BC DISCOVERY FUND

ANNUAL REPORT

Building BC's Future in Technology | 2007

« Discovery Capital Team

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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 investors receive a 30% investment tax credit on investments from a minimum of $2,500 to a maximum of $200,000.

The Manager

The Manager of the Fund is Discovery Capital Management Corp., a Vancouver-based venture capital management company whose principals have extensive venture capital and technology industry experience in British Columbia. Discovery Capital has an active, hands-on investment philosophy, and brings to the Fund's portfolio investments proven expertise in strategic planning, management development, innovative financing strategies, corporate governance, and positioning for liquidity. Discovery Capital specializes in emerging technology businesses in British Columbia, in the areas of:

- Information technology (software and hardware)
- Communications (wireless and networking solutions)
- Health and life sciences (new drug development and technology solutions for the health care industry)
- Environmental and energy technologies (alternative energy and energy-saving technology solutions)

Historically, Discovery Capital has executed on its value creation role to drive profitable exit strategies.

2007 HIGHLIGHTS

April 2007	BC Discovery Fund is the lead investor in a syndicate that invests $4.3 million into **Rx Networks Inc.**, the 14th company in the Fund's portfolio.
June 2007	Two of the Fund's portfolio companies are recipients of **BC Technology Industry Association** awards for 2007 - **In Motion Technology Inc.** was the winner for ***Best Application of Technology*** and **Mobidia Technology, Inc.** was recognized with the award for ***Most Promising Start-Up***.
June 2007	The sale of portfolio company **TIR Systems Ltd.** to **Royal Philips Electronics** of The Netherlands is closed for gross proceeds of $75 million. The Fund generated an annual internal rate of return on the investment of approximately 21%.
October 2007	The Fund sells out its 2007 allocation of $10 million, the earliest date in its history that it has sold out. Subsequently, the Fund's allocation is increased to allow it to raise $13 million in 2008.
December 2007	Portfolio company **Day4 Energy Inc.** closes its initial public offering on the **Toronto Stock Exchange**, raising gross proceeds of $100 million.
December 31, 2007	The Fund's Pricing NAV per Share closes the year at $10.00, an increase of 14.4% over the year.

MESSAGE TO SHAREHOLDERS

The quest to uncover and build successful "innovation to commercialization" technology companies is what **BC Discovery Fund** is all about. And it has been the exclusive focus of the Fund's manager, **Discovery Capital Management**, for more than 21 years.

So how does the Fund Manager know it is achieving success in this quest?

The venture capital life cycle typically involves creating a "deal flow" of perhaps hundreds of start-up ventures annually, investing in a small, select subset of these ventures, and then working actively with these companies to achieve a level of corporate maturity that leads to a "liquidity event". These prized liquidity events are either initial public offerings (IPOs) on a stock exchange, or the merger or acquisition of the company by a larger, often publicly-traded company.

While the creation of enduring, profitable, employment-generating new enterprises is the economic objective for the government of British Columbia, success for venture fund managers is ultimately measured in the context of liquidity events - the opportunity to realize cash returns on the original investments made into these companies which can be returned to investors if they choose to redeem their investments.

The Discovery team is increasingly mindful of the need for BC Discovery Fund's portfolio companies to be moving closer to achieving their liquidity events, through which the Fund will itself be providing its shareholders with their own liquidity. This is becoming increasingly important as investors of the Fund become eligible to request redemption of their Fund shares over the next few years.

The Discovery team has had significant experience in achieving liquidity events with its portfolio companies throughout its venture investing history. We are very pleased to report that as of December 31, 2007, BC Discovery Fund has experienced liquidity events on four of its 14 investments in portfolio companies to date, as described below.

» **Aspreva Pharmaceuticals**, which was focused on identifying, developing and commercializing new applications for approved drugs, completed its IPO on both the Toronto Stock Exchange and NASDAQ in March 2005, raising a total of $113 million. Subsequently, in 2007, Swiss pharmaceutical company, Galenica, acquired Aspreva for just under $1 billion. During 2005, BCDF sold its investment holdings in Aspreva for cash and realized an internal rate of return (IRR) of 75%.

» **TIR Systems**, a leading company in Solid State Lighting (SSL) technology for products that generate high quality white light, was acquired in June 2007 by Royal Philips Electronics of The Netherlands for $75 million in cash. BC Discovery Fund tendered its securities for cash and realized an IRR of 21%.

» The divestment of **Cryopak Industries**, a manufacturer of proprietary temperature controlling products, was completed in 2007, resulting in a loss to the Fund.

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

» In December 2007, **Day4 Energy**, a leading developer and manufacturer of proprietary solar power technology, completed its initial public offering on the Toronto Stock Exchange, raising $100 million. As a condition of the IPO, major Day4 Energy shareholders – including BC Discovery Fund – were required by the underwriters to enter into an agreement whereby the Fund's ability to sell its Day4 shares is restricted for a period of time. However, at market prices as this report is issued, the Day4 Energy investment position represents 21% of the invested portfolio assets of the Fund. As these shares are released from trading restrictions, and as the Fund Manager evaluates the optimum timing and price at which it should divest the Day4 shares, this investment position represents a substantial pool of potential liquidity that should factor significantly into BC Discovery Fund's redemption planning.

We are proud to report that BC Discovery Fund successfully completed its fifth year of fund raising in 2007 by selling out the Fund's annual allocation of $10 million by October 2007, the earliest sell-out date in the Fund's history. In light of this overwhelming demand for the Fund from British Columbia investors, we are also delighted to report that the Ministry of Economic Development has increased the multi-year tax credit allocation to the Fund allowing it to raise up to $13 million commencing in 2008.

As BC Discovery Fund matures, management is committed to the continuing quest of finding the brightest innovation sparks in British Columbia each year, enabling their maturation and commercialization efforts through our active, hands-on investment style, and applying the many years of experience gained by the Discovery team – one of B.C.'s longest-serving venture capital managers - in assisting our portfolio companies in growing their businesses and completing their liquidity events.

If we continue to be successful in achieving liquidity events for our portfolio companies, we are hopeful of achieving long term profitable results for our shareholders, as well as continuous liquidity for BC Discovery Fund.

Harry Jaako *John McEwen*

DAY4 ENERGY

INVESTED CAPITAL
$2,800,000
TSX VENTURE: DFE

Description of Business: Established in 2001, Day4 Energy is a solar-energy company that designs, manufactures and sells photovoltaic (PV) modules based on its patented Day4 Electrode technology, a proprietary method of contacting and interconnecting solar cells. The Day4 Electrode produces PV panels of high power density, increased lifetime and uncompromised aesthetic appearance. The advanced solar module construction method increases the performance of conventional silicon panels and enables the next-generation of PV innovation. Day4 partners with the industry's leading PV cell producers to deliver IEC and UL certified commercial and residential solar products to customers throughout Europe and North America. Day4's manufacturing facilities are located in Burnaby, B.C.

Recent Milestones:

» In December 2007, Day4 Energy completed an initial public offering to raise over $100 million and listed its shares on the Toronto Stock Exchange. A portion of the proceeds from the IPO are being used to expand Day4's PV module manufacturing facilities sufficient to address its planned increase in manufacturing capacity to 90MW per annum in the fourth quarter of 2008.

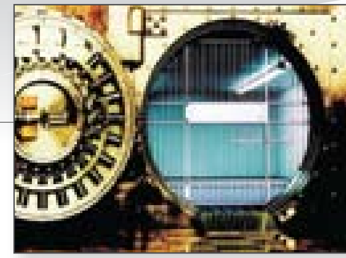
» In January 2008, Day4 announced a contract extension with EnBW, one of Germany's largest energy suppliers, as a result of the successful completion of the largest PV installation to date using Day4's modules. The extension is for two additional large-scale projects set for construction in 2009 and 2010.

» In March 2008, Day4 announced that, in response to significant market demand, an additional 47MW in solar module deliveries has been contracted for 2009 and 2010, bringing the Company's annual advanced sales totals to 55MW and 66MW, respectively. The completion of these new contracts increases Day4's order book for 2009 by more than 40% and for 2010 by almost 90%.

Outlook: In response to significant market demand, Day4 Energy has pre-sold the majority of its planned 2008 and a material portion of its planned 2009 and 2010 production capacity, and has also entered into PV supply contracts with leading PV cell manufacturers to meet substantially all of its contracted sales of PV modules for 2008 and 2009. The Day4 Electrode, the Company's proprietary technology, represents a fundamental change in the way PV modules are built, enabling Day4's current modules to reach what the Company believes is a leading level of performance. Day4 also believes this technology is a platform that will enable further important improvements in PV cell and PV module efficiency and cost reduction, and it is pursuing a number of new, low-cost, high-efficient PV cell design alternatives internally as well as in cooperation with independent research institutes.

www.day4energy.com

GALE FORCE Solutions Inc.



INVESTED CAPITAL
$1,145,833
PRIVATE

Description of Business: GaleForce Solutions has created GaleForce CRM for Financial Services, customer relationship management (CRM) software that extends Microsoft Dynamics CRM into the financial services industry. GaleForce CRM provides deep, industry-specific functionality for wealth management, capital market and investment banking firms, as well as commercial and retail banks. GaleForce CRM leverages core Microsoft technology and integrates with leading third-party core processing and transactional systems to provide client-facing producers with complete client views and advanced analytical and reporting functions, while supporting industry security and regulatory compliance requirements. GaleForce Solutions is a Microsoft Gold Certified Partner, Certified Business Solutions Partner and Certified ISV (independent software vendor) Partner and sells its solution through a network of system integration and reseller partners.

Recent Milestones:

» In 2007, GaleForce released Industry CRM, Microsoft CRM add-on products, unbundled from the Company's financial solutions product. These products have been popular with customers since their launch in April 2007.

» GaleForce reached a key milestone in mid-2007 with two significant orders for deployment over the ensuing 12 to 18 months.

» Half way through its current fiscal year, GaleForce has added 20 new accounts and installed more than 500+ license seats in its customer account base.

» In February 2008, GaleForce hired a new CEO, Aziz Pirani, to lead its development.

Outlook: Financial services industry CRM adoption rates continue to grow and Microsoft has garnered significant market uptake in both the Enterprise account space and the mid market. The recently announced Version 4 (code named Titan) further extends Microsoft's opportunity space. The new version is based upon a superior product architecture and also brings new capabilities especially for the Software as a Service (SaaS) marketplace.

GaleForce's capabilities still provide strong value add to Microsoft's CRM environment by adding deep industry domain expertise in the financial services marketplace. As such, GaleForce has been recognized as one of Microsoft's premiere go-to-market partners in this industry segment.

In addition to developing a sales pipeline that contains several large institutions around the world, the Company is also working on developing a SaaS based version of its product. This new capability will not only expand GaleForce's market reach but also significantly enhance the Company's valuation. .

www.galeforcesolutions.com

IDELIX

INVESTED CAPITAL
$2,881,002
PRIVATE

Description of Business: IDELIX is a leading innovator in the area of information visualization. Its advanced user interface technologies provide enhancements in the usability and experience of mobile, desktop, and Web-based applications. One core product, Pliable Display Technology (PDT), is a magnification and data interaction technology that gives users new tools to view and manipulate visual data more effectively and efficiently. PDT "lenses" permit users to interact directly and efficiently with data appearing within the PDT lens, without hiding information and without breaking continuity. PDT lenses can be used to facilitate the presentation of both static and dynamic content, and to highlight areas of interest or commercial value. Developers can use the PDT software kit to enhance the visualization tools available in their software applications to address the growing concerns of information overload in 2D and 3D applications.

A second core product, lat49 by IDELIX, is an online advertising network that delivers geo-contextually targeted advertisements across a wide variety of online map sites. The lat49 network was developed to take advantage of Ajax and Flash environments and provide a rich, interactive advertising experience. It is a unique ad platform technology that targets an underserved portion of the rapidly growing online and mobile markets. This patents-pending technology and the lat49 network of advertisers and publishers have IDELIX ideally positioned to be a leader in the location targeted advertising market.

Recent Milestones:

» In January 2008, IDELIX announced the integration of lat49 on the MapQuest Gas Prices portal, allowing advertisers to easily reach a user community dedicated to the leading brand in online mapping.

» Also in January 2008, three new patents were issued to IDELIX by the US Patent Office, bringing the Company's growing list of intellectual property to include a total of 17 granted and numerous others pending.

» In August 2007, IDELIX developed QuickMedia, a new device and media navigation paradigm for the next generation of rich smart phone devices leveraging the core concepts of PDT.

Outlook: The mobile phone market is faced with the unique situation of two paradigm shifts occurring simultaneously - the critical need for a great user experience (the "Apple Effect"), and a shift in revenue models and ecosystems with a growing emphasis on advertising (the "Google Effect"). Key players in this space will need to address both shifts in a seamless way to win in the next generation of mobile. IDELIX is uniquely positioned to capitalize on these two shifts with the combined capabilities of PDT, the recent launch of the lat49 location-centric advertising network, and the team that has developed and taken these products to market.

www.idelix.com

INMOTION TECHNOLOGY

INVESTED CAPITAL
$3,737,402
PRIVATE

Description of Business: In Motion Technology is a leader in developing innovative Vehicle Area Network solutions that help public safety organizations 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. The Company's complete Vehicle Area Network solution ensures that any IP device can be useful in the field immediately with no modification, connecting to headquarters over the most reliable communications network available. By transparently integrating wireless local and wide area network technology, In Motion Technology allows mobile professionals, while in-transit or at-scene, to access and communicate mission critical information over virtual private networks, and provides the tools to manage the entire mobile network from their operations centers. In Motion Technology solutions have been successfully deployed in high-performance emergency medical services (EMS), police and fire departments in the U.S. and Canada.

Recent Milestones:

» In its first 2 years of commercial operation, In Motion Technology has far exceeded business development and revenue expectations, having signed up over 100 customers, primarily in the EMS market in the United States and Canada.

» In Motion Technology has developed strong working relations with distribution partners (Cingular, Verizon, Sprint), infrastructure partners (Alcatel Lucent, Strix Systems and SkyPilot Networks), as well as applications partners (Medtronic/Physio-Control, Philips, Zoll, Road Safety) to ensure the Company is best positioned to provide a "whole product" solution to its customers.

» In Motion Technology was selected as winner of the prestigious 2007 Technology Impact Award by the BC Technology Industry Association, in the category of Best Application of Technology. In addition, the Company won the Wireless Innovation award in the "Taking Care of Business" – Public Sector" category at the Cellular Telephone Industry Association (CTIA) tradeshow in March 2007.

Outlook: In Motion Technology has experienced tremendous growth on all fronts, as its innovative Vehicle Area Network solution achieved considerable traction in EMS organizations. In 2008, the Company will continue the push to market leadership in EMS and extend that leadership into law enforcement. Already a leading supplier in this emerging market segment, the Company is participating in a number of large municipal wireless trials. Looking beyond 2008, the Company is well positioned to provide vehicle solutions in the emerging 700MHz arena.

www.inmotiontechnology.com

Inimex

INVESTED CAPITAL
$1,300,000
PRIVATE

Description of Business: Inimex Pharmaceuticals is focused on the development and commercialization of Innate Defense Regulators (IDRs), novel drugs that selectively trigger the body's innate defenses without causing inflammation. IDR products have major market potential for infectious disease, cancer, and inflammatory disease. Inimex's lead product, IMX942, targets a broad spectrum of life-threatening infections where antibiotic resistance is a major concern, including Cystic Fibrosis. The first clinical indication is the prevention of infections associated with chemotherapy. Additional product candidates will be developed for distinct disease areas, with an emphasis on inflammatory disease.

Recent Milestones:

» According to a paper published in the April 2007 issue of *Nature Biotechnology*, Inimex's initial IDR product candidate is the first immune system trigger to cure infections without causing harmful inflammation.

» Inimex co-founder, Dr. Bob Hancock, was awarded the Michael Smith Prize as Canadian Health Researcher of the Year for 2006 by the Canadian Institute of Health Research for his research on ways of battling infectious diseases in hospitals and nursing homes; Inimex IDR products are based on Dr. Hancock's research and ongoing guidance.

Outlook: Inimex has made a significant scientific discovery in identifying the molecular target and mechanism of action pertaining to the IDR drugs it is seeking to commercialize. With this discovery, Inimex has experienced a substantial increase in the level of interest from potential corporate partners with which it could collaborate to accelerate development of its IDR technology platform. Interest in the Inimex opportunity has also increased amongst potential investors, with whom Inimex has engaged for a planned US$18 million Series B financing.

www.inimexpharma.com

MOBIDIA

INVESTED CAPITAL
$4,242,120
PRIVATE

Description of Business: Mobidia's .wave™ (dot wave) software provides mobile network operators and enterprise customers with data traffic management solutions, policy, terms and conditions enforcement, quality of service (QoS) and differentiated services extensions, network key performance indicators (KPIs), and wireless network efficiency technologies. Mobidia enhances mobile data by enabling its customers to monitor, manage and monetize per application, service, user, or network. Mobidia's CUBuddy™ social messaging service application permits live video sharing between mobile devices, giving wireless network operators new opportunities to maximize revenue from mobile video on networks and handsets available today.

Recent Milestones:

» In early 2008, Mobidia appointed Derek Spratt as President and CEO. Mr. Spratt was founder and CEO of Intrinsyc Software International Inc., a mobile software technology company which he built to $20 million in revenues and 250 employees by 2006.

» To date, Mobidia has filed 12 patents covering its unique software networking technologies.

» Mobidia has completed trials with Tier 1 carriers for both its .wave platform and CUBuddy application. The Company is aiming towards integration of CUBuddy with a handset of a Tier 1 carrier by the fall of 2008.

» Mobidia has received $9.5 million in venture financing, including approximately $4 million from BC Discovery Fund.

Outlook: Mobidia's technology solutions aim to bridge the widening disconnect between content and service; for example, between a subscriber's desire to interact with mobile applications and the wireless network operator's ability to provide the appropriate quality of service. The Company intends to capitalize on the competitive requirements of telecommunications carriers to generate revenue growth from high value data applications such as mobile video.

www.mobidia.com

PARADIGM ENVIRONMENTAL TECHNOLOGIES INC.

INVESTED CAPITAL
$2,000,003
PRIVATE

Description of Business: Paradigm is an environmental technology company that has developed *MicroSludge*®, a patented technology to process wastewater at municipal sewage treatment plants and at industrial facilities. *MicroSludge* is a sustainable technology for municipal wastewater treatment plants (WWTPs) that significantly enhances the anaerobic digestion process, thereby reducing operating costs and increasing plant capacity. *MicroSludge* significantly reduces the quantities of sewage sludge for disposal by converting it into methane gas and energy. This is commercially important because disposal of sewage sludge and energy use can account for a major portion of the operating costs for large municipal wastewater treatment plants. *MicroSludge* is modular, and can be deployed at existing WWTP facilities. *MicroSludge* can also be used to process industrial waste, including petrochemical waste, and pulp and paper waste.

Recent Milestones:

» The first commercial *MicroSludge* installation was undertaken at a wastewater reclamation facility in Des Moines, Iowa, in the fall of 2007. *MicroSludge* will process all of the waste activated sludge for two of the facility's six anaerobic digesters thereby allowing Paradigm to demonstrate the ability of *MicroSludge* to improve anaerobic digester performance.

» In 2006, Paradigm was awarded the Technology Impact Award for Excellence in Product Innovation by the BC Technology Industries Association and was also chosen as one of the top three energy and environmental companies in Canada for 2006/2007 by The Ottawa Life Sciences Council.

» Paradigm was chosen as a finalist for the Globe 2008 Award for Technology Innovation and Application.

Outlook: With its first commercial installation having been achieved, Paradigm is well-positioned to pursue select installation opportunities at wastewater treatment plants. The Company is working with Metro Vancouver to obtain Government funding for the installation of *MicroSludge* and advanced co-generation equipment to convert biogas into energy at Metro Vancouver's Lulu Island sewage plant. As well, Paradigm is in discussions with several other cities to test and install *MicroSludge*, and has initiated research and pilot studies for a number of industrial applications..

www.paradigmenvironmental.com

rx networks

INVESTED CAPITAL
$1,650,000
PRIVATE

Description of Business: Rx Networks is a mobile positioning technology and global services company. Working closely with NASA/Jet Propulsion Labs and leading mobile technology vendors, Rx Networks plays a primary industry role in the supply of GPS assistance data to mobile network operators and mobile device manufacturers. GPS assistance data is a necessary ingredient for the fast and accurate position performance of next-generation mobile devices with integrated GPS capability. The Company's GPStream™ GPS assistance data and related licensable mobile software solutions enable a fast, "*Click'n Go*™" GPS user experience. Rx Networks licenses its solutions to mobile network operators, GPS semiconductors and device manufacturers, enabling mobile users to quickly and accurately locate their next-generation GPS-capable devices, whether for emergency services or other innovative Location Based Services (LBS).

Recent Milestones:

» In April 2007, Rx Networks completed a $3.3 million venture capital financing from TELUS and BC Discovery Fund, following a US$1 million seed round from Audiovox Corporation.

» Rx Networks has successfully launched its unique GPStream solutions by establishing strategic partnerships with world class telecommunication organizations such as Qualcomm, Nokia Siemens Networks, NEC Corporation and ST Microelectronics.

» Seven customers, including two carriers, TELUS and Softbank (Japan), and two GPS chipset vendors, have licensed and deployed technology solutions of Rx Networks in connection with their current mobile LBS offerings.

Outlook: Rx Networks is expanding its development of new technology, as well as its sales and marketing efforts, just as LBS applications are gaining ground as important applications on mobile devices. Rx Networks expects to lever its strategic partnerships to deploy their technology into a significant number of mobile devices, mobile carriers and service providers going forward.

www.rxnetworks.ca

Tantalus

INVESTED CAPITAL
$3,064,140
PRIVATE

Description of Business: Founded in 1989, Tantalus Systems develops, manufactures and markets two-way, real-time wireless data communications networks for electric, gas, and water utilities. The Tantalus Utility Network (TUNet®) is a multi-purpose communications backbone specifically designed to help utilities automate their distribution infrastructure. It delivers rapid and affordable two-way data and controls communications throughout a utility's distribution system. The long-range wireless TUNet network unites a utility's applications, making advanced metering, outage management, power quality monitoring, load management, and distribution automation cost-effective and practical throughout both urban and rural service areas. The result is more efficient operations, more accurate billing, and the ability for a utility to deliver a high level of customer service. TUNet is deployed at utilities throughout North America and has earned several high profile industry awards.

Recent Milestones:

» In June 2007, Tantalus raised $20 million in equity proceeds via a private placement (with National Bank Financial Inc. acting as exclusive agent) to a consortium of international institutional funds led by two European investors. Proceeds from the financing will be used to accelerate product development of Smart Grid applications and market expansion.

» After years of groundwork, testing and development, Tantalus has signed on 23 customers across North America, including Chatham-Kent Hydro in Ontario and Anaheim Public Utilities in California. Chatham-Kent Hydro expects their system to be fully operational in 2008, with about 35,000 residential and small business customers part of the new system and initial indications of a 15 to 17% reduction in energy usage.

» In early 2007, the first installation of a joint venture development between Tantalus and Badger Meter Inc. (North America's largest water meter manufacturer) was successfully deployed. This development allows data traffic from Badger's water and gas meters to be seamlessly delivered across TUNet's fixed wireless network, thus completing the vision of providing cost efficient delivery of water, gas and electric data across a single fixed real-time network.

Outlook: New applications of Tantalus products for commercial and industrial metering, and multi-commodity electric, water and gas metering, have been well received by customers. The $20 million financing completed in 2007 provides Tantalus with the extra financial capability to launch a strong and complete suite of products for Advanced Metering Infrastructure, Distribution Automation and Demand Response, to provide utilities and consumers with the data and the tools to better manage energy resources and position Tantalus to become a leading player in this industry.

www.tantalus.com

vigil
HEALTH SOLUTIONS

INVESTED CAPITAL
$776,800
TSX VENTURE: VGL

Description of Business: Vigil Health Solutions offers a proprietary technology platform combining software and hardware to provide comprehensive solutions to the expanding aged care market. Vigil has established a growing presence in North America and an international reputation for being on the leading edge of systems design and integration. The Vigil Integrated Care Management System™ includes the award-winning Vigil Dementia System, a nurse call system, bed monitoring, resident check in, and the latest development, the Vigil Wireless call system. Vigil's innovative emergency response and monitoring solutions facilitate the highest standard of care for cognitive residents while helping dementia residents enjoy greater dignity and a higher quality of life.

Recent Milestones:

» Financial performance for the nine-months ended December 31, 2007 showed substantial growth, with sales bookings and revenues increasing by 108% over the prior year.

» Vigil's order backlog at December 31, 2007 was $3.06 million, representing the Company's highest number of projects signed or in progress. All these projects contain a component of Vigil's new Wireless Call System.

» Vigil released its next generation core platform software into a second beta trial in June 2007, after positive results from the first beta site installation. This new software facilitates better user functionality, greater scalability and broader interoperability with complementary systems.

Outlook: Vigil continues to see further validation of its sales program, continued evolution of its technology and successful commissioning of a growing number of installations. Vigil enhanced its software solution to specifically target the needs of corporate clients, and executed well on this strategy, with the addition of six new corporate accounts, bringing its total number of corporate accounts to 16 clients, representing over half of total installations to date. Vigil continues to strategically target the addition and development of multi-property corporate customers in North America to facilitate accelerated sales growth. In line with this strategy, Vigil will continue to build on its wireless monitoring solutions, an area where customer demand continues to grow.

www.vigilhealth.com

VIVONET

INVESTED CAPITAL
$2,546,250
PRIVATE

Description of Business: Established in 1999, Vivonet is an on-demand solutions provider that enables, acquires and organizes millions of transactions every month for customers in the hospitality and retail sectors across Canada and the United States. Vivonet provides on-demand enterprise management, payment processing, point-of-sale (POS) and performance benchmarking solutions for its customers. As a result of being an application service provider (ASP), Vivonet is able to offer products having 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, allowing them to benchmark their performance against other users and the industry at large, leading to better performance and higher business success rates. Through Vivonet's ownership of the transaction data, it also has the unique ability to market the industry level market intelligence it captures.

Recent Milestones:

» In early 2007, Vivonet introduced Halo Retail POS, a complete easy-to-use solution designed for small and medium retailers that have been using cash registers.

» During 2007, Vivonet grew the number of its Halo subscribers from 177 to 580 and also grew its recurring Halo revenues per month by nearly 200%.

» In early 2008, Vivonet appointed Tom Kakanowski as Chief Technology Officer and Victor Holysh as Chief Financial Officer, completing the executive management team expansion undertaken by Vivonet in response to its recent explosive growth.

Outlook: In 2007, Vivonet grew its installed terminal base and revenues for Halo Hospitality POS by over 200% while introducing the new Halo Retail POS product aimed at the general retail market. Vivonet is positioning itself to continue this substantial growth in 2008 by developing new distribution channels and considering accretive acquisitions.

www.vivonet.com

Sector Diversification

ENVIRONMENTAL & ENERGY TECHNOLOGIES

Day4 Energy Inc. (Public)
Paradigm Environmental Technologies Inc.
Tantalus Systems Corp.

COMMUNICATIONS

In Motion Technology Inc.
Mobidia Technology Inc.
Rx Networks Inc.

INFORMATION TECHNOLOGY

GaleForce Solutions Inc.
IDELIX Software Inc.
Vivonet Inc.

HEALTH & LIFE SCIENCES

Inimex Pharmaceuticals Inc.
Vigil Health Solutions Inc. (Public)

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**.

The Fund is a venture capital corporation registered under and governed by the provisions of the Small Business Venture Capital Act (British Columbia) ("SBVCA"). The venture capital programs operating under the SBVCA encourage early stage or "seed" equity capital investments in small businesses by offering British Columbia resident investors refundable tax credits. Persons who require further information on the provisions of the SBVCA are advised to consult their own professional advisors or visit the website of the Investment Capital Branch at **www.equitycapital.gov.bc.ca**.

This Management Discussion of Fund Performance may contain certain forward-looking statements that are made based on management's judgment and expectations, but are inherently subject to risks and uncertainties beyond the Fund's control. Actual results may differ materially from those anticipated in forward-looking statements.

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 SBVCA. The Fund targets investments in the areas of information technology; communications; health and life sciences; and environmental and energy technologies.

The investment strategy of the Fund specifies, generally, how the Manager of the Fund, **Discovery Capital Management Corp**., 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 of the Fund has available to it the experience, expertise, resources and deal flow developed by Discovery Capital Corporation over the past fourteen years. See also "Recent Developments" below.

During 2007, Pricing NAV per share increased by 14.4% and the Fund sold out its $10 million authorization, bringing total equity capital raised to $52 million.

Risk

There are significant risks to an investment in shares of the Fund ("Shares"), and an investment should only be undertaken by investors who have sufficient financial resources to enable them to assume those risks, who are prepared to leave their money in the Fund for a long period of time and who have the capacity to absorb a loss of some or all of their investment. Some of the more specific risks associated with the Fund are listed below. A more detailed discussion of the risks associated with an investment in shares of the Fund can be found in its 2008 prospectus.

Nature of Investments

Investments in early-stage technology businesses are inherently extremely risky. The technology businesses in which the Fund invests will generally require additional capital, which the Fund may not be able to provide or which may not be available from other sources. Investments made by the Fund will generally lack liquidity and involve a longer than usual investment commitment.

Liquidity

There currently is no market for the Shares and shareholders will not, generally, be able to dispose of their Shares other than by way of redemption. Except in very limited circumstances, redemption of Shares is prohibited for a period of five years from the date of investment. In addition, the Fund is prohibited from redeeming Shares in certain circumstances and may, in certain other circumstances, suspend or decline requests for redemption for substantial periods, with the result that, for practical purposes, redemption of Shares may be longer than five years from the date of investment. See also "Recent Developments" below.

Competition for Funds and Investments

The Fund faces competition from other capital providers, including other funds that provide tax incentives, for funds for investment in eligible small businesses. The Fund also faces competition for investment opportunities and there can be no assurance that suitable investments in eligible small businesses will be found. In addition, the Fund must comply with the investment pacing and maintenance requirements under the SBVCA, which may adversely affect its desired rates of return.

Valuation

The Net Asset Value of the Fund and, consequently, the Pricing Net Asset Value of the Fund will be based principally on the value of the assets in the Fund's investment portfolio and, therefore, the value of Shares of the Fund will increase or decrease with the value of such assets. The Fund's valuation process for its Shares is based on inherent uncertainties and the resulting values may differ from values that would have been used had a liquid market existed for the investments of the Fund.

Provincial Legislation and Registration

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 $13 million of its Shares during the period January 1, 2008 to February 15, 2009, up to a further $13 million during the period January 1, 2009 to February 15, 2010 and up to a further $13 million during the period January 1, 2010 to February 15, 2011. With respect to the equity allocation in each of these periods, $3 million is required to be invested in "interactive digital media companies". There is no assurance the Fund will receive authorization to issue additional Shares on a tax incentive basis under the SBVCA after these authorizations. The Fund's registration under the SBVCA may be suspended or revoked in certain circumstances (such as, for example, as a result of a failure to satisfy minimum investment obligations), in which case sales of Shares would not qualify for tax credits.

Results of Operations – Year Ended December 31, 2007

Pricing Net Asset Value per Share was $10.00 at December 31, 2007, an increase of 14.4% over the year. This increase is primarily attributable to unrealized gains of $9,642,939 on the estimated fair value of the Fund's venture investments, as explained below. Sales of Shares were $14,119,767 in 2007, compared to $5,617,657 in 2006. With an improving trend in Pricing Net Asset Value per Share, sales of Shares accelerated in 2007 resulting in the Fund having sold out its $10,000,000 authorization for 2007 in the fall of that year.

Net Assets

Net assets for financial statement reporting purposes were $53,388,692 at December 31, 2007, an increase of $20,244,973, or 61%, from net assets of $33,143,719 at December 31, 2006. The increase in net assets is a result of a positive contribution of $7,153,025 from operations (see "Operating Results" below) as well as gross proceeds from sales of Shares during 2007 of $14,119,767, offset by $1,039,825 of issue costs and $35,530 of redemptions. The increase also includes a $47,536 transitional adjustment pursuant to adoption of a new accounting standard – see "Financial Highlights" below.

Operating Results

Net assets from operations increased by $7,153,025 for the year ended December 31, 2007, a significant improvement in performance from the decrease of $385,514 for the year ended December 31, 2006. The Fund recorded unrealized gains of $9,642,939 on the estimated fair value of its venture investments, mainly due to two of the Fund's investments having successfully completed significant equity financings at higher valuations in 2007. Day4 Energy Inc. successfully completed an initial public offering in December to raise over $100 million, while privately-held venture investment Tantalus Systems Corp. raised $20 million in June in a private placement with institutional investors.

Other factors affecting changes in net assets from operations in 2007 are explained as follows:

» Total investment income was $1,408,938 in 2007, an increase of $376,834 from investment income of $1,032,104 in 2006. This was mainly due to increased interest and dividend income accrued on the privately-held venture investments of the Fund, as well as generally higher rates of interest earned on increased balances of cash and marketable securities.

» Fund expenses were $2,032,370 in 2007, an increase of $486,134 over expenses of $1,546,236 in 2006. Management and trailer fees were both higher, as a result of increased pricing net assets of the Fund. There was also a $106,326 performance fee (including GST) paid to the Manager as a result of the realized gain arising from the Fund's disposition of venture investment TIR Systems Ltd. for cash (see below).

» Net realized gains were $210,672 in 2007 (2006 – $nil). In 2007, the Fund disposed of its investment in publicly-traded TIR Systems Ltd. by way of Philips Electronics Ltd. acquiring all of the outstanding shares of TIR at a price of $1.60 per share. The Fund had invested $2,000,000 in TIR in late 2005 and realized net proceeds of $2,501,450, resulting in a gain of $501,450. Also in 2007, the Fund wrote down to nil its remaining investment in Cryopak Industries Inc., realizing a loss of $290,868, as Cryopak had been placed in receivership by its creditors in 2006. The Fund realized a total loss of $511,088 with respect to its investments in Cryopak.

» There was an accrual of $2,077,154 for performance fees on unrealized gains from venture investments which had the effect of reducing net assets from operations in 2007. This accounting accrual is made for the performance fees that would have been payable if the unrealized gains on venture investments had all been realized as at December 31, 2007. Over 60% of this accrual related to the Fund's investment in common shares of Day4 Energy Inc.

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

Investments and Investment Activities

During 2007, the Fund invested cash of $8,215,030, comprised of $6,565,030 in six existing portfolio companies and $1,650,000 in one new eligible small business – Rx Networks Inc. At December 31, 2007, the Fund's portfolio comprised venture investments in eleven emerging technology companies, diversified across its targeted technology sectors. Nine of the Fund's investments at December 31, 2007 were in privately-held companies, representing 70% of the total estimated fair value of the Fund's venture investment portfolio at that date, with 29% represented by the Fund's holdings in publicly-traded Day4 Energy Inc. and 1% in publicly-traded Vigil Health Solutions Inc.

The Fund's asset mix at December 31, 2007 was 68% venture investments and 32% cash, marketable securities and other net assets – see "Summary of Investment Portfolio" below.

SBVCA Commitment

The Fund was required to have invested $27,571,539 as at December 31, 2007 under the minimum investment obligations of the SBVCA, and had a shortfall in eligible investments of $1,737,082 at that date ($894,134 at March 14, 2008). The Fund expects to fully satisfy the remaining shortfall within allowances permitted by the Administrator of the SBVCA.

The Fund continues to be presented with attractive investment opportunities and expects to be able to fulfill its minimum investment obligations in 2008. However, there can be no assurances that the Fund will meet its investment requirements, or that further extensions will be given. A shortfall in meeting its requirements could result in the Fund having to revise its strategy to accelerate investments or in the suspension or revocation of its registration under the SBVCA.

Recent Developments

Change in Ownership of the Manager

During 2007, ownership of the Manager changed. Previously, the Manager was a wholly-owned subsidiary of Discovery Capital Corporation, a venture investment company originally established in 1986 which had officers and management in common with the Manager. In 2007, shareholders of Discovery Capital approved a plan of liquidation whereby the assets of Discovery Capital were distributed to its shareholders and the company was wound up. In connection with this plan of liquidation, the management team of the Manager, led by John McEwen, Chief Executive Officer, Harry Jaako, President and Charles Cook, Chief Financial Officer, purchased all of the issued and outstanding shares of the Manager effective September 14, 2007.

Redemptions Update

In 2008, holders of approximately 968,000 Shares issued in December 2002 and in 2003 become eligible to request redemption of their Shares. At the February 29, 2008 price per Share of $9.53, Shares issued in 2002 and 2003 would represent a possible total of $9,225,040 in redemptions in 2008. For 2008, the Fund has portfolio gains and investment income from investments and expected "matured" investments (which are investments that have been held by the Fund for the minimum required five-year period) which, under SBVCA policy, provide available funds to satisfy approximately $4.6 million of redemptions in 2008. Accordingly, unless the Fund is able to exit further investments and realize gains on those investments, the Fund will not be in a position to redeem all Shares eligible for redemption in 2008. The Fund's management team is working diligently to generate profitable realizations to match redemption requests into the future as closely as possible.

The ability of the Fund to meet Redemption Requests in any year is dependent upon a number of factors which are highly variable and difficult to predict. These include, principally, the performance of the Fund's venture capital investments and the rate at which they mature, including the timing of the Fund's ability to enter into and exit those investments and the amount of gain or loss that the Fund realizes on those investments. Redemptions may be suspended in any year if the Board of Directors of the Fund is of the opinion that, as a result of any such redemption, the Fund may not be able to comply with the minimum investment requirements under the SBVCA in the future, such as by having its available funds reduced to an amount that is less than the aggregate amount of all future investments it is required to make in order to remain in compliance with such investment requirements.

There is no assurance that the Fund will be in a position to redeem Shares in any year, and, therefore **shareholders and investors should be cautioned that the redemption period applicable to Shares purchased by them may, for practical purposes, be longer than five years and they should expect to hold their Shares for longer than five years**.

Related Party Transactions

The following table summarizes related party fees and expenses payable in respect of the years ended December 31, 2007, 2006 and 2005.

	2007	2006	2005
Directors' fees and expenses	$ 25,218	$ 25,168	$ 24,668
Management fees	1,282,703	984,707	788,418
Performance fees	106,326	-	124,634
Reimbursement of expenses	110,126	101,101	107,569
Total related party fees and expenses	**$1,524,373**	**$1,110,976**	**$1,045,289**

Management fees and performance fees are payable to the Manager pursuant to an amended and restated management agreement dated as of January 1, 2004 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 Discovery Capital Corporation (prior to its wind up) relating to capital raising, governance and shareholder reporting services provided to the Fund by the Manager, as well as miscellaneous office expenses and directors' and officers' insurance, which the Manager or Discovery Capital paid on behalf of the Fund.

As at December 31, 2007, the Fund had invested $2,800,000 (2006 - $2,800,000; 2005 - $1,100,000) in Day4 Energy Inc. John MacDonald, a director of the Fund, is a co-founder, executive officer and a significant shareholder of Day4 Energy Inc.

Discovery Capital also held investments in the following companies at the time the Fund's investment was made and at December 31, 2007 (in respect of beneficial entitlements of Discovery Capital's former shareholders): Vigil Health Solutions Inc., Idelix Software Inc., and Tantalus Systems Corp.

Discovery Capital Corporation held 2,500 Shares of the Fund, purchased in 2002 at a price of $10 per Share. These Shares were redeemed in February 2008 at a redemption price of $9.62.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years. This information is derived from the Fund's audited annual financial statements.

Net Asset Value (NAV) per Share	**2007 (1)**	**2006**	**2005**	**2004**	**2003**
Net Asset Value, beginning of year (1)	$8.28	$8.43	$8.44	$8.55	$1.61
Section 3855 transitional adjustment (2)	0.01				
Increase (decrease) from operations:					
Total revenue	0.30	0.27	0.18	0.20	0.16
Total expenses	(0.43)	(0.41)	(0.48)	(0.48)	(1.18)
Realized gains (losses) for the period	0.04	-	0.13	-	-
Unrealized gains (losses) for the period	2.05	(0.01)	0.24	(0.11)	0.29
Performance fees accrued on unrealized gains	(0.44)	0.05	(0.06)	-	-
Total increase (decrease) from operations (2)	**$1.52**	**$(0.10)**	**$0.01**	**$(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)	**$9.68**	**$8.28**	**$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. This table is not intended to be a reconciliation of the net asset value per share.

(2) In the case of the Fund, the adoption of Section 3855 for financial statement reporting purposes may result in different valuation techniques for certain investments commencing January 1, 2007. For example, for the venture investments of the Fund that are traded in an active market, Section 3855 requires closing bid prices at period-end be used as the basis of valuation, rather than average closing market prices over the preceding 20 trading days as is the policy of the Fund in calculating Pricing Net Asset Value per Share. For financial statement reporting purposes, the provisions of Section 3855 have been applied retroactively, without restatement of prior periods. Accordingly, only the net asset value at the beginning of the year ended December 31, 2007 was required to be adjusted to provide for the transitional adjustment resulting from the adoption of Section 3855 as at January 1, 2007.

Ratios and Supplemental Data	2007	2006	2005	2004	2003
Net assets (000's) (1)	$53,389	$33,144	$28,462	$21,506	$8,283
Number of shares outstanding (1)	5,512,592	4,001,829	3,376,812	2,549,357	968,660
Management expense ratio (2)	7.19%	6.60%	7.99%	12.13%	35.77%
Commissions and other share issue costs	*2.43%*	*1.72%*	*2.46%*	*6.39%*	*26.74%*
Management, administrative and other fees and expenses	*4.76%*	*4.88%*	*5.53%*	*5.74%*	*9.03%*
Expense ratio based on pricing net assets (3)	7.03%	6.23%	7.49%	11.03%	29.81%
Portfolio turnover rate (4)	9.99%	0.00%	9.86%	0.00%	0.00%
Trading expense ratio (5)	0.00%	0.00%	0.02%	0.00%	0.00%
Pricing NAV per Share (1)	$10.00	$8.74	$9.03	$9.15	$9.82

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

(2) Management expense ratio (based on net assets for financial statement reporting purposes) 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 purchases and redeems Shares at Pricing Net Asset Value per Share. Accordingly, the Manager believes that providing the expense ratio based on pricing net assets is informative and better reflects the actual economic experience of shareholders of the Fund.

(4) 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.

(5) 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 Net Asset Value of the Fund up to $100 million and 2.50% of the Pricing Net Asset Value of the Fund in excess of $100 million. In addition, subject to satisfaction of certain conditions, the Manager is paid a performance fee equal to 20% of the realized gains for cash and cash income from each venture investment of the Fund. The conditions which must be satisfied for a performance fee to be paid in respect of any venture investment are that:

(a) the total net realized and unrealized gains and income of the Fund from its portfolio of venture investments since its inception must have generated a return greater than the annualized average rate of return on five year guaranteed investment certificates offered by a major Canadian chartered bank plus 2% per annum;

(b) the compounded annual internal rate of return (including realized and unrealized gains and income) from the venture investment since its acquisition by the Fund must equal or exceed 10% per year; and

(c) the Fund must have fully recouped (by way of disposition proceeds, dividends, interest and otherwise) an aggregate cash amount equal to all principal invested in the venture investment.

This performance fee will be calculated and, subject to applicable SBVCA expense limitations, will be paid quarterly, in arrears. Once paid, any performance fee paid by the Fund will not be refundable by the Manager as a result of a subsequent decline in the unrealized gains on venture investments of the Fund. In the event the Management Agreement is terminated, the Fund will be required to pay, subject to applicable SBVCA expense limitations, such performance fee to the Manager in respect of the quarter in which termination occurs and in respect of the following eight quarters.

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

Past Performance

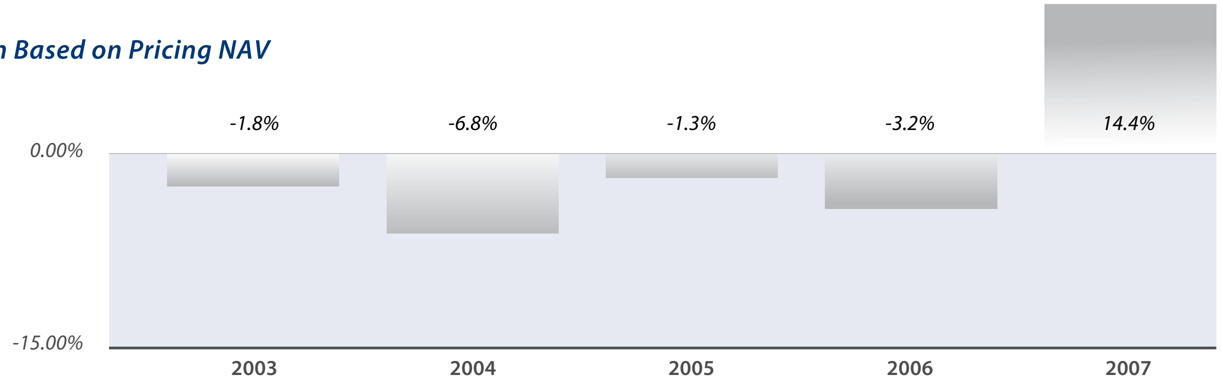
The following bar charts and tables indicate the past performance of the Shares of the Fund and will not necessarily indicate how the Fund will perform in the future. The information does not take into account sales, redemption, distribution or other optional charges payable by any shareholder that would 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 the years 2003 through 2007. 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 LSVCCs and VCCs 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, 2007.

	1 Year Return (Loss)	3 Year Return (Loss)	Return/(Loss) Since Inception (1)
BCDF - GAAP NAV	16.9%	4.7%	(1.0)%
BCDF - Pricing NAV	14.4%	3.0%	0.0%
Globe Peer Index	(1.1)%	(1.0)%	(2.0)%
S&P/TSX Capped Information Technology Index	11.3%	6.1%	21.6%

(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, 2007.

	1 Year Return (Loss)	3 Year Return (Loss)	Return/(Loss) Since Inception (1)
Purchase Price (2)	$8.74	$9.15	$10.00
Tax credit rate	30%	30%	30%
Net capital invested (3)	$6.12	$6.40	$7.00
December 31, 2007 price	$10.00	$10.00	$10.00
Return (excluding tax credit) (4)	14.4%	3.0%	0.0%
Return from tax credit (5)	7.4%	7.4%	7.4%
After tax credit return	**21.8%**	**10.4%**	**7.4%**

(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.

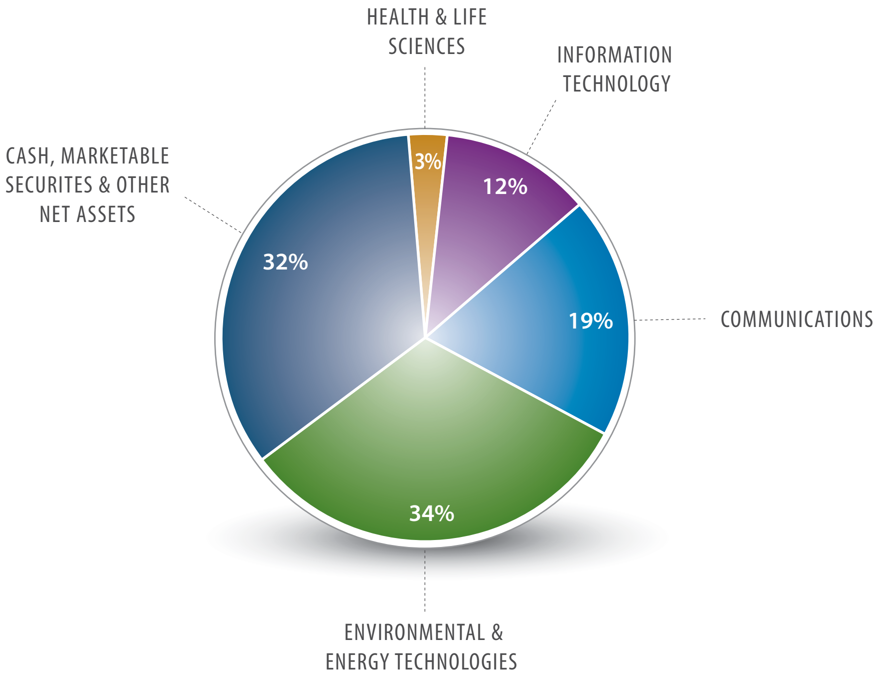
(3) Net capital invested equals the purchase price minus the tax credits received on the purchase. It assumes that the tax credits were fully claimed and allowed at the same time as the purchase was made.

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

(5) The tax credit return element in this note 5 is the return associated with the tax credits only. This is the annual, compound return associated with the increase in the net capital invested over a 5 year period due to the tax credit. 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). When the two return components of notes 4 and 5 are added, the sum is the after tax credit return.

Summary of Investment Portfolio

The following illustrates a portfolio breakdown of the Fund as at December 31, 2007 (based on the net assets of the Fund for financial statement reporting purposes):



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. The Fund's public company investments comprise 20% of net assets and its private company investments comprise 48% of net assets.

The largest holding of the Fund is its investment in publicly-traded Day4 Energy Inc., which constitutes 19% of the net assets of the Fund. The next largest holding is privately-held Tantalus Systems Corp. IDELIX Software, In Motion Technology and Mobidia Technology each constitute between 5% and 10% of the net assets of the Fund. The remaining six investments of the Fund each constitute less than 5% of the net assets of the Fund.

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, 2007, 2006 and 2005, the statement of investment portfolio as at December 31, 2007 and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2007, 2006 and 2005. 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, 2007, 2006 and 2005, the investments held at December 31, 2007 and the results of its operations, changes in net assets and its cash flows for the years ended December 31, 2007, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Vancouver, B.C.
February 25, 2008

STATEMENTS OF NET ASSETS

As at December 31, 2007, 2006 and 2005

	2007	2006	2005
Assets			
Venture investments (note 2)	$ 36,292,090	$ 20,814,715	$ 15,184,580
Marketable securities (note 2)	9,311,631	6,217,551	6,968,047
Funds held in investment protection account (note 4)	5,414,180	3,783,877	4,331,593
Cash	3,706,870	2,112,689	2,249,379
Interest and dividends receivable	949,521	396,727	146,846
Accounts receivable	47,849	-	-
Subscriptions receivable	-	66,975	120,180
Prepaid expenses	8,838	8,354	5,731
Total assets	55,730,979	33,400,888	29,006,356
Liabilities			
Accounts payable and accrued liabilities	125,722	103,076	90,780
Due to related parties (note 8)	139,411	154,093	278,645
Performance fees accrued on unrealized gains (note 5)	2,077,154	-	175,418
Total liabilities	2,342,287	257,169	544,843
Net assets	**53,388,692**	**33,143,719**	**28,461,513**
Shareholders' Equity			
Capital stock (note 6)	47,589,053	34,544,111	29,476,391
Deficit (note 7)	(4,398,004)	(1,907,560)	(1,568,846)
Unrealized gains on investments	10,197,643	507,168	553,968
Total shareholders' equity	**53,388,692**	**33,143,719**	**28,461,513**
Common shares outstanding	**5,515,592**	**4,001,829**	**3,376,812**
Net assets per common share (note 6(b))	**$9.68**	**$8.28**	**$8.43**

Contingency (note 9)

Commitment (note 10)

See accompanying notes to the financial statements

Approved by the Board of Directors

Harry Jaako
Director

John McEwen
Director

STATEMENTS OF OPERATIONS

For the years ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Investment income			
Interest from marketable securities	$ 614,209	$ 525,731	$ 377,855
Interest from venture investments	186,263	172,074	67,631
Dividends from venture investments	597,036	334,299	84,103
Other income	11,430	-	-
Total investment income	1,408,938	1,032,104	529,589
Expenses			
Management fees (notes 5 and 8)	1,282,703	984,707	788,418
Trailer fees (note 2)	214,199	168,529	135,816
Fund administration and transfer agency fees	115,933	106,547	96,431
Performance fees on realized gains (notes 5 and 8)	106,326	-	124,634
Audit and advisory fees	76,761	47,294	47,871
Office expenses and administrative services	76,758	79,136	73,269
Marketing expenses	69,757	72,121	22,014
Directors' and officers' insurance	30,063	26,175	17,587
Shareholder communications	29,821	35,100	29,816
Directors' fees and expenses (note 8)	25,218	25,168	24,668
Legal fees	4,831	1,459	21,755
Total expenses	2,032,370	1,546,236	1,382,279
Net investment loss	**(623,432)**	**(514,132)**	**(852,690)**
Realized gains on venture investments	210,672	-	362,180
Unrealized gains (losses) on investments	9,642,939	(46,800)	686,089
Performance fees accrued on unrealized gains (note 5)	(2,077,154)	175,418	(175,418)
Increase (decrease) in net assets from operations	**7,153,025**	**(385,514)**	**20,161**
Increase (decrease) in net assets from operations per common share (based on weighted average number of shares outstanding)	**$1.52**	**$(0.10)**	**$0.01**

See accompanying notes to the financial statements

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Net assets - Beginning of year	$ 33,143,719	$ 28,461,513	$ 21,505,598
Transitional adjustment to unrealized gain on venture investments, beginning of period, pursuant to adoption of new accounting policy (note 2)	47,536	-	-
Operating activities			
Increase (decrease) in net assets from operations	7,153,025	(385,514)	20,161
Capital transactions			
Proceeds from issuance of common shares	14,119,767	5,617,657	7,590,391
Less: Sales commissions	(832,759)	(280,588)	(379,519)
Other share issue costs	(207,066)	(261,201)	(234,940)
Redemption of common shares	(35,530)	(8,148)	(40,178)
	13,044,412	5,067,720	6,935,754
Increase in net assets	**20,244,973**	**4,682,206**	**6,955,915**
Net assets - End of year	**53,388,692**	**33,143,719**	**28,461,513**

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Cash flows from operating activities			
Increase (decrease) in net assets from operations	$ 7,153,025	$ (385,514)	$ 20,161
Items not affecting cash from operating activities			
Unrealized (gains) losses on investments	(9,642,939)	46,800	(686,089)
Realized gains on venture investments	(210,672)	-	(362,180)
Non-cash investment income	(973)	(245,432)	-
Performance fees accrued on unrealized gains	2,077,154	(175,418)	175,418
Change in accrued interest on marketable securities	18,468	5,141	25,307
Net change in non-cash operating accounts	(526,188)	(311,555)	(18,823)
Net change in investment protection account	(1,613,181)	547,716	1,510,120
Net change in marketable securities	(3,080,567)	745,355	3,371,050
Purchase of venture investments	(8,215,030)	(5,431,503)	(10,877,649)
Proceeds from disposal of venture investments	2,590,672	-	920,581
	(11,450,231)	(5,204,410)	(5,922,104)
Cash flows from financing activities			
Proceeds from issuance of common shares (note 6)	14,119,767	5,617,657	7,590,391
Share issue costs including sales commissions (note 6)	(1,039,825)	(541,789)	(614,459)
Redemption of common shares (note 6)	(35,530)	(8,148)	(40,178)
	13,044,412	5,067,720	6,935,754
Increase (decrease) in cash during the year	**1,594,181**	**(136,690)**	**1,013,650**
Cash - Beginning of year	2,112,689	2,249,379	1,235,729
Cash - End of year	**3,706,870**	**2,112,689**	**2,249,379**
Supplemental cash flow information			
Interest received	$ 863,181	$ 579,335	$ 450,468

See accompanying notes to the financial statements

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2007

MARKETABLE SECURITIES

Issuer	Par $ Value	Maturity Date	Cost $	Estimated Fair Value $
Short-term investments				
Canadian Imperial Bank of Commerce				
Bankers' Acceptance 4.55%	7,018,000	January 11, 2008	6,979,682	7,008,729
Canadian Imperial Bank of Commerce				
Bankers' Acceptance 4.40%	2,308,000	January 18, 2008	2,299,968	2,302,902
Total marketable securities			**9,279,650**	**9,311,631**

VENTURE INVESTMENTS

Investee	Number of Shares / Par $ Value	Expiry Date / Maturity Date	Cost $	Estimated Fair Value $
Public				
Day4 Energy Inc.				
Common shares	1,650,000	-	2,800,000	10,367,940
Vigil Health Solutions Inc.				
Common shares	8,954,286	-	776,800	358,171
Total public venture investments			**3,576,800**	**10,726,111**
Private				
GaleForce Solutions Inc.				
Class B preferred shares	920,775	-	795,833	
Class C preferred shares	350,000	-	350,000	
Idelix Software Inc.				
Series 2 preferred shares	1,800,000	-	530,002	
Series 3 preferred shares	800,000	-	200,000	
10% secured convertible note	$2,151,000	March 31, 2008	2,151,000	
Inimex Pharmaceuticals Inc.				
A1 preferred shares	2,450,020	-	1,000,000	
11% secured convertible note	$300,000	February 15, 2008	300,000	
Carried forward			5,326,835	

STATEMENT OF INVESTMENT PORTFOLIO...*continued*

As at December 31, 2007

VENTURE INVESTMENTS...*continued*

Investee	Number of Shares / Par $ Value	Expiry Date / Maturity Date	Cost $	Estimated Fair Value $
Brought forward			5,326,835	
In Motion Technology Inc.				
Series 1 preferred shares	2,316,274	-	1,167,402	
Series 1 preferred share warrants	1,158,137	March 22, 2010	-	
Series 2 preferred shares	2,512,000	-	1,570,000	
6% secured convertible note	$1,000,000	December 31, 2008	1,000,000	
Mobidia Technology Inc.				
Class A-Series 1 preferred shares	1,590,908	-	1,784,090	
Class A-Series 2 preferred shares	925,926	-	1,250,000	
Common shares	189,118	-	208,030	
8% secured convertible note	$1,000,000	June 30, 2008	1,000,000	
Paradigm Environmental Technologies Inc.				
Class A voting common shares	597,730	-	2,000,003	
Class A voting common share warrants	66,667	December 15, 2008	-	
Rx Networks Inc.				
8% Series A2 preferred shares	3,666,667	-	1,650,000	
Tantalus Systems Corp.				
Common shares	1,690,562	-	3,064,140	
Vivonet Inc. (note 2)				
6% Class B preferred shares	4,280,822	-	1,481,250	
8% convertible note	$1,065,000	March 31, 2008	1,065,000	
Total private venture investments, at cost			22,566,750	
Unrealized gain on private venture investments			2,999,229	
Total private venture investments				**25,565,979**
Total venture investments - at estimated fair value				**36,292,090**
Total investments				**45,603,721**
Other assets - net of liabilities				7,784,971
Net assets				**53,388,692**

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2007, 2006 and 2005

1 Nature of Operations

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

Discovery Capital Management Corp. (the Manager), acts as investment manager to the Fund and assists the Fund in sourcing, selecting and monitoring the Fund's investments.

Common shares of the Fund are offered on a continuous offering basis at the pricing net asset value per common share (Pricing NAV per Share) (see note 6).

2 Significant Accounting Policies

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

Adoption of new accounting standards

On April 1, 2005, The Canadian Institute of Chartered Accountants (CICA), issued Section 3855 - Financial Instruments - Recognition and Measurement. Section 3855, which came into effect on October 1, 2006, is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006 and applies to the Fund for the fiscal year commencing January 1, 2007.

Among other things, Section 3855 requires all financial assets and liabilities to be initially measured at their fair value and to be classified according to their characteristics. Investment companies are exempt from the requirement to classify but are required to record their financial assets and liabilities at fair value.

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

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

The Canadian securities regulatory authorities have granted general relief on an interim basis to investment funds that are reporting issuers from complying with Section 3855, for the purposes of calculating and reporting of net asset value other than for financial statement reporting purposes, until the earlier of September 30, 2008 or the date on which the proposed amendments to NI 81-106 issued by the Canadian securities regulators come into effect. This relief is to permit further reviews of the suitability of these new financial measurement and reporting requirements for other than

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2007, 2006 and 2005

financial statement reporting purposes. Canadian securities regulators have since proposed a permanent solution which is currently in the comment period. However, because the Fund is a venture capital fund that has established Pricing NAV per Share (see note 6 b)) as the price at which common shares will be sold and redeemed by the Fund, management of the Fund believes that only the calculation of net asset value and net asset value per share of the Fund for financial statement reporting purposes will be affected.

In accordance with the decision made by the Canadian securities regulators, the Fund has incorporated adjustments arising from the adoption of Section 3855 in its reconciliation between the net asset value for financial statement reporting purposes and the net asset value for determination of Pricing NAV per Share – see note 6 b). As permitted under Section 3855, the change in accounting policy has been applied retroactively without restatement of prior periods. Accordingly, the opening net asset value at January 1, 2007 in the Statements of Changes in Net Assets has been increased by $47,536 and unrealized gains on investments have been reduced by a corresponding amount.

Use of estimates

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

Marketable securities

Short-term marketable securities are recorded at current market prices based on quotes provided by a recognized investment dealer. Purchases and sales of marketable securities are recorded on a trade date basis.

Venture investments

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

a) Venture investments that are publicly traded securities, and that are not otherwise restricted, are recorded on the basis of the closing bid price at period-end. A reasonable discount to market will normally be used if trading is restricted in any way.

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2007, 2006 and 2005

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

The Black Scholes option pricing model is used to estimate the fair value of warrants and options which are usually not traded in any market.

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

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

Foreign exchange

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

As at December 31, 2007, the Fund held an investment in Vivonet Inc. that is denominated in United States dollars. The unrealized foreign currency loss included in the estimates of fair value of investments denominated in United States dollars on the Statement of Investment Portfolio is $246,125 as at December 31, 2007 (2006 - $24,625; 2005 - $73,375).

Share issuance costs and sales commissions

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

Investment income

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

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

Performance fees

Performance fees become payable to the Manager, subject to satisfaction of certain conditions, on the realized gains for cash and cash income from each venture investment of the Fund. Any amount payable on realized gains for cash and cash income at the financial statement date is recorded as a liability and expense for the Fund in the relevant period. In addition, an accrual is made for performance fees based on the amount that would have been payable had the Fund disposed of its venture investments at their estimated fair value at the year-end date.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2007, 2006 and 2005

Trailer fees

Registered dealers selling shares of the Fund are paid, at the choice of each dealer, either 5.0% of the selling price of each share and a trailer fee; 7.5% of the selling price of each share; or 0.0% of the selling price of each share. For those dealers who have chosen to receive a trailer fee, the Fund pays to each of them 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 common 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, 2007 was 4,699,637 (2006 - 3,757,161; 2005 - 2,895,132). 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 11).

Future accounting changes

The CICA has issued the following new standards which may affect the financial disclosures of the Fund for annual periods effective from January 1, 2008. The Fund will adopt the requirements commencing in the year ended December 31, 2008 and is currently considering their impact.

Section 1535 - Capital Disclosures. This Section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard, the Fund will be required to disclose information about its objectives, policies and processes for managing its capital.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

3 *Financial Instruments*

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

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2007, 2006 and 2005

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

It is the Manager's opinion that the Fund is not exposed to significant interest rate risks arising from these financial instruments. Accounts receivable are subject to normal credit risks. Venture investments representing debt and interest and dividends receivable on venture investments are subject to credit risks and are managed through active review of the venture investment portfolio.

4 Investment Protection Account

Pursuant to the requirements of the SBVCA, a VCC that does not have 80% of its raised equity capital invested in eligible businesses is required to maintain investment protection accounts in amounts equal to 30% of the funds raised. As investments in eligible businesses are subsequently made, a drawdown from the investment protection accounts equal to 37.5% of the investment amount is available. These funds cannot be released without the consent of the administrator of the SBVCA. The amounts in the Fund's investment protection accounts at December 31, 2007, 2006 and 2005 were $5,414,180, $3,783,877, and $4,331,593, respectively.

5 Management Fees and Performance Fees

The Fund has entered into a management agreement with the Manager under which the Manager is paid an annual management fee of 2.75% of the pricing net asset value of the Fund, up to $100 million, plus 2.5% of the pricing net asset value of the Fund in excess of $100 million, calculated and paid monthly in arrears, as well as, subject to satisfaction of certain conditions, a performance fee equal to 20% of realized gains and other cash income from each eligible venture investment of the Fund, calculated and paid quarterly in arrears. The payment of the management fee is subject to expense limitations set out in the SBVCA, including that the Fund not incur, in respect of any year, management fee expenses that exceed 3% of the aggregate equity capital it has raised. Payment of performance fees is also subject to such SBVCA expense limitations as may be applicable.

During 2007, the Manager was paid $106,326 in respect of realized gains on venture investments (2006 - $nil; 2005 - $124,634).

As at December 31, 2007, the Fund recorded a liability of $2,077,154 (2006 - $nil; 2005 - $175,418) in respect of performance fees accrued on unrealized gains, reflecting a provision for fees that would have been payable if the unrealized gains on venture investments had all been realized at that date.

6 Capital Stock

Shareholders of the Fund are entitled to redeem their shares at the Pricing NAV per Share at any time after five years from the original share issue date, or at any time in the case of the death of the owner, or annuitant under a registered plan that was the owner, as the case may be, provided that the Fund is in compliance with the SBVCA at all times and is not otherwise prohibited or restricted under its articles from completing redemption requests. Such prohibitions or restrictions may result in the redemption period applicable to shares exceeding five years.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2007, 2006 and 2005

a) Issued and outstanding

Authorized: 500,000,000 common shares

Issued

	2007		2006		2005	
	Number of Shares	**Amount**	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**
Balance - Beginning of year	4,001,829	$34,544,111	3,376,812	$29,476,391	2,549,357	$22,540,637
Common shares issued	1,517,596	14,119,767	625,910	5,617,657	831,834	7,590,391
Common shares redeemed	(3,833)	(35,000)	(893)	(8,148)	(4,379)	(40,178)
Less: Issue costs						
Sales commissions	-	(832,759)	-	(280,588)	-	(379,519)
Other share issue costs	-	(207,066)	-	(261,201)	-	(234,940)
Balance - End of year	5,515,592	$47,589,053	4,001,829	$34,544,111	3,376,812	$29,476,391

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 8).

b) Pricing of common shares

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

For share pricing purposes, the Fund calculates Pricing NAV per Share by adjusting for the impact of adoption of Section 3855 (note 2) and adding back to its net asset value amounts that would have been deferred and amortized prior to the release in 2003 of CICA Handbook Section 1100. Section 1100 removed industry practice as a source of GAAP and, as a result, for purposes of calculating its net assets per common share, the Fund has recorded share issue costs and sales commissions as a reduction of capital stock and has expensed pre-operating costs incurred prior to July 1, 2003, all of which would previously have been deferred and amortized for accounting purposes.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2007, 2006 and 2005

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

	2007	2006	2005
Net assets in accordance with GAAP as reported	$53,388,692	$33,143,719	$28,461,513
Section 3855 adjustments:			
Change in method for estimating fair value of venture investments			
i) Transitional adjustment to January 1, 2007 balance of net assets	(47,536)		
ii) Adjustment to current period-end balance of net assets	(379,500)		
Change in method for estimating fair value of marketable securities	3,894		
Add:			
Unamortized deferred share issue costs including sales commissions	2,100,391	1,793,085	1,868,339
Unamortized deferred pre-operating costs	14,731	45,199	75,667
Other financial statement adjustments	96,777	2,860	98,174
Pricing net asset value	55,177,449	34,984,863	30,503,693
Common shares outstanding at December 31	5,515,592	4,001,829	3,376,812
Pricing NAV per Share	$10.00	$8.74	$9.03
Net assets in accordance with GAAP per common share	$9.68	$8.28	$8.43

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

i) Transitional adjustment to January 1, 2007 balance of net assets – see note 2 under “Adoption of new accounting standards”.

ii) Adjustment to current period-end balance of net assets – see also note 2 under “Adoption of new accounting standards”. This adjustment arises because, under GAAP, the Fund is now required to estimate the fair value of its publicly-traded venture investments based on the bid price for these securities whereas, under the valuation policies of the Fund used to calculate Pricing NAV per Share, such securities are valued based on the average of their closing prices over the preceding twenty days.

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

The calculation of Pricing NAV per Share assumes that:

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

For the years ended December 31, 2007, 2006 and 2005

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

	2007	2006	2005
Share issue costs			
Balance - Beginning of year	$ 1,793,085	$ 1,868,339	$ 1,745,007
Add:			
Sales commissions	832,759	280,588	379,519
Other share issue costs	207,066	261,201	234,940
Less:			
Amortization	(732,519)	(617,043)	(491,127)
Balance - End of year	2,100,391	1,793,085	1,868,339
Pre-operating costs			
Balance - Beginning of year	$ 45,199	$ 75,667	$ 106,135
Less:			
Amortization of deferred pre-operating costs	(30,468)	(30,468)	(30,468)
Balance - End of year	14,731	45,199	75,667

7 Deficit

	2007	2006	2005
Balance – Beginning of year	$(1,907,560)	$(1,568,846)	$ (902,918)
Net investment loss	(623,432)	(514,132)	(852,690)
Realized gains on venture investments	210,672	-	362,180
Performance fees accrued for unrealized gains	(2,077,154)	175,418	(175,418)
Excess paid on redemption of common shares	(530)	-	-
Balance – End of year	(4,398,004)	(1,907,560)	(1,568,846)

8 Related Party Transactions

The following table summarizes related party fees and expenses payable in respect of the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
Directors' fees and expenses	$ 25,218	$ 25,168	$ 24,668
Management fees	1,282,703	984,707	788,418
Performance fees on realized gains	106,326	-	124,634
Reimbursement of expenses	110,126	101,101	107,569
	1,524,373	1,110,976	1,045,289
Due to related parties	$ 139,411	$ 154,093	$ 278,645

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2007, 2006 and 2005

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

As at December 31, 2007, the Fund had invested \$2,800,000 (2006 - \$2,800,000; 2005 - \$1,100,000) in Day4 Energy Inc. A director of the Fund is a co-founder, executive officer 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, 2007 (in respect of beneficial entitlements of DCC's former shareholders): Vigil Health Solutions Inc., Idelix Software Inc. and Tantalus Systems Corp.

9 Contingency

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

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

As at December 31, 2007, the Fund was required to have invested a minimum of \$27,571,539 in eligible businesses but had only invested \$25,834,458 in eligible businesses as at that date. The Fund received an extension to March 31, 2008 from the administrator of the SBVCA to meet this minimum investment obligation.

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 fee for the provision of these services is calculated on the basis of the number of shareholders of the Fund, subject to a minimum of \$5,500 per month. Total fees payable were to be at least \$258,000; as at December 31, 2007, \$354,477 has been paid. Minimum future payments in accordance with this agreement are as follows:

2008	\$66,000
2009	\$66,000

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2007, 2006 and 2005

11 Income Taxes

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

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

	2007	2006	2005
Non-capital losses carried forward	$ 2,911,000	$ 2,049,000	$ 1,405,000
Share issue costs	755,000	692,000	751,000
Performance fees	969,000	-	84,000
Other	5,000	5,000	4,000
Valuation allowance	(4,640,000)	(2,746,000)	(2,244,000)
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.

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
1,231,000	2015
1,493,625	2026
1,973,522	2027
$6,237,473	

12 Independent Valuation Review

Ernst & Young LLP, the Fund's independent valuator, performed an independent review of the fair value of the Fund's venture investment portfolio at December 31, 2007, as required by the National Instrument 81-106 issued by Canadian Securities Authorities, and reported that the fair value of the venture investment portfolio as determined by the Manager is, in all material respects, reasonable.

13 Comparative Figures

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

CORPORATE OVERVIEW

John McEwen *Dr. John McDonald* *Neil de Gelder* *Dr. Alan Winter* *Harry Jaako*

Officers & Directors

Name	Position	Principal Occupation
JOHN MCEWEN	Director, Chief Executive Officer and Secretary	CEO of Discovery Capital Management Corp.
HARRY JAAKO	Director and President	President of Discovery Capital Management Corp.
NEIL DE GELDER	Director and Chairman	Executive Vice President Stern Partners Inc.; formerly, Partner, Borden Ladner Gervais LLP
DR. JOHN MACDONALD	Director	Chairman and CEO of Day 4 Energy Inc.; 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 Management Corp.

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Fund Code DCC 100, 101 & 104

Fund Manager
Discovery Capital Management Corp.

Administration
The Investment Administration Solution Inc.
330 Bay St., Suite 400
Toronto, Ontario M5H 2S8
Toll Free 877 427 2520
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 as follows:

June 25, 2008 at 2:30PM
Discovery Capital Management Corp.
5th Floor, 1199 W. Hastings St.
Vancouver, B.C.

BC DISCOVERY FUND

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