- 12% secured Convertible debenture	$ 250,000	April 8, 2010	250,000	250,000
TIR Systems Ltd.				
- 7% secured Convertible debenture	$ 2,000,000	Jan. 27, 2011	2,000,000	2,000,000
- Common share warrants	400,000	Oct. 27, 2008	-	-
Vigil Health Solutions Inc.				
- Common shares	3,024,286		421,000	181,457

STATEMENT OF INVESTMENT PORTFOLIO...*continued*

As at December 31, 2005

VENTURE INVESTMENTS...*continued*

Investee	Number of Shares/ Par Value	Expiry date/ Maturity Date	Cost $	Estimated Fair Value $
Private				
Day4 Energy Inc.				
- Class A Common shares	1,450,000		2,400,000	2,900,000
- Series D Common share warrants	200,000	March 31, 2009	-	-
Idelix Software Inc.				
- Series 2 Preferred shares	1,800,000		530,002	530,002
- Series 3 Preferred shares	800,000		200,000	200,000
- Series 3 Preferred share warrants	400,000	Sept. 15, 2006	-	-
Inimex Pharmaceuticals Inc.				
- A1 Preferred shares	2,450,020		1,000,000	1,000,000
In Motion Technology Inc. (note 2)				
- 6% secured Convertible note	US$500,000	Dec. 13, 2006	630,000	582,250
- 6% secured Convertible note	$500,000	June 21, 2007	500,000	500,000
Mobidia Technology Inc.				
- 8% Class A Preferred shares	1,363,636		1,500,000	1,500,000
- 8% Class A Preferred share warrants	227,272	Feb. 14, 2006	-	-
Paradigm Environmental Technologies Inc.				
- Class A Voting Common shares	464,396		1,500,000	1,500,000
Tantalus Systems Corp.				
- Series A Preferred shares	837,978		1,508,360	1,885,451
- Series B Preferred shares	257,778		580,000	580,000
Vivonet Inc. (note 2)				
- 6% Series B Preferred shares	4,280,822		1,481,250	1,455,625
Total Venture Investments, at Estimated Fair Value				**15,184,580**
TOTAL INVESTMENTS				**22,152,627**
Other assets, net of liabilities				6,308,886
Net Assets				**28,461,513**

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005, 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.

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

2 Significant accounting policies

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

Use of estimates

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

Marketable securities

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

Venture investments

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

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

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

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005, 2004 and 2003

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

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

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

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

Foreign exchange

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

As at December 31, 2005, the Fund held investments in In Motion Technology Inc. and Vivonet Inc. that are denominated in United States dollars. The unrealized foreign currency loss included in estimates of fair value for investments denominated in foreign currencies on the Statement of Investment Portfolio is $73,375 as at December 31, 2005 (2004 - $nil; 2003 - $nil).

Share issuance costs and sales commissions

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

Investment income

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

Interest and dividend income from venture investments is recognized on an accrual basis. Other income from venture investments consists of all non-interest income including securities received in lieu of interest.

Performance fees

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

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005, 2004 and 2003

Trailer fees

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

Net investment loss per share

Net investment loss per common share is calculated using the weighted average number of common shares outstanding, which for the year ended December 31, 2005 was 2,895,132 (2004 - 1,972,769; 2003 - 270,604). 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 (see note 6).

3 Investment protection account

Pursuant to the requirements of the SBVCA, a VCC that does not have 80% of its raised equity capital invested in eligible businesses is required to maintain investment protection accounts in amounts equal to 30% of the funds raised. As investments in eligible businesses are subsequently made, a drawdown from the investment protection accounts equal to 37.5% of the investment amount is available. These funds cannot be released without the consent of the administrator of the SBVCA. The amounts in the Fund's investment protection accounts at December 31, 2005, 2004 and 2003 were $4,331,593, $5,841,713 and $2,549,879, respectively.

4 Management fees and performance fees

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

As at December 31, 2005, performance fees comprised $124,634 payable to the Manager in respect of realized gains on venture investments (2004 - $nil; 2003 - $nil) and $175,418 as a provision for amounts that would be payable if the unrealized gains on venture investments had all been realized at that date (2004 - $nil; 2003 - $nil).

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005, 2004 and 2003

5 Capital stock

Shareholders can require the Fund to redeem their shares at the pricing net asset value per common share of the Fund at any time after five years from the original share issue date, or at any time in the case of the death of the owner, or annuitant under a registered plan that was the owner, as the case may be, provided that the Fund is in compliance with the SBVCA at all times and is not otherwise prohibited or restricted under its articles from completing redemption requests.

a) Issued and outstanding

Authorized

500,000,000 common shares

Issued

	2005		2004		2003	
	Number of Shares	**Amount**	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**
Balance - Beginning of year	2,549,357	$22,540,637	968,660	$ 8,542,700	26,210	$ 105,040
Common shares issued	831,834	7,590,391	1,581,224	15,078,588	942,450	9,381,567
Common shares redeemed	(4,379)	(40,178)	(527)	(4,879)	-	-
Less: Issue costs						
Sales commissions		(379,519)		(753,929)		(469,078)
Other share issue costs		(234,940)		(321,843)		(474,829)
Balance - End of year	3,376,812	$29,476,391	2,549,357	$22,540,637	968,660	$8,542,700

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 (note 7).

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.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005, 2004 and 2003

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

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

	2005	2004	2003
Net assets in accordance with GAAP as reported	$ 28,461,513	$ 21,505,598	$ 8,282,847
Add:			
Unamortized deferred share issue costs including sales commissions	1,868,339	1,745,007	1,042,249
Unamortized deferred pre-operating costs	75,667	106,135	137,481
Other financial statement adjustments	98,174	(18,067)	53,768
Pricing net asset value	$ 30,503,693	$ 23,338,673	$ 9,516,345
Common shares outstanding at December 31	3,376,812	2,549,357	968,660
Pricing net asset value per common share	$ 9.03	$ 9.15	$ 9.82
Net assets in accordance with GAAP per common share	$ 8.43	$ 8.44	$ 8.55

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.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005, 2004 and 2003

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

	2005	2004	2003
Share issue costs			
Balance - Beginning of year	$ 1,745,007	$ 1,042,249	$ 157,060
Add:			
Sales commissions	379,519	753,929	469,078
Other share issue costs	234,940	321,843	474,829
Less:			
Amortization	(491,127)	(373,014)	(58,718)
Balance - End of year	$ 1,868,339	$ 1,745,007	$ 1,042,249
Pre-operating costs			
Balance - Beginning of year	$ 106,135	$ 137,481	$ 62,722
Add:			
Pre-operating costs	-	-	90,036
Less:			
Amortization of deferred pre-operating costs	(30,468)	(31,346)	(15,277)
Balance - End of year	$ 75,667	$ 106,135	$ 137,481

6 Income taxes

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

Temporary differences giving rise to future income tax assets and liabilities are as follows:

	2005	2004	2003
Non-capital losses carried forward	$ 1,405,000	$ 758,000	$ 272,000
Share issue costs	751,000	747,000	432,000
Performance fees	84,000	-	-
Other	4,000	5,000	1,000
Valuation allowance	(2,244,000)	(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 reduced the tax benefit from the amounts that would be recorded using statutory rates to $nil through the change in the valuation allowance.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005, 2004 and 2003

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

Amount	Expiry date
$ 64,000	2009
488,000	2010
987,000	2014
1,401,000	2015
$ 2,940,000	

7 Related party transactions

The following table summarizes related party fees and expenses payable in respect of the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Directors' fees and expenses	$ 24,668	$ 24,742	$ 13,774
Management fees	788,418	548,763	70,422
Performance fees	124,634	-	-
Reimbursement of expenses	107,569	96,391	209,090
Total related party fees and expenses	1,045,289	669,896	293,286
Due to related parties	$ 278,645	$ 133,842	$ 28,975

Reimbursement of expenses comprises expenses which were payable to the Manager or to DCC (a company with common directors and the parent company of the Manager) relating to capital raising and shareholder reporting services provided to the Fund by the Manager or DCC as well as miscellaneous office expenses and directors' and officers' insurance, which the Manager or DCC paid on behalf of the Fund.

During the year ended December 31, 2005, the Fund invested $1,300,000 (2004 - $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, 2005: Cryopak Industries Inc., Vigil Health Solutions Inc., Idelix Software Inc., Tantalus Systems Corp. and TIR Systems Ltd.

8 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.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005, 2004 and 2003

9 Pre-operating costs

Prior to the October 1, 2003 effective date of CICA Handbook Section 1100, 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.

Pre-operating costs comprise the following:

	2003
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)
	$ 90,036

10 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, 2005, $192,000 has been paid. Minimum future payments in accordance with this agreement are as follows:

2006	$ 66,000

11 Financial instruments

The Fund's financial instruments consist of venture investments and marketable securities which are valued at fair value 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.

12 Comparative figures

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

13 Implementation of National Instrument 81-106

The Canadian Securities Administrators (CSA) issued National Instrument 81-106 (NI 81-106) on June 1, 2005 which establishes a nationally harmonized set of continuous disclosure standards for investment funds. NI 81-106 applies to the annual financial statements for all investment funds for fiscal years ending on or after June 30, 2005. NI 81-106 impacts the disclosure of an investment fund's financial statements, and has no impact on the valuation of a fund.

CORPORATE OVERVIEW

CORPORATE ADDRESS

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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.
330 Bay Street, Suite 400
Toronto, Ontario M5H 2S8
Tel: 416-368-9569 ext. 309
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 May 2, 2006 at 2:00 p.m. at the offices of Discovery Capital Corporation, 5th Floor, 1199 W. Hastings St. Vancouver, B.C.

OFFICERS AND DIRECTORS

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