BC DISCOVERY FUND

Innovation to Commercialization

ANNUAL REPORT

Building BC's Future in Technology | 2009

« 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)
- Mobile technology (wireless and networking solutions)
- New media (websites, social networking and other forms of interactive digital media)
- Health and life sciences (new drug development and technology solutions for the health care industry)
- Clean technology (alternative energy and energy-saving technology solutions)

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

Just like a speed skater that has trained for years to hopefully win a medal, the process of taking the Fund's portfolio companies through the investment cycle to a profitable liquidity event or exit transaction requires good coaching, a lot of training and practice and an appropriate level of funding. The Fund Manager believes that a significant number of our portfolio companies are positioned to perform at the highest levels.

Financial Markets have Improved

Financial markets have recovered and are providing meaningful opportunities for liquidity events for the Fund's venture investment portfolio as well as improving valuations. In 2009, stock market values roared back with a period of record growth; for example, the NASDAQ Composite Index reported one year performance of 45.3% to December 31, 2009. This has helped to generate an increased appetite for IPOs, with technology being a sector of significant interest. M&A activity in the technology sector has also been strong, with notable transactions such as Google's acquisition of venture-backed AdMob for US$750 million. Strong IPO and M&A markets are positive news for the Fund.

Portfolio is Mature

The Fund has previously reported on the strong growth in portfolio company revenues through the 2006 to 2008 period while financial markets sagged. Through 2009, this revenue growth continued throughout the portfolio and, by year's end, ten of the Fund's fifteen portfolio companies were generating significant revenues and are considered by the Manager to be mature later stage investments, where the opportunity for a successful exit by the Fund is enhanced. Potential acquirers and investment bankers have taken notice. Several of the Fund's portfolio companies have been approached with initial expressions of interest and a few of these have engaged investment bankers to assist in evaluating M&A opportunities or financing alternatives. The Manager expects that there will be positive news regarding these opportunities as 2010 progresses.

Valuations are Attractive

In past financial market cycles, the Manager has observed that venture capital valuations and participation in liquidity events typically lags the broader financial markets. The Manager believes this to be the case in the current cycle as 2009 equity financings and M&A activity focused on the financial sector and large-cap issuers. Many market participants are forecasting that 2010 will provide opportunity for venture capital-backed companies to realize value. The Fund's portfolio companies reflect the values at which certain of them were able to complete financings in the recent financial market downturn. As a result, the Manager believes that there is significant opportunity for gains and liquidity in the Fund's portfolio as 2010 unfolds.

Ultimately, the success of the Fund will be measured by profitable liquidity events and exits in the Fund's portfolio that increase the Pricing Net Asset Value of the Fund and provide liquidity to its shareholders. We are optimistic that the Fund will be reporting on such events in the near-term.

Avigilon

INVESTED CAPITAL **$2,500,000**
PRIVATE

Avigilon has developed an industry leading high definition surveillance system. Comprised of a line of multi-megapixel IP cameras, ranging in resolution from 1 to 16 megapixels, and high definition network video recorders that capture and preserve surveillance evidence, the Avigilon High Definition Surveillance System offers a breakthrough in imaging performance to deliver the image quality necessary for the protection of public, commercial and retail facilities, as well as critical assets and infrastructure. Sectors that benefit from the superior performance of Avigilon's high definition surveillance systems include the military, law enforcement, financial institutions and critical infrastructure facilities.

www.avigilon.com

Day4 Energy

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

Day4 Energy was founded in 2001 with the ultimate goal of revolutionizing solar power use in residential, commercial, industrial and utility power generation. The Company designs and manufactures high-performance solar electric modules based on its patented Day4 Electrode technology. The Day4 Electrode produces modules of high power density, increased lifetime and uncompromised aesthetic appearance. Day4 partners with international technology leaders to develop and deliver IEC- and UL-certified solar solutions to customers throughout Europe and North America.

www.day4energy.com

GaleForce Solutions Inc.

INVESTED CAPITAL **$1,213,333**
PRIVATE

GaleForce Solutions is a leading provider of customer relationship management (CRM) software for the financial services industry. GaleForce has leveraged Microsoft Dynamics™ CRM technology to develop these solutions, which are uniquely suited to the daily workflow of client-facing personnel in the financial services industry, including wealth management and multi-family office, retail, commercial and investment banking and capital markets firms. The Company's CRM solutions are deployed worldwide through a network of system integration and reseller partners.

www.galeforcesolutions.com

Gatekeeper Systems Inc.

INVESTED CAPITAL **$2,000,000**
PRIVATE

Founded in 1997, **Gatekeeper Systems** is a technology company focused on developing best in class digital surveillance systems for mobile, military, aerospace, oil and gas and other remote applications. Its brands Gatekeeper® and Viperfish® provide total digital surveillance systems from high resolution optics packages to purpose built digital sensor recorders and application software. Whether providing end to end surveillance solutions or integrating with Lockheed Martin's extreme high resolution cameras, Gatekeeper provides an important component to ground, underwater or air security applications.

www.gatekeeper-systems.com

Inimex Pharmaceuticals Incorporated

INVESTED CAPITAL **$2,206,840**
PRIVATE

Inimex Pharmaceuticals is a clinical stage company focused on the development and commercialization of Innate Defense Regulators (IDRs), novel first in class 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. These products will significantly reduce morbidity and mortality in the rapidly growing population of immune suppressed and elderly patients who are "at-risk" for these disorders. IDR products will also benefit healthcare payors by reducing costs associated with hospitalization.

www.inimexpharma.com

InMotion Technology

INVESTED CAPITAL **$4,854,152**
PRIVATE

In Motion Technology is the leader in mobile networking technologies that connect and manage equipment, information and people in the field. In Motion's patented technology enables people on the road to stay in constant contact, as onboard communications roam seamlessly across wireless networks. It provides organizations with real-time information to manage operations to peak efficiency, allowing individuals to be effective anywhere, any time. Today, In Motion's solutions are used by more than 240 municipal, healthcare, public safety, transportation and utility organizations worldwide. Founded in 2002, In Motion Technology is based in Vancouver, BC.

www.inmotiontechnology.com

INVESTED CAPITAL **$1,338,055**
PRIVATE

Lat49 is a fast-growing location-focused advertising network made up of websites and mobile applications delivering Real Estate, Travel, Health & Fitness, and Local News, Weather and Traffic information. Lat49 provides local and brand advertisers with an interactive medium for delivering geo-targeted display ads to a large and actively engaged user community, based on Lat49's Location Logic ad selection and delivery technology. For mobile and web developers, Lat49 transforms online maps and mobile applications from cost centers into revenue-generating properties.

www.lat49.com

INVESTED CAPITAL **$5,262,500**
PRIVATE

Mobidia provides mobile network operators with a revolutionary software platform that makes mobile data networks more efficient and more profitable by introducing network-edge intelligence. Mobidia's solution increases network efficiency and capacity as well as enhance subscriber and service policy solutions with a transport layer platform approach. The solution seamlessly interfaces with other vendors' optimization, traffic management and policy solutions. This layer-4 transport optimization technology has consistently demonstrated an ability to recover 15 to 30 percent network capacity at peak times on networks across the globe.

www.mobidia.com

INVESTED CAPITAL **$1,900,000**
PRIVATE

MovieSet™ is a leading movie web site providing fans with daily news and content from movies in various stages of production – from green light to distribution. The Company provides producers proprietary turnkey technology to create a dynamic online presence for their movies all the way through the production process, allowing fans to track a movie's progress from green light to release with an active interactive social networking environment layered over actual movie production content. MovieSet™ monetizes its well-identified target audience through advertising and ancillary revenue streams.

www.movieset.com

INVESTED CAPITAL **$1,000,000**
PRIVATE

Navarik is the leader in on-demand software services that automate shipping logistics and physical trade operations in global crude oil, refined products and bulk commodities. Navarik's mission is to create an open standards-based industry network that brings together all parties engaged in the physical movement and trading of maritime cargo to more effectively manage bulk commodities shipped around the globe. Today, many of the world's largest oil companies rely on Navarik to deliver unprecedented insight into information about vessels, cargoes and ports to help determine the organizations they can trust to meet performance expectations.

www.navarik.com

INVESTED CAPITAL **$2,700,005**
PRIVATE

Paradigm Environmental Technologies 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 is modular, and can be easily deployed at existing WWTP facilities. MicroSludge can also be used to process industrial waste, including petrochemical waste and pulp and paper waste.

www.paradigmenvironmental.com

INVESTED CAPITAL **$2,650,000**
PRIVATE

Rx Networks is a mobile positioning technology company that enables enhanced location based services. Its GPStream™ framework of GPS acceleration solutions uniquely reduce GPS wake-up times to mere seconds while improving GPS signal lock in challenging indoor and urban environments. Its new XYBRID™ multi-mode positioning engine uniquely combines Cell-ID, WiFi signals with GPS ephemeris and coarse position aiding to yield fast and ubiquitous positioning for virtually any device. Rx Networks licenses its GPStream and XYBRID solutions to location service providers, semiconductor vendors and mobile device manufacturers to help them deliver a Click'n Go!™ mobile location user experience on any mobile device.

www.rxnetworks.ca

Tantalus

INVESTED CAPITAL **$3,064,140**
PRIVATE

Tantalus provides two-way, real-time data communications networks to monitor and control electric, gas and water utilities. TUNet® – the Tantalus Utility Network – is an end-to-end communications system that operates with both RF and IP-based networks either individually or in a combination network. TUNet unites a utility's applications, making advanced metering, outage management, power quality monitoring, load control, and distribution automation cost-effective and practical throughout both urban and rural service areas. Tantalus' Smart Grid technology is deployed at utilities across the U.S. and Canada determined to manage energy efficiently, cost-effectively and deliver top-tier customer service.

www.tantalus.com

vigil®
HEALTH SOLUTIONS

INVESTED CAPITAL **$1,076,800**
TSX VENTURE:VGL

Vigil offers a proprietary technology platform combining software and hardware to provide comprehensive solutions to the expanding seniors' housing 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,in the latest development, the Vigil Wireless call system. The first to supply dementia specific care technology, Vigil facilitates the highest standard of care for cognitive residents while helping dementia residents enjoy a higher quality of life and greater dignity.

www.vigilhealth.com

VIVONET

INVESTED CAPITAL **$4,539,442**
PRIVATE

Vivonet is a restaurant industry leader in software as a service (SaaS) solutions that enable, acquire and organize millions of transactions every month for customers across Canada and the United States. Vivonet provides Halo™ Secure Web-Based POS, an on-demand enterprise management, point-of-sale (POS), payment processing and performance benchmarking solution. Vivonet's unique ability to aggregate the transaction data created by its customers allows their customers to benchmark their performance against other users and the industry at large – leading to better performance and higher business success rates.

www.vivonet.co

Sector Diversification

CLEAN TECHNOLOGY

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

MOBILE TECHNOLOGY

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

INFORMATION TECHNOLOGY

Avigilon Corp.
GaleForce Solutions Inc.
Gatekeeper Systems Inc.
Navarik Corp.
Vivonet Inc.

NEW MEDIA

Lat49 Media Inc.
MovieSet Inc.

HEALTH & LIFE SCIENCES

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

MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

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 #570 – 1285 West Pender Street, Vancouver, B.C. V6E 4B1; 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; mobile technology; new media; health and life sciences; and clean technology.

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.

Key elements of the Fund's strategy have been to invest in globally competitive small businesses, with technology, products or services seen to be unique and to have the potential for wide scale industry acceptance, and one or more products or services nearing or at the commercial phase. The Manager is an active partner on behalf of the Fund and works closely with portfolio companies in the development of business strategies, assembly of management teams and boards of directors, identification and pursuit of strategic partners, execution of business plans, and securing follow-on funding from a variety of sources.

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.

As discussed under "Recent Developments" below, the credit crisis and global economic slow-down which commenced in the latter part of 2008 has adversely impacted the Fund and its portfolio investments. 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 2010 prospectus.

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 will likely be longer than five years from the date of investment. The Fund has suspended redemptions since December 2008 and the Manager cannot predict the date on which the Fund will re-commence redeeming its Shares. See also "Recent Developments" below.

Competition for Funds and Ability to Raise Equity Capital

The Fund faces competition from other capital providers, including other funds that provide tax incentives, for funds for investment in eligible small businesses. This competition may limit the Fund's investment resources and thereby restrict the Fund's ability to make investments in eligible small businesses. 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. Proceeds from share issuances are the only source of capital to the Fund. Flows of capital into venture capital funds such as the Fund have been adversely impacted by the global economic recession. See also "Recent Developments" below.

Nature of Investments and Sources of Cash

Investments in early-stage technology businesses are inherently extremely risky. The Fund's sources of cash flow are substantially dependent upon the success of the eligible small businesses in which it invests. To the extent that these businesses do not provide cash returns to the Fund, the Fund may not be able to redeem Shares. Further, as these businesses mature, they 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.

Valuation

The net assets 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 the privately-held companies in its investment portfolio is based on inherent uncertainties and the resulting values may differ from values that would have been used had a liquid market existed for these investments.

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 was authorized under the SBVCA to issue up to $13 million of its Shares in each of the periods commencing January 1 and ending February 15, 2010, 2011 and 2012. Effective June 10, 2009, equity capital authorizations to retail venture capital funds in British Columbia were restructured, such that the authorization of the Fund was reduced to $10 million in each of the aforementioned periods, with the ability to access up to an additional $16 million pool of authorization available to all such retail venture capital funds on a "first-come, first-served" basis, once each fund meets its annual authorization limit.

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, 2009

Pricing Net Asset Value per Share (the price at which the Fund sells and redeems its common shares) was $6.94 at December 31, 2009, a decrease of 11.5% over the year. This decrease is primarily attributable to realized and unrealized losses of $1.78 million and $1.72 million, respectively, on the estimated fair value of the Fund's venture investments, as explained below under "Operating Results".

Sales of Shares were $4.7 million in 2009, compared to $6.2 million in 2008 and $14.1 million in 2007. The lingering effects of the credit crisis and global economic slow-down which commenced in 2008 have adversely impacted the Fund's ability to sell Shares, as they have for many other venture capital funds seeking to raise capital for investment in early-stage, high-risk technology businesses.

In 2008, the Fund commenced redemptions, as Shares sold in early 2003 became eligible for redemption after the minimum required five-year period had elapsed. The Fund paid out $5.2 million in redemptions during 2008, and suspended redemptions in late December 2008. See also "Recent Developments" below.

Net Assets

Net assets for financial statement reporting purposes were $41,981,212 at December 31, 2009, a decrease of $403,916, or 1.0% from net assets of $42,385,128 at December 31, 2008. The decrease in net assets is the net result of the negative impacts of a loss of $4,485,279 from operations (see "Operating Results" below) and redemptions paid out of $142,525, offset by proceeds from sales of Shares during 2009 of $4,223,888, net of share issue costs. (Note that net assets for financial statement reporting purposes are presented in accordance with Canadian generally accepted accounting principles (GAAP) which differs from the net asset value for pricing purposes (Pricing Net Asset Value per Share) discussed in the preceding section. See disclosure in "Financial Highlights" below for additional discussion as to the nature of this difference.)

Operating Results

Net assets from operations decreased by $4,485,279 for the year ended December 31, 2009, compared to a decrease of $11,414,715 for the year ended December 31, 2008.

The decrease in net assets from operations in 2009 includes realized losses of $1,780,847 and a bad debt expense of $368,390, both of which are related to the Fund's former investment in privately-held portfolio company **Idelix Software Inc.** ("Idelix") which, in May 2009, was placed into receivership. In June 2009, the remaining assets of Idelix, which essentially comprised a business undertaking called "Lat49", an on-line advertising platform technology, were sold by the receiver to a new company called **Lat49 Media Inc.** ("Lat49"). As a result of this sale, Idelix had no further business undertaking or assets, and the Fund wrote off $368,390 of unpaid interest accrued by the Fund on its security holdings of Idelix. Effective July 15, 2009, the Fund acquired an equity interest of approximately $1.4 million in Lat49 as a result of the Idelix receivership process and sale of assets and by participating in an equity financing completed by Lat49.

The decrease in net assets from operations also included unrealized losses on investments of $1,716,552 which are mainly attributable as follows:

» unrealized losses of $918,198 on privately-held portfolio company **Tantalus Systems Corp**. and of $585,607 on privately-held portfolio company **Paradigm Environmental Technologies Inc.** as a result of those companies raising equity funds at lower valuations; and

» an unrealized loss of $475,000 on privately-held portfolio company **MovieSet Inc.** due to the Manager's assessment that MovieSet had not met certain business milestones, which had impaired the estimated fair value of the Fund's investment.

The decrease in net assets from operations in 2008 was mainly attributable to a decline of approximately $8.93 million in the estimated fair value of publicly-traded portfolio company **Day4Energy Inc.**, which was caught-up in the significant downturn in the global solar photovoltaic industry in the latter part of 2008, and a write down by the Manager of approximately $3.1 million in the estimated fair value of **Tantalus Systems Corp.** as a result of adverse developments in the business of that company related to defects in a third-party manufactured component in its product.

Other factors affecting changes in net assets from operations in 2009 as compared to 2008 are explained as follows:

» Total investment income was $1,278,857 in 2009, lower than total investment income of $1,563,170 in 2008. Accrued dividends and interest from venture investments were $1,256,010 in 2009, an increase over $1,151,142 in 2008; however, interest income from marketable securities of $22,847 was substantially lower than the $412,028 earned in 2008 due to lower balances of cash and marketable securities.

  Offsetting the decline in investment income, total expenses in 2009, excluding the bad debt expense, were $1,898,347, lower by $321,345 (14%) over total expenses of $2,219,692 in 2008. Management and trailer fees were both lower, as they reflected the decreased pricing net asset value of the Fund between the two years. Combined other expenses were $517,304 in 2009, a decrease of $73,912 from combined other expenses of $591,216 in 2008.

As a result, the net investment loss of $619,490 in 2009 (before the $368,390 bad debt expense explained under "Operating Results" above) was lower than the net investment loss of $656,522 in 2008.

» There was no increase or decrease in the performance fee accrual in 2009, as there was no change in the accounting accrual made for performance fees payable at the beginning and end of the year (nil balance at each date). By contrast, in 2008, there was a decrease of $2,077,154 in the performance fee accrual on unrealized gains from venture investments, which had the effect of increasing net assets from operations by this amount during that year. This accounting accrual is made at each valuation date for performance fees that would be payable if unrealized gains on venture investments were to be realized at that date. Almost all of the accrual that existed at December 31, 2008 related to the Fund's investment in common shares of Day4 Energy Inc. which, as explained earlier in this Report, declined materially in value during 2008. As explained under "Management Fees" below, performance fees are only paid out upon achievement of certain conditions.

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

Investments and Investment Activities

During 2009, the Fund made cash investments of $3,321,731 into six existing portfolio companies and one new eligible small business – Lat49 Media Inc. At December 31, 2009, the Fund's portfolio was comprised of venture investments in fifteen emerging technology companies, diversified across its targeted technology sectors. Thirteen of the Fund's investments at December 31, 2009 were in privately-held companies, representing 95% of the total estimated fair value of the Fund's venture investment portfolio at that date.

The Fund's asset mix at December 31, 2009 was 83% in venture investments and 17% in cash, marketable securities and other net assets – see "Summary of Investment Portfolio" below.

SBVCA Allocation and Commitment

The Fund was authorized under the SBVCA to issue up to $13 million of its Shares in each of the periods commencing January 1 and ending February 15, 2010, 2011 and 2012, respectively. Effective June 10, 2009, equity capital authorizations to retail venture capital funds in British Columbia were restructured, such that the authorization of the Fund was reduced to $10 million in each of the aforementioned periods, with the ability to access up to an additional $16 million pool of authorization available to all such retail venture capital funds on a "first-come, first-served" basis, once each fund meets its annual authorization limit.

Typically, a substantial portion of the sale of Shares occurs between the months of September and February. As at February 15, 2010, the Fund had sold approximately $3.4 million of its $10 million allocation ending on that date.

The Fund was required to have invested approximately $6.7 million to fulfill its minimum investment obligations for 2009, of which it had invested approximately $3.3 million as at December 31, 2009. The Fund received relief from this requirement until at least March 2010. The Manager has estimated that the Fund is required to invest a further approximately $4.2 million in 2010 to fulfill its minimum investment obligations for 2010.

Recent Developments

Impact of Market Conditions on Fund Liquidity and Ability to Raise Equity Capital

The effects of the credit crisis of 2008 and 2009 and resulting global economic slow-down have negatively impacted the Fund in several respects. Throughout 2009, valuations of early-stage technology companies were generally lower than the period before the economic downturn and exit opportunities (i.e. merger and acquisition or "going public" transactions) were generally unavailable. As well, retail investors seemed to remain cautious about higher-risk, longer-term investment commitments such as an investment in the Fund. This combination of circumstances has resulted in a slower pace of sales of Shares in 2009 and reduced liquidity for the Fund.

In spite of the adverse economic environment, several of the Fund's portfolio companies achieved record revenue and other positive business milestone targets in 2009. The Manager is optimistic that the Fund's portfolio is well-positioned to take advantage of exit opportunities as market conditions improve, and certain portfolio companies have entered into the initial stages of potential exit transactions. Since ten of the Fund's fifteen portfolio companies generate revenues, the requirement for additional or follow-on investment in most of the Fund's portfolio companies has been reduced in aggregate. The Manager continues to work closely with its portfolio investments, particularly with its privately-held investments, to ensure their viability and ultimate success.

Redemptions Update

Pursuant to the requirements of the SBVCA, the sources of funds available to the Fund to meet redemption requests are investment income from investments, realized portfolio gains and "mature investments" in accordance with the SBVCA, which are essentially portfolio investments that have been held by the Fund for the minimum required five-year time period. **On December 19, 2008, the Fund announced that it had satisfied approximately $5.2 million of redemption requests in 2008, which were all of the funds it had available to satisfy redemption requests up until that time, and had suspended redemptions.** Such redemptions satisfied by the Fund represented 610,862 of approximately 968,000 Shares issued in December 2002 and in 2003 the holders of which had become eligible during 2008 to request redemption of their Shares. During 2009, holders of an additional approximately 1.58 million Shares issued in 2004 became eligible to request redemption of their Shares, none of which Shares were redeemed, as the Fund has continued to suspend redemptions. During 2010, holders of an additional approximately 830,000 Shares issued in 2005 will also become eligible to request redemption of their Shares.

The ability of the Fund to meet Redemption Requests in any year is dependent upon a number of factors which are highly variable and difficult to predict. These include, principally, the performance of the Fund's venture capital investments and the rate at which they mature, including the timing of the Fund's ability to enter into and exit those investments and the amount of gain or loss that the Fund realizes on those investments.

The Fund will have in excess of $13.0 million of "maturing" investments in 2010 (meaning those investments which have been held for the required length of time pursuant to the SBVCA and are no longer subject to prescribed investment requirements). However, the primary means by which the Fund will be able to meet unsatisfied redemption requests is through the Fund being able to exit portfolio investments and realize gains on those investments. The Manager continues to work diligently to achieve liquidity and profitable realizations; however, the timing and success of these realizations is typically out of the direct control of the Manager.

There is consequently no assurance that the Fund will be in a position to redeem Shares in any year. Therefore, **shareholders and investors are cautioned that the redemption period applicable to Shares purchased by them may, for practical purposes, be longer than five years and they should expect to hold their Shares for longer than five years. The Fund cannot predict the date on which it will re-commence redeeming its Shares.**

Adoption of New Accounting Standards

In 2008, the Fund adopted Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation issued by the CICA, with no impact on the recognition or measurement of the Fund's financial instruments. These standards provide disclosure and presentation requirements pertaining to the nature and extent of risks arising from financial instruments and how those risks are managed. The Fund also adopted Section 1535 – Capital Disclosures, requiring disclosure of information pertaining to an entity's capital and how it is managed, with no impact on the Fund's results of operations or net assets.

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

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

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

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

This adoption in 2009 had no impact on the recognition or measurement of the Fund's financial instruments.

Future Accounting Change

The Canadian Accounting Standards Board has confirmed that publicly accountable enterprises, which include investment funds and other reporting issuers, will be required to use International Financial Reporting Standards (IFRS) in 2011, in replacement of Canadian generally accepted accounting principles. The implementation of IFRS will apply to the Fund's interim and annual financial statements effective January 1, 2011, including the restatement of comparative amounts for 2010.

The Manager cannot determine the full impact of the adoption of IFRS on the Fund's financial statements, partly because there are certain areas where requirements under IFRS remain under review as at December 31, 2009. Financial statement presentation will be altered and potentially expanded and note disclosure will likely be significantly increased. The Fund will incur additional audit and advisory fees as a result of the adoption of IFRS resulting in an adverse impact on Pricing NAV per Share. However, as at December 31, 2009, the Manager is not able to quantify the extent of this impact.

Related Party Transactions

The following table summarizes related party fees and expenses payable in respect of the years ended December 31, 2009 and 2008.

	2009	2008
Directors' fees and expenses	$ 41,911	$ 45,723
Management fees	1,193,659	1,401,035
Performance fees	-	-
Reimbursement of expenses	84,637	99,913
Total related party fees and expenses	**$ 1,320,207**	**$ 1,546,671**

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 relating to capital raising, governance and shareholder reporting services provided to the Fund by the Manager, as well as miscellaneous office expenses and directors' and officers' insurance, which the Manager paid on behalf of the Fund.

As at December 31, 2009, the Fund had invested $2,800,000 (2008 - $2,800,000) 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 Corporation (the former parent company of the Manager which had directors and officers common to the Fund) also held investments in the following companies at the time the Fund's investment was made and at December 31, 2009 (in respect of beneficial entitlements of Discovery Capital's former shareholders): Vigil Health Solutions Inc. and Tantalus Systems Corp.

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.

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

(1) This information is derived from the Fund's audited annual financial statements. The net assets per share presented in the financial statements differs from the net asset value calculated for fund pricing purposes (Pricing NAV per Share). An explanation of these differences can be found in note 6 to the financial statements. Differences are mainly due to deferred share issue costs being included in the Fund's Pricing NAV per Share and the Fund using average closing market prices over the preceding twenty trading days to estimate the value of its publicly-traded portfolio investments for Pricing NAV per Share instead of the closing bid prices at period-end required for the financial statements.

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

(3) The Fund adopted Section 3855, Financial Instruments – Recognition and Measurement of the *CICA Handbook - Accounting* effective January 1, 2007, applying its provisions retroactively, without restatement of prior periods. Accordingly, only net assets at the beginning of the year ended December 31, 2007 was required to be adjusted to provide for the transitional adjustment resulting from the adoption of Section 3855 as at January 1, 2007.

Ratios and Supplemental Data	2009	2008	2007	2006	2005
Total net asset value (000's) (1)	$43,082	$43,880	$55,177	$34,985	$30,504
Number of shares outstanding (1)	6,210,663	5,593,942	5,515,592	4,001,829	3,376,812
Management expense ratio (2)	6.19%	5.33%	7.03%	6.23%	7.49%
Bad debt expense	*0.83%*	-	-	-	-
Commissions and other share issue costs	*1.07%*	*1.02%*	*2.38%*	*1.62%*	*2.31%*
Management, administrative and other fees and expenses	*4.29%*	*4.31%*	*4.65%*	*4.61%*	*5.18%*
Trading expense ratio (3)	0.00%	0.00%	0.00%	0.00%	0.02%
Portfolio turnover rate (4)	3.44%	0.00%	10.00%	0.00%	9.86%
Pricing NAV per Share (1)	$ 6.94	$ 7.84	$ 10.00	$ 8.74	$ 9.03

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

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of weekly average net asset value during the period, which is the basis for determining the Pricing Net Asset Value per Share of the Fund.

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

(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, and the greater the chance of an investor receiving taxable gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

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

Management Fees

The Manager is paid an annual management fee equal to 2.75% of the Pricing Net Asset Value of the Fund up to $100 million and 2.50% of the Pricing Net Asset Value of the Fund in excess of $100 million. 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.

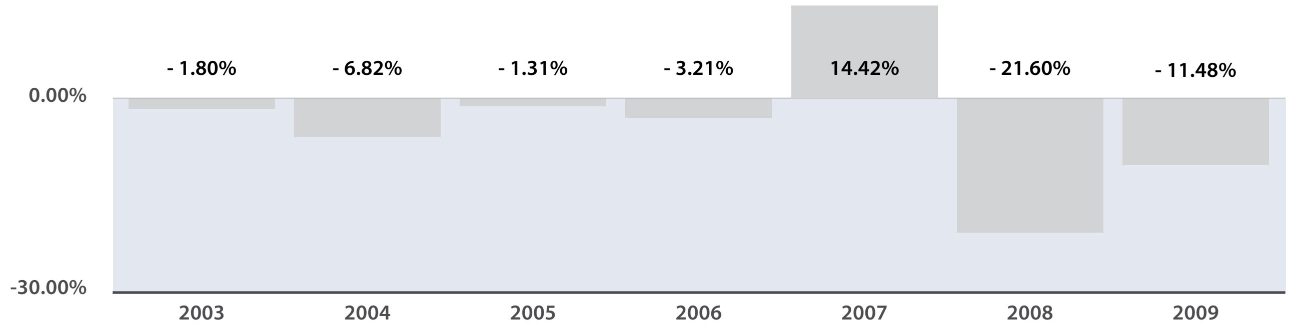
Past Performance

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 2009. 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 Pricing NAV per Share



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.tmx.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, 2009.

	1 Year Return (Loss)	3 Year Return (Loss)	5 Year Return (Loss)	Return/(Loss) Since Inception (1)
BCDF - Pricing NAV	(11.5)%	(7.4)%	(5.4)%	(5.1)%
Globe Peer Index	(5.1)%	(7.2)%	(4.7)%	(4.3)%
S&P/TSX Capped Information Technology Index	53.5%	(4.7)%	(1.5)%	9.2%

(1) Inception is considered to be January 1, 2003. The Fund was incorporated on November 6, 2002 and offered its Shares at a price of $10.00 per Share until July 1, 2003.

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, 2009.

	1 Year Return (Loss)	3 Year Return (Loss)	5 Year Return (Loss)	Return/(Loss) Since Inception (1)
Purchase Price (2)	$7.84	$8.74	$9.15	$10.00
Tax credit rate	30%	30%	30%	30%
Net capital invested (3)	$5.49	$6.12	$6.41	$7.00
December 31, 2009 price	$6.94	$6.94	$6.94	$6.94
Return (excluding tax credit) (4)	(11.5)%	(7.4)%	(5.4)%	(5.1)%
Return from tax credit (5)	7.4%	7.4%	7.4%	5.2%
After tax credit return	**(4.1)%**	**0.0%**	**2.0%**	**0.1%**

(1) Inception is considered to be January 1, 2003. The Fund was incorporated on November 6, 2002 and offered its Shares at a price of $10.00 per Share until July 1, 2003.

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

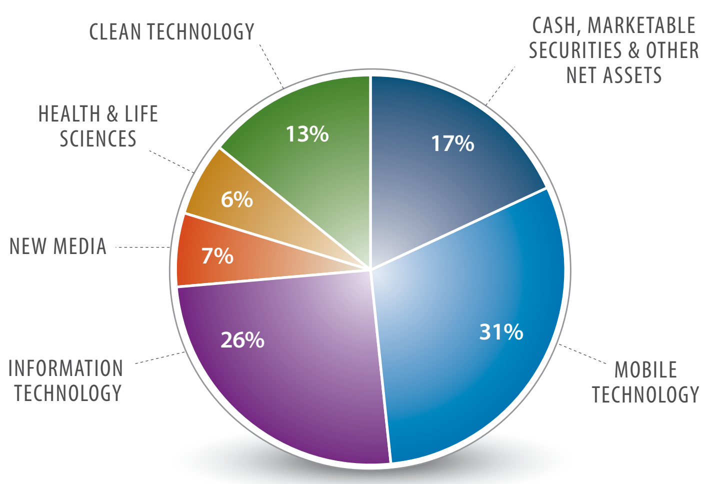
(3) Net capital invested equals the purchase price minus the tax credits received on the purchase. It assumes that the tax credits were fully claimed and allowed at the same time as the purchase was made.

(4) This is the annual, compound return associated with the increase (decrease) 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, except in the case of calculating this return since inception where the annual, compound return is calculated for the period since inception. 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 or the period since inception. For example, in the "5 Year Return" column, the $6.41 net capital invested would grow to a redemption claim on the full purchase price of $9.15 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, 2009 (based on net assets of the Fund):



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

The Fund has positions in fifteen portfolio companies, thirteen of which are privately-held and two of which are publicly-trading. The Fund's privately-held investments comprise 79% of net assets and its public company investments comprise 4% of net assets.

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

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.** (the "Fund") as at December 31, 2009 and 2008, the statement of investment portfolio as at December 31, 2009, and the statements of operations, changes in net assets and cash flows for the years then ended. 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, 2009 and 2008, the investments of the Fund as at December 31, 2009, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada,
February 4, 2010.

STATEMENTS OF NET ASSETS

As at December 31, 2009 and 2008

	2009	2008
Assets		
Venture investments (note 2)	$ 34,750,956	$ 34,816,561
Marketable securities (note 2)	-	2,016,947
Funds held in investment protection account (note 4)	3,162,720	3,232,999
Cash	1,741,415	864,780
Interest and dividends receivable	2,445,348	1,697,184
Accounts receivable	69,627	66,631
Subscriptions receivable	27,550	-
Prepaid expenses	6,838	7,288
Total assets	42,204,454	42,702,390
Liabilities		
Accounts payable and accrued liabilities	107,369	128,694
Due to related parties (note 8)	115,873	188,568
Total liabilities	223,242	317,262
Net assets, representing shareholders' equity (note 7)	**41,981,212**	**42,385,128**
Common shares outstanding	**6,210,663**	**5,593,942**
Net assets per common share (note 6(b))	**$ 6.76**	**$ 7.58**

Contingency (note 10)
Commitment (note 11)

See accompanying notes to the financial statements

Approved by the Board of Directors

Harry Jaako
Director

John McEwen
Director

STATEMENTS OF OPERATIONS

For the years ended December 31, 2009 and 2008

	2009	2008
Investment income		
Dividends from venture investments	$ 993,333	$ 739,338
Interest from venture investments	262,677	411,804
Interest from marketable securities	22,847	412,028
Total investment income	1,278,857	1,563,170
Expenses		
Management fees (notes 5 and 8)	1,193,659	1,401,035
Bad debt (note 9)	368,390	-
Trailer fees (note 2)	187,384	227,441
Fund administration and transfer agency fees	114,388	122,830
Office expenses and administrative services	109,187	116,192
Goods and services tax	79,118	91,930
Audit and advisory fees	73,885	97,435
Directors' fees and expenses (note 8)	41,911	45,722
Marketing expenses	40,038	55,631
Shareholder communications	29,481	31,824
Directors' and officers' insurance	22,950	25,850
Legal fees	6,346	3,802
Total expenses	2,266,737	2,219,692
Net investment loss	**(987,880)**	**(656,522)**
Realized losses on venture investments	(1,780,847)	-
Unrealized losses on investments	(1,716,552)	(12,835,347)
Decrease in performance fee accrual (note 5)	-	2,077,154
Decrease in net assets from operations	**(4,485,279)**	**(11,414,715)**
Decrease in net assets from operations per common share (based on weighted average number of shares outstanding)	**$ (0.76)**	**$ (2.02)**

See accompanying notes to the financial statements

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31, 2009 and 2008

	2009	2008
Net assets - Beginning of year	$ 42,385,128	$ 53,388,692
Operating activities		
Decrease in net assets from operations	(4,485,279)	(11,414,715)
Capital transactions		
Proceeds from issuance of common shares	4,697,864	6,171,767
Less: Sales commissions	(283,255)	(337,585)
Other share issue costs	(190,721)	(186,375)
Redemption of common shares	(142,525)	(5,236,656)
	4,081,363	411,151
Decrease in net assets	(403,916)	(11,003,564)
Net assets - End of year	**41,981,212**	**42,385,128**
Unrealized gains (losses) on investments		
Unrealized gains (losses) – Beginning of year	(2,637,704)	10,197,643
Change during the period	(1,716,552)	(12,835,347)
Unrealized losses – End of year	**(4,354,256)**	**(2,637,704)**

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2009 and 2008

	2009	2008
Cash flows used in operating activities		
Decrease in net assets from operations	$ (4,485,279)	$ (11,414,715)
Items not affecting cash from operating activities		
Unrealized losses on investments	1,716,552	12,835,347
Realized losses on venture investments	1,780,847	-
Non-cash investment income	(116,750)	(403,479)
Decrease in performance fee accrual on unrealized gains	-	(2,077,154)
Net change in non-cash operating accounts	(872,280)	(712,766)
Net change in investment protection account	68,677	2,165,716
Net change in marketable securities	2,013,137	7,266,513
Purchase of venture investments	(3,321,731)	(10,912,703)
Proceeds from disposal of venture investments	12,099	-
	(3,204,728)	(3,253,241)
Cash flows from financing activities		
Proceeds from issuance of common shares (note 6)	4,697,864	6,171,767
Share issue costs including sales commissions (note 6)	(473,976)	(523,960)
Redemption of common shares (note 6)	(142,525)	(5,236,656)
	4,081,363	411,151
Increase (decrease) in cash during the year	876,635	(2,842,090)
Cash - Beginning of year	864,780	3,706,870
Cash - End of year	**1,741,415**	**864,780**
Supplemental cash flow information		
Interest received	$ 162,303	$ 584,085

See accompanying notes to the financial statements

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2009

VENTURE INVESTMENTS

Investee	Number of Shares / Par $ Value	Expiry Date / Maturity Date	Cost $	Estimated Fair Value $
Public				
Day4 Energy Inc.				
Common shares	1,650,000	-	$ 2,800,000	$ 1,221,000
Vigil Health Solutions Inc.				
Common shares	14,954,286	-	1,076,800	373,857
Common shares warrants	3,000,000	January 30, 2010	-	-
Total public venture investments			**3,876,800**	**1,594,857**
Private				
Avigilon Corp.				
6% Class A preferred shares	2,500,000	-	2,500,000	
GaleForce Solutions Inc.				
8% Class B preferred shares	920,775	-	795,833	
12% Class C preferred shares	350,000	-	350,000	
12% secured convertible note	$ 67,500	March 24, 2010	67,500	
Gatekeeper Systems Inc.				
Class A preferred shares	5,405,405	-	2,000,000	
Inimex Pharmaceuticals Inc. (note 3)				
8% Series A1 preferred shares	277,819	-	1,000,000	
8% Series B1 preferred shares	458,212	-	1,206,840	
In Motion Technology Inc.				
6% Series 1 preferred shares	2,316,274	-	1,167,402	
Series 1 preferred share warrants	1,158,137	March 22, 2010	-	
6% Series 2B preferred shares	2,512,000	-	1,570,000	
6% Series 2C preferred shares	4,532,186	-	2,116,750	
Lat49 Media Inc.				
6% Class A preferred shares	3,499,234	-	699,847	
6% Class B preferred shares	3,191,041	-	638,208	
Carried forward			$14,112,380	

STATEMENT OF INVESTMENT PORTFOLIO...continued

As at December 31, 2009

VENTURE INVESTMENTS...*continued*

Investee	Number of Shares / Par $ Value	Expiry Date / Maturity Date	Cost $	Estimated Fair Value $
Brought forward			$14,112,380	
Mobidia Technology Inc.				
Class A-Series 1 preferred shares	1,590,908	-	1,784,090	
Class A-Series 2 preferred shares	925,926	-	1,250,000	
Class A-Series 3 preferred shares	1,626,324	-	1,788,957	
Common shares	519,721	-	439,452	
MovieSet Inc.				
Class A-1 preferred shares	2,954,255	-	1,500,000	
8% convertible note	$ 400,000	On demand	400,000	
Class A-1 preferred share warrants	123,093	June 8, 2019	-	
Class A-1 preferred share warrants	73,856	October 20, 2019	-	
Navarik Corp.				
Common shares	1,149,425	-	1,000,000	
Common share warrants	1,149,425	March 26, 2010	-	
Paradigm Environmental Technologies Inc.				
Class A voting common shares	856,684	-	2,700,005	
Class A voting common share warrants	186,667	December 15, 2010	-	
Rx Networks Inc.				
8% Series A2 preferred shares	5,888,889	-	2,650,000	
Tantalus Systems Corp.				
Common shares	1,690,562	-	3,064,140	
Vivonet Inc. (note 3)				
6% Class B preferred shares	4,280,822	-	1,481,250	
6% Class C preferred shares	5,847,382	-	1,736,462	
10% promissory notes	$ 974,000	On demand	974,000	
10% convertible note	$ 347,730	May 12, 2012	347,730	
Total private venture investments, at cost			35,228,466	
Unrealized loss on private venture investments			(2,072,367)	
Total private venture investments				**33,156,099**
Total venture investments - at estimated fair value				**34,750,956**
Other assets, net of liabilities				**7,230,256**
Net assets				**41,981,212**

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

1 Nature of Operations

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

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

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

2 Significant Accounting Policies

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

Adoption of new accounting standards

a) Section 3862 – *Financial Instruments – Disclosures* and Section 3863 – *Financial Instruments – Presentation*

The CICA issued Section 3862 – *Financial Instruments – Disclosures* and Section 3863 – *Financial Instruments – Presentation* to enhance the disclosure requirements and carrying forward unchanged the presentation requirements pertaining to the nature and extent of risks arising from financial instruments and how those risks are managed. These standards were adopted by the Fund in 2008, with no impact on the recognition or measurement of the Fund's financial instruments.

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

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

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

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

See note 13 – Risks associated with financial instruments.

b) Section 1535 - *Capital Disclosures*

The CICA also issued Section 1535 – *Capital Disclosures* requiring disclosure of information pertaining to an entity's capital and how it is managed. This standard was adopted by the Fund in 2008, with no impact on the Fund's results of operations or net assets.

See note 14 – Capital disclosure.

Use of estimates

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

Venture investments

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

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

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

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

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

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

Marketable securities

Marketable securities are highly liquid short-term interest-bearing securities with maturity dates of less than 90 days at inception and are recorded at current market prices based on quotes provided by a recognized investment dealer. Purchases and sales of marketable securities are recorded on a trade date basis.

Foreign exchange

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

Share issuance costs and sales commissions

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

Investment income

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

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

Transaction Costs

Transaction costs, such as commissions, incurred in the purchase and sale of investments, are recorded as an expense in the Statements of Operations as required under Section 3855 - *Financial Instruments - Recognition and Measurement* effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. 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.

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.

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 12 – Income taxes).

Future accounting change

The Canadian Accounting Standards Board has confirmed that publicly accountable enterprises, which include investment funds and other reporting issuers, will be required to use International Financial Reporting Standards (IFRS) in 2011, in replacement of GAAP. The implementation of IFRS will apply to the Fund's interim and annual financial statements effective January 1, 2011, including the restatement of comparative amounts for 2010.

The Manager cannot determine the full impact of the adoption of IFRS on the Fund's financial statements, partly because there are certain areas, such as the requirement to consolidate investments, where requirements under IFRS remain under review as at December 31, 2009. Financial statement presentation will be altered and potentially expanded and note disclosure will likely be significantly increased. The Fund will incur additional audit and advisory fees as a result of the adoption of IFRS resulting in an adverse impact to Pricing NAV per Share. However, as at December 31, 2009, the Manager is not able to quantify the extent of this impact.

3 *Financial Instruments*

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

The following table sets out the hierarchy of the fair values of the venture investments of the Fund as at December 31, 2009 based on the following criteria:

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

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

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

	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Venture investments				
Public venture investments (listed equity securities)	1,594,857	-	-	1,594,857
Private venture investments	-	-	33,156,099	33,156,099
	1,594,857	**-**	**33,156,099**	**34,750,956**

The following table sets out a reconciliation of all movements in the fair value of the venture investments categorized within Level 3 between January 1 and December 31, 2009.

Private venture investments	$
Opening Balance	**33,081,975**
Total realized losses	(1,780,847)
Total unrealized losses	(1,571,410)
Purchases	4,619,190
Dispositions	(1,192,809)
Transfers into or out of Level 3	-
Closing Balance	**33,156,099**

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

Realized losses on venture investments	$(1,780,847)
Unrealized losses on investments	$(1,716,552)

As at December 31, 2009, the Fund held investments in Inimex Pharmaceuticals Inc. and Vivonet Inc. that are 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 ($118,970) as at December 31, 2009 (December 31, 2008 – gain of $317,972).

See note 13 – Risks associated with financial instruments.

4 *Investment Protection Account*

Pursuant to the requirements of the SBVCA, a VCC that does not have 80% of its raised equity capital invested in eligible businesses is required to maintain investment protection accounts in amounts equal to 30% of the funds raised. As investments in eligible businesses are subsequently made, a drawdown from the investment protection accounts equal to 37.5% of the investment amount is available. These funds cannot be released without the consent of the administrator of the SBVCA. The amounts in the Fund's investment protection accounts at December 31, 2009 and 2008 were $3,162,720 and $3,232,999, respectively.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

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 2009, the Manager was paid $nil in respect of realized gains on venture investments (2008 - $nil). As at December 31, 2009. the Fund recorded a liability of $nil (2008 - $nil) in respect of performance fees accrued on unrealized gains.

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 are likely to result in the redemption period applicable to shares exceeding five years.

a) Issued and outstanding

Authorized: 500,000,000 common shares

Issued

	2009		2008	
	Number of Shares	Amount	Number of Shares	Amount
Balance - Beginning of year	5,593,942	$47,992,823	5,515,592	$47,589,053
Common shares issued	636,074	4,697,864	689,212	6,171,767
Common shares redeemed	(19,353)	(186,500)	(610,862)	(5,244,037)
Less: Issue costs				
Sales commissions	-	(283,255)	-	(337,585)
Other share issue costs	-	(190,721)	-	(186,375)
Balance - End of year	6,210,663	$52,030,211	5,593,942	$47,992,823

Other share issue costs relate directly to the issuance of shares and include costs incurred by the Manager that are reimbursed by the Fund as set out in the Fund's prospectus. See note 8 – Related party transactions.

b) Pricing of common shares

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

Decrease in net assets from operations per common share is calculated using the weighted average number of common shares outstanding, which for the year ended December 31, 2009 was 5,935,457 (2008 – 5,655,365). Diluted decrease per share has not been presented as no dilutive equity instruments have been granted or issued.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

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

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

	2009	2008
Net assets in accordance with GAAP as reported	$ 41,981,212	$ 42,385,128
Section 3855 adjustments:		
Change in method for estimating fair value of venture investments	73,728	(246,458)
Change in method for estimating fair value of marketable securities	210	383
Add:		
Unamortized deferred share issue costs including sales commissions	1,135,371	1,659,355
Other financial statement adjustments	(108,184)	81,890
Pricing net asset value	43,082,337	43,880,298
Common shares outstanding at December 31	6,210,663	5,593,942
Pricing NAV per Share	$6.94	$7.84
Net assets in accordance with GAAP per common share	$6.76	$7.58

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

i) Change in method for estimating fair value of venture investments. This adjustment arises because, under GAAP, the Fund is now required to estimate the fair value of its publicly-traded venture investments based on the bid price for these securities whereas, under the valuation policies of the Fund used to calculate Pricing NAV per Share, such securities are valued based on the average of their closing prices over the preceding twenty days.

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

The calculation of Pricing NAV per Share assumes that:

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, 2009 and 2008

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

	2009	2008
Share issue costs		
Balance - Beginning of year	$ 1,659,355	$ 2,100,391
Add:		
Sales commissions	283,255	337,585
Other share issue costs	190,721	186,375
Less:		
Amortization	(997,960)	(964,996)
Balance - End of year	1,135,371	1,659,355
Pre-operating costs		
Balance - Beginning of year	-	$ 14,731
Less:		
Amortization of deferred pre-operating costs	-	(14,731)
Balance - End of year	-	-

7 Shareholders' Equity

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

	2009	2008
Share capital (net, per note 6 a))	$ 52,030,211	$ 47,992,823
Accumulated deficit	(5,694,743)	(2,969,991)
Unrealized losses on investments	(4,354,256)	(2,637,704)
Net assets, representing shareholders' equity	$ 41,981,212	$ 42,385,128

8 Related Party Transactions

The following table summarizes related party fees and expenses payable in respect of the years ended December 31, 2009 and 2008:

	2009	2008
Directors' fees and expenses	$ 41,911	$ 45,723
Management fees	1,193,659	1,401,035
Reimbursement of expenses	84,637	99,913
	1,320,207	1,546,671
Due to related parties	$ 115,873	$ 188,568

Reimbursement of expenses comprises expenses that were payable to the Manager relating to capital raising, governance and shareholder reporting services provided to the Fund by the Manager as well as miscellaneous office expenses and directors' and officers' insurance, which the Manager paid on behalf of the Fund.

As at December 31, 2009, the Fund had invested $2,800,000 (2008 - $2,800,000) in Day4 Energy Inc. A director of the Fund is a co-founder, executive officer and a significant shareholder of Day4 Energy Inc.

Discovery Capital Corporation (DCC) (the former parent company of the Manager which had directors and officers common to the Fund) also held investments in the following companies at the time the Fund's investment was made and at December 31, 2009 (in respect of beneficial entitlements of DCC's former shareholders): Vigil Health Solutions Inc. and Tantalus Systems Corp.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

9 Bad Debt

On May 6, 2009, a receiver was appointed over the assets and undertaking of the Fund's former private portfolio company Idelix Software Inc. ("Idelix"). In June 2009, the receiver completed the sale of substantially all of the then remaining assets of Idelix, which essentially comprised a business undertaking called "Lat49", an on-line advertising platform technology, to a new company called Lat49 Media Inc. ("Lat49"). As a result of this sale, Idelix had no further business undertaking or assets. Accordingly, unpaid interest of $368,390 accrued by the Fund on its security holdings of Idelix and previously included by the Fund in interest income was written off.

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

10 Contingency

As a VCC, the Fund must comply with the legislative requirements of the SBVCA, including investing appropriately in eligible 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, 2009, the Fund was required to have invested a minimum of $41,650,324 in eligible businesses and was deficient of this requirement by approximately $3.4 million. The Fund has received relief from this requirement until at least March 2010.

The Fund has a contingent liability to repay $18,674 to the Manager for expenses incurred by the Manager on behalf of the Fund. The board of directors approved a proposal of the Manager to make the payment of a portion of certain of the expenses incurred by the Manager that are reimbursable from the Fund contingent on the Fund raising a certain amount of equity capital by March 1, 2010. See note 8 – Related party transactions.

11 Commitment

The Fund has an Investment Administration Agreement (the IA Agreement) with The Investment Administration Solution Inc. to provide certain transfer agency and back office administration services. The fee for the provision of these services is calculated on the basis of the number of shareholders of the Fund, subject to a minimum of $5,500 per month. The IA Agreement had an initial term expiring December 31, 2006, was renewed for a three-year period commencing January 1, 2007 and was renewed for a further three-year period commencing January 1, 2010. The Fund paid a total of $543,521 under this agreement during the first two terms. The minimum payment of fees required under the IA Agreement is $66,000 per year during 2010, 2011 and 2012.

12 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:

	2009	2008
Realized losses on venture investments	$ 398,000	$ -
Unrealized losses on investments	973,000	609,000
Non-capital losses carried forward	4,884,000	3,867,000
Share issue costs	544,000	639,000
Other	25,000	5,000
Valuation allowance	(6,824,000)	(5,120,000)
Net future income tax assets	-	-

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

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
$ 488,000	2010
987,000	2014
1,231,000	2015
1,494,000	2026
1,967,000	2027
2,141,000	2028
2,554,000	2029
$10,862,000	

13 Risks Associated with Financial Instruments

Investment activities of the Fund expose it to a variety of financial risks, including credit risk, liquidity risk and market risk (which includes currency risk, interest rate risk and other price risk).

a) Credit Risk

Credit risk is the risk associated with the inability of a third party to fulfill payment obligations to the Fund. The Fund limits its exposure to credit risk for its cash by investing in high quality short-term investments – typically bankers' acceptances of a large Canadian bank. From time to time, the Fund invests in convertible debt securities of its portfolio investment companies. Typically, the Fund expects that these securities will be converted to equity investments in the portfolio companies within a period of eighteen months. Because the Fund invests in early stage technology companies that generally have a limited history of operations and whose business activities tend to be speculative, in the event that the Fund did not convert its debt security into an equity security of the portfolio company, it is very possible that the Fund may not have its debt obligation fulfilled in its entirety by the portfolio company. Interest and dividends receivable on debt and equity securities of the Fund's portfolio companies are also subject to credit risks and are managed through active review of the venture investment portfolio.

b) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. The Fund is subject to significant liquidity risk because it is exposed to weekly redemption requests, which may be made by shareholders who have held their shares for at least five years from the date of issuance, and because its ability to meet its financial obligations depends significantly on the success of its portfolio investments and its ability to raise new equity capital. Because the Fund invests in early stage technology companies that generally have a limited history of operations and whose business activities tend to be speculative, there is no assurance that its portfolio investments will be successful. Further, the Fund has invested principally in securities of companies for which there is no public market and there is no assurance that a liquid public market will develop or a liquidity event will be achieved. As a result of the credit crisis and global economic slow-down experienced in 2008 and 2009, the potential of the Fund to achieve successful liquidity events within its venture investment portfolio was adversely impacted and the environment in which the Fund raises equity capital for investment and to sustain operations also became more challenging. The Manager of the Fund attempts to mitigate liquidity risk by becoming actively involved with each of the Fund's portfolio investments and by attempting to select investments that have a path to liquidity.

See also note 14 – Capital Disclosure, specifically with respect to the status of the Fund's ability to meet redemption requests.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

c) Market Risk

Market risk is the risk that the fair value of the Fund's financial instruments will fluctuate as a result of changes caused by factors specific to a financial instrument or its issuer or by factors generally affecting a market or market segment.

i) Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Fund. The Fund invests primarily in Canadian securities of Canadian companies; however it does have investments in two private companies which are in U.S. denominated dollars for which there is exposure to currency risk. These investments represented less than 10% of net assets as at December 31, 2009. See note 3 - Financial instruments.

ii) Interest Rate Risk

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or fair values of financial instruments. The Fund invests primarily in equity securities and in the event it invests in debt instruments, it only invests in fixed interest-bearing instruments and will hold these instruments to maturity or, more typically, convert them to equity. The Fund typically invests its cash in short term bankers' acceptances which have minimal sensitivity to interest rate fluctuations as they are virtually always held to maturity. As such, the Fund does not have significant exposure to interest rate risk.

iii) Other Price Risk

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

The process of estimating the fair value of venture investments for which there is no active market is inevitably based on inherent measurement uncertainties and is based on techniques and assumptions that emphasize qualitative over quantitative information and analysis. Accordingly, there is no reasonable quantitative basis to estimate the potential effect of changing the assumptions to reasonably possible alternative assumptions on the estimated fair value of the venture investment portfolio.

14 Capital Disclosure

As a venture capital corporation registered under the SBVCA, the Fund receives authorizations to raise certain amounts of equity capital over specified periods. The Fund had received an authorization to raise up to $13 million of its shares during the period ended February 15, 2010 and up to a further $13 million of its shares in each of the periods commencing January 1 and ending February 15, 2011 and 2012, respectively. In June 2009, this authorization was adjusted to $10 million in each of these periods, with the ability to receive additional authorization should the limit be met in any period. The objective of the Fund is to raise the maximum authorized in any period; however, the ability to do so is subject to overall financial market conditions and competition from other investment funds. Proceeds from share issues are the only source of capital to the Fund.

The Fund utilizes its equity capital primarily to invest in emerging technology companies that meet its investment criteria, in compliance with the investment pacing requirements of the SBVCA. The Manager is responsible for monitoring the capital requirements of the Fund and ensuring that all relevant requirements of the SBVCA are met, and also for allocating funds between new investment opportunities and existing investments of the Fund. A further requirement under the SBVCA is that 30% of the funds raised by the Fund must be maintained in an investment protection account until investments are made in eligible businesses. See notes 4 – Investment protection account and 10 – Contingency with respect to the Fund's compliance in these matters.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

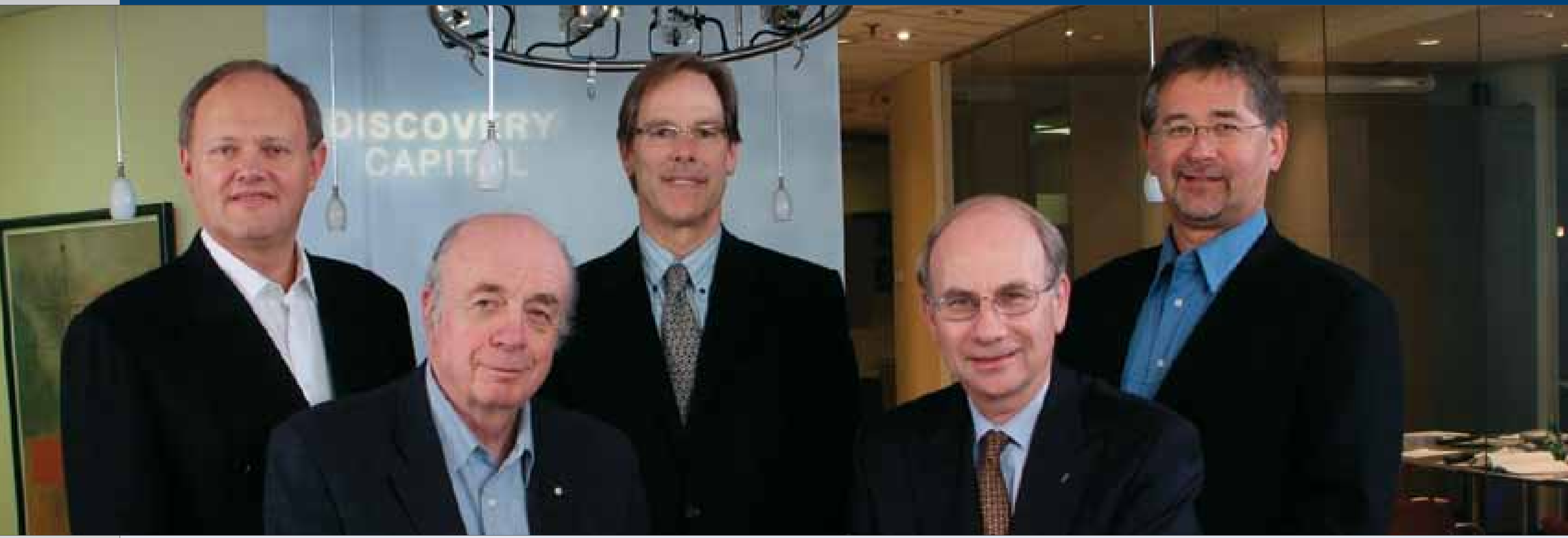
The overall capital level of the Fund is also impacted by redemptions of its shares. Shareholders of the Fund may request redemption of their shares after five years from the issue date. The Manager manages such requests within the constraints set forth in the Articles of the Fund and the requirements of the SBVCA. Pursuant to such constraints and requirements, the Fund redeemed $5,236,656 of its shares in 2008, but suspended redemptions on December 19, 2008 and was not able to reinstate redemptions in 2009. The ability of the Fund to meet redemption requests in any year is dependent upon a number of factors which are highly variable and difficult to predict, including the performance of the Fund's venture investments, the rate at which they mature and become liquid and the amount of gain or loss that the Fund realizes on those investments.

15 Independent Valuation Review

Ernst & Young LLP, the Fund's auditors (using qualified valuators), performed an independent review of the fair value of the Fund's venture investment portfolio as at December 31, 2009, as required by NI 81-106, and reported that the fair value of the venture investment portfolio as determined by the Manager is, in all material respects, reasonable. This review was performed to permit the Fund, as provided in NI 81-106, to be exempt from the requirement of NI 81-106 to disclose the fair value of each private venture investment.

16 Comparative figures

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



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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Annual General Meeting
The Annual General Meeting of the shareholders of British Columbia Discovery Fund (VCC) Inc. will be held as follows:

May 26, 2010 at 2:30PM
Discovery Capital Management Corp.
Suite 570 - 1285 West Pender Street
Vancouver, B.C.

BC DISCOVERY FUND

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