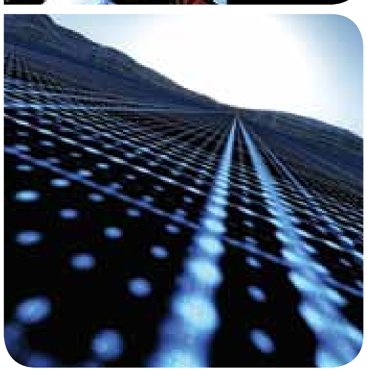
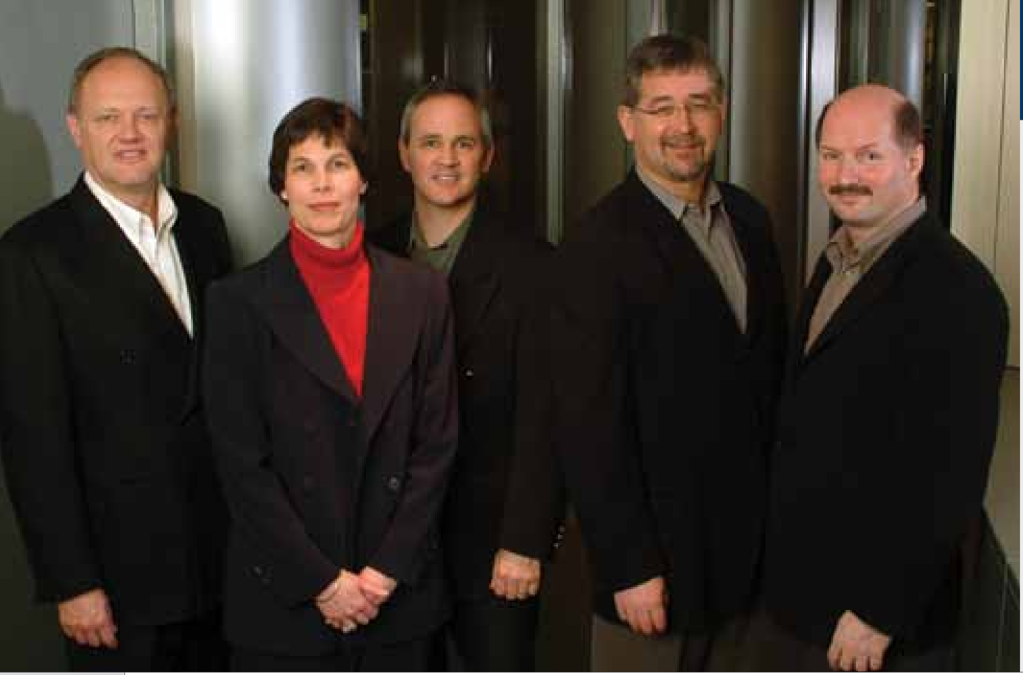
BC DISCOVERY FUND

Innovation to Commercialization



ANNUAL REPORT

Building BC's Future in Technology | 2010



« 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

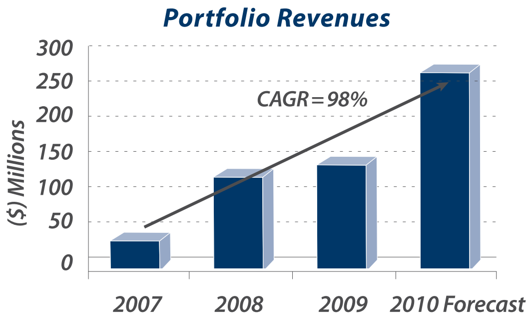
The Manager of the Fund is Discovery Capital Management Corp., a Vancouver-based venture capital management company whose principals have extensive venture capital and technology industry experience in British Columbia. Discovery Capital has an active, hands-on investment philosophy, and brings to the 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.

As most investors and financial advisors are very aware, the last few years have been a period of extraordinary economic upheaval and volatility, particularly in stock markets. Similarly, venture capital markets have also been difficult, characterized primarily by flat to negative returns.

However, behind the scenes, many venture stage businesses have flourished, introducing new technologies and growing their revenues. This is absolutely the case for the portfolio companies of BC Discovery Fund, as demonstrated below:



- ***Of 14 companies currently in the Fund's portfolio, three (20% of the portfolio) have each generated revenues in excess of $30 million in 2010.***
- ***12 of the 14 companies are generating meaningful revenues which are forecast to total approximately $0.25 billion in aggregate in 2010.***

Why is there such a disconnect between the accelerating growth in the portfolio companies themselves and the returns experienced by the Fund to date, which do not appear to have recognized this growth within the portfolio?

Venture capital returns are typically crystalized upon the exit from a portfolio investment, either in an IPO or through the sale of the investment in an M&A transaction. Otherwise, venture investments are customarily valued conservatively, often reflecting the price of the most recent financing transaction. Over the past few years, venture stage companies have had to endure a period of illiquidity that, in our view and experience, is unprecedented. However, we have recently seen this start to change in M&A markets as acquirers with substantial cash balances are once again looking to grow by making acquisitions. Indeed, BC Discovery Fund has already recognized a profitable partial exit in 2010 from its portfolio company Vivonet Inc. As well, the aggregate impact of year-end valuation adjustments to the portfolio, both negative and positive as the Fund recognized external valuation events and wrote down investments that were not performing to expectations, resulted in a further increase to Pricing NAV per share.

The BC Discovery Fund portfolio is well positioned for a resurgent "liquidity" market, particularly from M&A activity. With a current fund valuation that does not fully reflect potential exit values that Discovery Capital believes are realistic, we think there is strong potential for the valuation of BC Discovery Fund to materially increase over time. The Fund Manager is prudently evaluating liquidity options with several of the Fund's portfolio companies and hopes to report on these as the year progresses.

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

Avigilon designs, manufactures, and markets award-winning HD surveillance systems. A performance and value leader, Avigilon's solutions protect and monitor thousands of customer sites in more than 60 countries around the world. Avigilon Control Center, the world's first open HD Network Video Management Software platform, and a line of multi-megapixel cameras deliver full situational awareness and actionable image detail. Campuses, transportation systems, healthcare providers, public venues, infrastructure, and manufacturing sites with security, safety validation, and compliance requirements all benefit from reduced investigation time and more successful investigations by immediately producing indisputable video evidence.

www.avigilon.com

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

Day4 Energy is a Canadian company dedicated to providing high performance photovoltaic (PV) solutions for residential, commercial and utility scale installations. By fundamentally improving on the design and assembly of solar cells and modules, the Company produces unique PV panels of high power density, increased lifetime and uncompromised aesthetic appearance. Day4 Energy partners with international technology leaders to develop and deliver IEC- and UL-certified solar products to customers around the world.

www.day4energy.com

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

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

Inimex Pharmaceuticals is a biopharmaceutical company dedicated to the discovery and development of new medicines based on the selective modulation of the innate immune response. With its first drug candidate, IMX942, having completed Phase 1 clinical studies in healthy volunteers, Inimex' products show promise for the safe and effective treatment of a broad spectrum of serious unmet medical needs in infectious disease and inflammatory disorders.

www.inimexpharma.com

INVESTED CAPITAL ***$5,437,853***
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 Mobile Wireless Hot Spot System turns each vehicle into a secure, mobile communications hotspot that 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, and frees individuals to be effective anywhere, any time. Today, In Motion's solutions are used by more than 275 municipal, healthcare, public safety, transportation and utility organizations worldwide.

www.inmotiontechnology.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 efficiencies and enhances 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

movieset™

INVESTED CAPITAL ***$1,950,000***
PRIVATE

MovieSet™ is a 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™ intends to monetize its well-identified target audience through advertising and ancillary revenue streams.

www.movieset.com

navarik™ Data Delivered.

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

Navarik's mission is to be the leading provider of physical operations software and information services for the commodity trading industry. Its on-demand software services automate physical trade operations and maritime shipping logistics for crude oil, refined products and bulk commodities and it is the global leader in cargo inspection management. Many of the world's largest oil companies rely on Navarik's flagship product, Navarik Inspection™, for business process automation and data intelligence to help them achieve better operational performance and to determine the actual quantity, quality and status of cargos. For oil producing countries, Navarik Inspection also generates a detailed account of the total volume of petroleum exports.

www.navarik.com

PARADIGM ENVIRONMENTAL TECHNOLOGIES INC.

INVESTED CAPITAL ***$2,910,039***
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 modular product that can be easily deployed at existing municipal wastewater treatment plants (WWTPs) to significantly enhance the rate and efficiency of the anaerobic digestion process, thereby reducing operating costs and increasing plant capacity. MicroSludge can also be used to process industrial waste, including petrochemical waste, pulp and paper waste, and food waste.

www.paradigmenvironmental.com

rx networks

INVESTED CAPITAL ***$3,326,490***
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 ***$3,564,140***
PRIVATE

Tantalus provides Smart Grid communications technology that enables electric, gas & water utilities to optimize their resources by automating monitoring & control processes, improving operational efficiency, and delivering the information utilities and consumers need to manage energy intelligently and cost-effectively. TUNet® – the Tantalus Utility Network – is deployed at utilities throughout North America determined to drive down operational costs, increase reliability and deliver top-tier customer service. TUNet provides the rapid and reliable two-way data communications utilities need today for Advanced Metering (AMI), Demand Response (DR), and Distribution Automation (DA), along with the flexibility and adaptability to scale step-by-step as the Smart Grid evolves.

www.tantalus.com

vigil® HEALTH SOLUTIONS

INVESTED CAPITAL ***$1,176,800***
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 ***$3,164,873***
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.com

Sector Diversification

ENVIRONMENTAL & ENERGY TECHNOLOGIES

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

COMMUNICATIONS

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

INFORMATION TECHNOLOGY

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

NEW MEDIA

MovieSet Inc.

HEALTH & LIFE SCIENCES

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

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

Shareholders may also contact the Fund to request a copy of its proxy voting policy or proxy voting disclosure record by calling the following toll free number 1-877-553-3863; by writing to the Fund at #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; communications; new media; health and life sciences; and environmental and energy technologies.

The investment strategy of the Fund specifies, generally, how the Manager of the Fund, **Discovery Capital Management Corp.**, will source and select investments for the Fund, how the Manager will add value to the investments made by the Fund, and how the Manager will generate liquidity for the investments made by the Fund. The Manager of the Fund evaluates investments based on the quality of the management teams, the size and accessibility of the market opportunities, and the proprietary technologies that are owned or are in development.

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 have continued to adversely impact 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 2011 prospectus.

Cash Resources

Throughout 2009 and 2010, the Fund had less cash resources than in prior years and it had fallen materially short of its minimum investment obligations under the SBVCA at December 31, 2010. The Fund is required to fully comply with its minimum investment obligations by December 31, 2011 and will need to successfully raise additional funds in order to do so, either by way of issuing equity capital or through sales of positions in its venture investment portfolio. See also "Results of Operations – SBVCA Allocation and Commitment" and "Recent Developments" below.

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 has been authorized under the SBVCA to issue up to $10 million of its Shares in each of the periods commencing January 1 and ending February 15, 2012, 2013 and 2014. The Fund also has the ability to access up to an additional $16 million pool of authorization available to all retail venture capital funds in British Columbia 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, 2010

Pricing Net Asset Value per Share (the price at which the Fund sells and redeems its common shares) was $7.28 at December 31, 2010, an increase of 3.85% over the year. This increase is primarily attributable to realized and unrealized gains of $0.35 million and $3.7 million, respectively, on the estimated fair value of the Fund's venture investments, as explained below under "Operating Results".

Sales of Shares were $3.7 million in 2010, compared to $4.7 million, $6.2 million and $14.1 million in each of the years, 2009, 2008 and 2007, respectively. The lingering effects of the credit crisis and global economic slow-down which commenced in 2008 and investor aversion to high-risk, longer-term investments 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.

Net Assets

Net assets for financial statement reporting purposes were $47,648,309 at December 31, 2010, an increase of $5,667,097, or 13.5% from net assets of $41,981,212 at December 31, 2009. The increase in net assets is the net result of the positive impacts of an increase of $2,416,001 from operations (see "Operating Results" below) and proceeds from sales of Shares during 2010 of $3,356,929, net of share issue costs, offset by redemptions paid out of $105,833. (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 increased by $2,416,001 for the year ended December 31, 2010, compared to a decrease of $4,485,279 for the year ended December 31, 2009.

The increase in net assets from operations in 2010 includes $4,248,454 of net unrealized gains as a result of changes to the estimated fair value of the privately-held investments of the Fund. The most notable increase resulted from the Fund's investment in **Avigilon Corporation**, an award-winning designer and manufacturer of high definition surveillance systems. Since launching commercial activity in 2007, Avigilon has delivered extraordinary revenue growth that has resulted in the company being ranked the #1 fastest growing company in Western Canada on the Deloitte Technology Fast 50™ List. As a result of Avigilon's achievements, an independent valuation process resulted in the Fund recording a substantial unrealized gain on this particular investment. There were also unrealized gains in the estimated fair values of the Fund's investments in **Navarik Corp.**, **Rx Networks Inc.** and **Vivonet Inc.** Offsetting these unrealized gains were unrealized losses recorded against the Fund's investments in **GaleForce Solutions Inc.**, **Lat49 Media Inc.** and **MovieSet Inc.** as the businesses of those companies did not perform as expected.

The increase in net assets from operations in 2010 also includes a realized gain of $353,822 as a result of the Fund having disposed of approximately $1.4 million of its holdings in privately-held portfolio company Vivonet. Vivonet successfully completed a US$8.5 million treasury and secondary financing during the first half of the year at a higher valuation than its previous financings.

The Fund also holds two publicly-traded investments – **Day4 Energy Inc.** and **Vigil Health Solutions Inc.** - and the values of these investments declined by $559,347 over the year as a result of declines in the stock market trading prices for these two companies.

The decrease in net assets from operations in 2009 included a realized loss of $1,780,847 with respect to the Fund's former investment in privately-held portfolio company **Idelix Software Inc.** ("Idelix") which, in May 2009, was placed into receivership. The decrease also included net unrealized losses on portfolio investments totalling $1,716,552, including unrealized losses on **Tantalus Systems Corp.** and **Paradigm Environmental Technologies Inc.** as a result of those companies raising equity funds at lower valuations, and on **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.

Other factors affecting changes in net assets from operations in 2010 as compared to 2009 are explained as follows:

» Total investment income was $1,163,964 in 2010, lower than total investment income of $1,278,857 in 2009, as increased dividends accrued on venture investments of the Fund were more than offset by decreased interest earned and accrued on venture investments and on lower balances of cash and marketable securities.

» The Fund recorded bad debt expense of $669,236 in 2010, relating to unpaid interest and dividend income accrued on its security holdings in private portfolio companies **GaleForce Solutions Inc.**, **Lat49 Media Inc.** and **MovieSet Inc.**, in respect of which, as noted above, the Fund had written down the estimated fair value. In 2009, the Fund wrote off unpaid interest of $368,390 accrued on its security holdings of **Idelix** as Idelix ceased to have any business undertaking or assets resulting in a write off of that investment.

» Excluding the impact of bad debt expenses, total expenses in 2010 were $2,121,846, higher by $223,499 (12%) over total expenses of $1,898,347 in 2009. In 2010, there were transaction costs of $80,333 relating to the Fund's partial disposition of its Vivonet holdings as well as $44,695 of additional audit and advisory fees and an increase of $73,124 in harmonized sales/goods and services tax. Management and trailer fees were both slightly higher, reflecting the increased pricing net assets of the Fund between the two years.

As a result, the net investment loss of $1,627,118 in 2010 was $639,238 higher than the net investment loss of $987,880 in 2009.

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 2010, the Fund made cash investments of $2,956,926 into eight existing portfolio companies. At December 31, 2010, 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, 2010 were in privately-held companies, representing 97% of the total estimated fair value of the Fund's venture investment portfolio at that date.

The Fund's asset mix at December 31, 2010 was 84% in venture investments and 16% in cash, marketable securities and other net assets – see "Summary of Investment Portfolio" below.

SBVCA Allocation and Commitment

The Fund has been authorized under the SBVCA to issue up to $10 million of its Shares in each of the periods commencing January 1 and ending February 15, 2012, 2013 and 2014. The Fund also has the ability to access up to an additional $16 million pool of authorization available to all retail venture capital funds in British Columbia 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 25, 2011, the Fund had sold approximately $3.18 million of its $10 million allocation ending on that date.

The Fund had fallen short of its minimum investment obligations by approximately $4.7 million as at December 31, 2010. The Fund is also required to invest an additional approximately $3.3 million in 2011 to fulfill its minimum investment obligations for 2011. On January 26, 2011, the Fund received a letter from the SBVCA Administrator requiring the Fund to rectify, by December 31, 2011, its failure to meet its minimum investment obligations and indicating that if the Fund fails to meet its investment obligations by that date, the SBVCA Administrator may take further action including recapture of funds in the Investment Protection Account to bring minimum investment levels into compliance.. As at December 31, 2010, the Fund did not have sufficient cash resources to meet these obligations. The ability of the Fund to meet its required investment obligations for all years up until the end of 2011 is dependent on the Fund successfully raising additional funds, either by way of issuing equity capital or through sales of positions in its maturing venture investment portfolio. See "Risk" above and "Recent Developments" below for risks and challenges related to the Fund's liquidity.

Recent Developments

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

The ongoing 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 and into 2010, the Canadian venture capital market generally has suffered, with valuations of early-stage technology companies generally lower than the period before the economic downturn and exit opportunities (i.e. merger and acquisition or "going public" transactions) unavailable or slower in developing. As well, retail investors remain cautious about higher-risk, longer-term investment commitments such as an investment in the Fund. This combination of circumstances has resulted in slower sales of Shares in 2009 and 2010, which materially reduced liquidity for the Fund. The prospect for raising equity capital remains challenging and very uncertain in 2011.

In spite of these challenges, several of the Fund's portfolio companies achieved record revenue and other positive business milestone targets in 2009 and continued to build on these strong performances in 2010. The Manager is optimistic that these portfolio companies are well-positioned to take advantage of exit opportunities as market conditions improve, and certain of these companies are actively engaged in discussions pertaining to potential exit transactions. As most of the Fund's portfolio companies generate revenues, the requirement for additional or follow-on investment in them 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 and realized portfolio gains from "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), net of amounts required to meet the Fund's minimum investment obligations and operating requirements. **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 and 2010, holders of an additional approximately 2.4 million Shares issued in 2004 and 2005 became eligible to request redemption of their Shares, none of which Shares were redeemed, as the Fund has continued to suspend redemptions. During 2011, holders of an additional approximately 625,000 Shares issued in 2006 will also become eligible to request redemption of their Shares. An aggregate of approximately $25.0 million of Shares will be eligible to request redemption on or before December 31, 2011, based on Pricing Net Asset Value per Share as at December 31, 2010.

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 a cumulative amount of approximately $19.0 million of "mature" investments by the end of 2011 (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 source from which the Fund will be able to meet unsatisfied redemption requests is proceeds from the sale of portfolio investments, net of amounts required to meet the Fund's minimum investment obligations, including follow-on investments in portfolio companies, and amounts required to meet the Fund's operating requirements. 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 will likely, 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.**

Amendment to Management Agreement

The management agreement with the Manager was renewed and amended effective January 1, 2011 (the "Renewed Agreement"). Pursuant to the amendments, the management agreement may be terminated by the Fund at any time by special resolution of the common shareholders of the Fund at a meeting of shareholders called for the purpose of considering the termination of the Manager. Pursuant to the Renewed Agreement, termination of the Manager is effective as of the date on which the Fund pays the Manager a fee (subject to any applicable SBVCA expense limitations) in respect of such termination equal to 24 times the average monthly management fee paid to the Manager in each of the three months immediately preceding the month in which the resolution approving the termination of the Manager is passed by shareholders of the Fund. In the event of termination, the Manager will also continue to receive (subject to any applicable SBVCA expense limitations) a 20% performance fee in respect of investments held by the Fund on the effective date of such termination as well as a reduced 10% performance fee on follow-on investments made by the Fund subsequent to the termination date in investee companies in which the Fund holds an investment on the termination date.

Portfolio Updates

a) As at December 31, 2010, portfolio company **Lat49 Media Inc.** ("Lat49") was in negotiations with and had proposed terms to certain third parties that it would have accepted for the acquisition of the company. During the month of January 2011, these certain third parties either terminated negotiations or counter-proposed terms that were unacceptable to the board of Lat49. After concluding that the sales process had effectively terminated, and after also considering the financial state of the company, the Fund wrote off its investment in Lat49. Total realized loss with respect to this investment is approximately $1.83 million.

b) Effective January 1, 2011, the assets and business of portfolio company, **GaleForce Solutions, Inc.** ("GaleForce") were sold to a third-party buyer (the "Sale"). From the initial cash proceeds payable to GaleForce in respect of the Sale, the Fund received repayment of a $100,000 loan to GaleForce, with interest, as well as approximately $65,000 in respect of its equity investment in GaleForce. The Sale contemplates additional cash payments by the buyer, subject to certain earn-out provisions, such that, assuming all earn-out requirements are met, the Fund is entitled to receive up to an additional amount of approximately $500,000 over the ensuing 12 to 18 months. As at December 31, 2010, the estimated fair value of GaleForce had been written down to an amount that approximated the initial cash payments anticipated to be received by the Fund. This write down resulted in an unrealized loss of $1.2 million with respect to the Fund's investment in GaleForce as at December 31, 2010. As a condition of the Sale, the Fund and certain other shareholders of GaleForce provided certain indemnities to the buyer in relation to certain matters, the exposure for which, generally, does not exceed the amount that the Fund and these other shareholders could receive in connection with distribution of the Sale proceeds.

Future Accounting Change

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for investment companies applying Accounting Guideline 18 *Investment Companies*, which includes the Fund, effective for fiscal years beginning on or after January 1, 2013.

Accordingly, the Fund will apply accounting policies consistent with IFRS beginning with its interim financial statements for the six months ended June 30, 2013. The Company's 2013 interim and annual financial statements will include comparative 2012 financial statements, adjusted to reflect accounting policies that are consistent with IFRS.

In light of the delay in issuance of a final accounting standard and the resultant deferral of the mandatory IFRS changeover date for investment companies, the Manager has not yet determined the impact of the adoption of IFRS on the Fund's financial statements. The Fund will incur additional audit and advisory fees leading up to the adoption of IFRS resulting in an adverse impact to Pricing NAV per Share. However, as at December 31, 2010, 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, 2010 and 2009.

	2010	2009
Directors' fees and expenses	$ 41,309	$ 41,911
Management fees	1,246,870	1,193,659
Performance fees	-	-
Reimbursement of expenses	28,216	84,637
Total related party fees and expenses	**$ 1,316,395**	**$ 1,320,207**

Management fees and performance fees are payable to the Manager pursuant to the amended and restated management agreement between the Manager and the Fund – see "Management Fees" below and "Recent Developments –Amendment to Management Agreement" above . 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 (costs of which the Manager opted to absorb in 2010), as well as miscellaneous office expenses and directors' and officers' insurance, which the Manager paid on behalf of the Fund.

As at December 31, 2010, the Fund had invested $2,800,000 (2009 - $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, 2010 (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)	2010	2009	2008	2007	2006
Net Assets, beginning of year	$ 6.76	$ 7.58	$ 9.68	$ 8.28	$ 8.43
Section 3855 transitional adjustment (3)	-	-	-	0.01	-
Increase (decrease) from operations:					
Total revenue	0.18	0.21	0.28	0.30	0.27
Total expenses	(0.42)	(0.38)	(0.39)	(0.43)	(0.41)
Realized gains (losses) for the period	0.05	(0.30)	-	0.04	-
Unrealized gains (losses) for the period	0.56	(0.29)	(2.27)	2.05	(0.01)
Performance fees accrued on unrealized gains	-	-	0.36	(0.44)	0.05
Total increase (decrease) from operations (2)	**$0.37**	**$(0.76)**	**$(2.02)**	**$ 1.52**	**$(0.10)**
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total Annual Distributions	-	-	-	-	-
Net Assets at December 31	**$7.09**	**$ 6.76**	**$ 7.58**	**$ 9.68**	**$ 8.28**

(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	2010	2009	2008	2007	2006
Total net asset value (000's) (1)	$48,889	$43,512	$43,880	$55,177	$34,985
Number of shares outstanding (1)	6,717,758	6,208,337	5,593,942	5,515,592	4,001,829
Management expense ratio (2)	6.81%	6.19%	5.33%	7.03%	6.23%
Bad debt expense	*1.46%*	*0.83%*	-	-	-
Commissions and other share issue costs	*0.72%*	*1.07%*	*1.02%*	*2.38%*	*1.62%*
Management, administrative and other fees and expenses	*4.63%*	*4.29,%*	*4.31%*	*4.65%*	*4.61%*
Trading expense ratio (3)	0.18%	0.00%	0.00%	0.00%	0.00%
Portfolio turnover rate (4)	4.95%	3.44%	0.00%	10.00%	0.00%
Pricing NAV per Share (1)	$ 7.28	$ 7.01	$ 7.84	$ 10.00	$ 8.74

(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 of termination of the manager, the Fund is required to pay the Manager a fee (subject to any applicable SBVCA expense limitations) in respect of such termination equal to 24 times the average monthly management fee paid to the Manager in each of the three months immediately preceding the month in which the resolution approving the termination of the Manager is passed by shareholders of the Fund. In the event of termination, the Manager will also continue to receive (subject to any applicable SBVCA expense limitations) a 20% performance fee in respect of investments held by the Fund on the effective date of such termination as well as a reduced 10% performance fee on follow-on investments made by the Fund subsequent to the termination date in portfolio companies in which the Fund holds an investment on the termination date.

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.

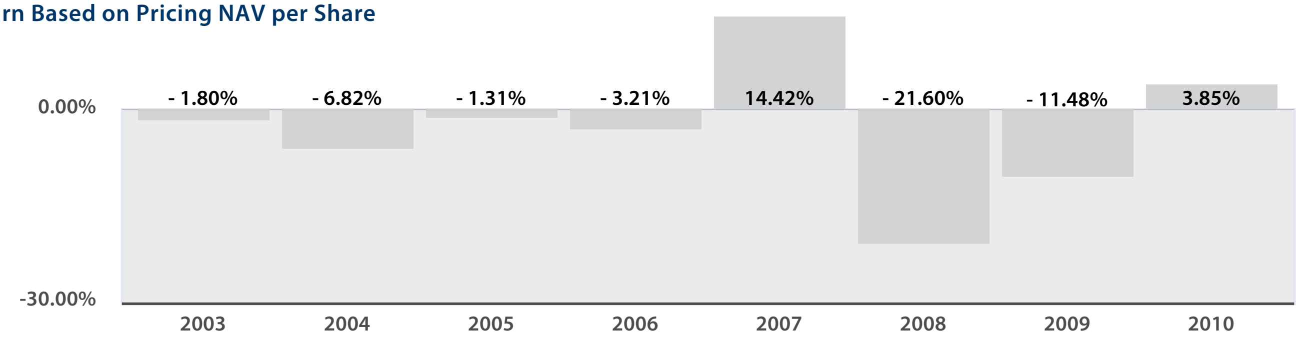
Past Performance

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 2010. 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, 2010.

	1 Year Return (Loss)	3 Year Return (Loss)	5 Year Return (Loss)	Return/(Loss) Since Inception (1)
BCDF - Pricing NAV	3.85%	(10.03)%	(4.21)%	(3.89)%
Globe Peer Index	(3.86)%	(7.96)%	(5.17)%	(4.86)%
S&P/TSX Capped Information Technology Index	4.72%	(6.63)%	2.28%	9.92%

(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, 2010.

	1 Year Return (Loss)	3 Year Return (Loss)	5 Year Return (Loss)	Return/(Loss) Since Inception (1)
Purchase Price (2)	$7.01	$10.00	$9.03	$10.00
Tax credit rate	30%	30%	30%	30%
Net capital invested (3)	$4.91	$7.00	$6.32	$7.00
December 31, 2010 price	$7.28	$7.28	$7.28	$7.28
Return (excluding tax credit) (4)	3.9%	(10.0)%	(4.2)%	(3.9)%
Return from tax credit (5)	7.4%	7.4%	7.4%	4.6%
After tax credit return	**11.3%**	**(2.6)%**	**3.2%**	**0.7%**

(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.

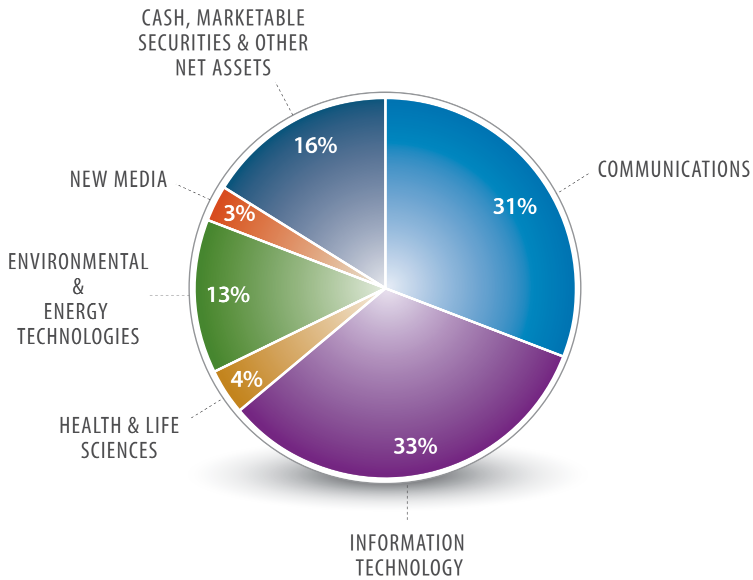
(3) Net capital invested equals the purchase price minus the tax credits received on the purchase. It assumes that the tax credits were fully claimed and allowed at the same time as the purchase was made.

(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 $6.32 net capital invested would grow to a redemption claim on the full purchase price of $9.03 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, 2010 (based on net assets of the Fund):



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

As at December 31, 2010, the Fund had 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 82% of net assets and its public company investments (in shares of Day4 Energy Inc. and Vigil Health Solutions Inc.) comprise 2% of net assets.

The Fund aggregates the estimated fair value of its privately-held investments in accordance with Part 8 of National Instrument 81-106 and accordingly is not required to express any of them as a percentage of the net assets of the Fund. These investments are: Avigilon Corp., GaleForce Solutions Inc., Gatekeeper Systems Inc., Inimex Pharmaceuticals Inc., In Motion Technology Inc., Lat49 Media Inc., Mobidia Technology Inc., MovieSet Technology Inc., Navarik Corp., Paradigm Environmental Technologies Inc., Rx Networks Inc., Tantalus Systems Corp. and Vivonet Inc.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of **British Columbia Discovery Fund (VCC) Inc.** (the "Fund"), which comprise the statements of net assets as at December 31, 2010 and 2009, the statement of investment portfolio as at December 31, 2010, and the statements of operations, changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of British Columbia Discovery Fund (VCC) Inc. as at December 31, 2010 and 2009, the investments of the Fund as at December 31, 2010, 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

February 25, 2011
Vancouver, B.C.

STATEMENTS OF NET ASSETS

As at December 31, 2010 and 2009

	2010	2009
Assets		
Venture investments (note 2)	$ 39,997,077	$ 34,750,956
Funds held in investment protection account (note 4)	3,093,505	3,162,720
Cash	2,230,717	1,741,415
Interest and dividends receivable	2,563,259	2,445,348
Accounts receivable	-	69,627
Subscriptions receivable	-	27,550
Prepaid expenses	6,835	6,838
Total assets	47,891,393	42,204,454
Liabilities		
Accounts payable and accrued liabilities	110,496	107,369
Due to related parties (note 8)	132,588	115,873
Total liabilities	243,084	223,242
Net assets, representing shareholders' equity (note 7)	**47,648,309**	**41,981,212**
Common shares outstanding	**6,717,758**	**6,208,337**
Net assets per common share (note 6(b))	**$ 7.09**	**$ 6.76**

Contingencies (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, 2010 and 2009

	2010	2009
Investment income		
Dividends from venture investments	$ 1,046,535	$ 993,333
Interest from venture investments	97,243	262,677
Interest from marketable securities	18,686	22,847
Other income	1,500	-
Total investment income	1,163,964	1,278,857
Expenses		
Management fees (notes 5 and 8)	1,246,870	1,193,659
Bad debt (note 9)	669,236	368,390
Trailer fees	192,128	187,384
Harmonized sales tax/goods and services tax	152,242	79,118
Fund administration and transfer agency fees	125,295	114,388
Audit and advisory fees	118,580	73,885
Transaction costs	80,333	-
Office expenses and administrative services	78,554	109,187
Directors' fees and expenses (note 8)	41,309	41,911
Marketing expenses	37,996	40,038
Shareholder communications	22,980	29,481
Directors' and officers' insurance	22,500	22,950
Legal fees	3,059	6,346
Total expenses	2,791,082	2,266,737
Net investment loss	**(1,627,118)**	**(987,880)**
Realized gains (losses) on venture investments	353,822	(1,780,847)
Unrealized gains (losses) on investments	3,689,297	(1,716,552)
Increase (decrease) in net assets from operations	**2,416,001**	**(4,485,279)**
Increase (decrease) in net assets from operations per common share (based on weighted average number of shares outstanding)	**$ 0.37**	**$ (0.76)**

See accompanying notes to the financial statements

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31, 2010 and 2009

	2010	2009
Net assets - Beginning of year	$ 41,981,212	$ 42,385,128
Operating activities		
Increase (decrease) in net assets from operations	2,416,001	(4,485,279)
Capital transactions		
Proceeds from issuance of common shares	3,684,105	4,697,864
Less: Sales commissions	(198,664)	(283,255)
Other share issue costs	(128,512)	(190,721)
Redemption of common shares	(105,833)	(142,525)
	3,251,096	4,081,363
Increase (decrease) in net assets	5,667,097	(403,916)
Net assets - End of year	**47,648,309**	**41,981,212**
Unrealized losses on investments		
Unrealized losses - Beginning of year	(4,354,256)	(2,637,704)
Change during the period	3,689,297	(1,716,552)
Unrealized losses – End of year	**(664,959)**	**(4,354,256)**

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

	2010	2009
Cash flows used in operating activities		
Increase (decrease) in net assets from operations	$ 2,416,001	$ (4,485,279)
Items not affecting cash from operating activities		
Unrealized (gains) losses on investments	(3,689,297)	1,716,552
Realized (gains) losses on venture investments	(353,822)	1,780,847
Non-cash investment income	(41,971)	(116,750)
Net change in non-cash operating accounts	(889)	(872,280)
Net change in investment protection account	69,404	68,677
Net change in marketable securities	-	2,013,137
Purchase of venture investments	(2,956,926)	(3,321,731)
Proceeds from disposal of venture investments	1,795,706	12,099
	(2,761,794)	(3,204,728)
Cash flows from financing activities		
Proceeds from issuance of common shares (note 6)	3,684,105	4,697,864
Share issue costs including sales commissions (note 6)	(327,176)	(473,976)
Redemption of common shares (note 6)	(105,833)	(142,525)
	3,251,096	4,081,363
Increase in cash during the year	489,302	876,635
Cash - Beginning of year	1,741,415	864,780
Cash - End of year	**2,230,717**	**1,741,415**
Supplemental cash flow information		
Interest received	$ 153,942	$ 162,303

See accompanying notes to the financial statements

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2010

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	$ 957,000
Vigil Health Solutions Inc.				
Common shares	747,714	-	1,076,800	78,510
12% convertible note	$ 100,000	March 31, 2011	100,000	100,000
Total public venture investments			**3,976,800**	**1,135,510**
Private				
Avigilon Corp.				
6% Class A preferred shares	2,500,000	-	2,500,000	
GaleForce Solutions Inc. (note 16)				
8% Class B preferred shares	920,775	-	795,833	
12% Class C preferred shares	634,362	-	634,362	
Class C preferred share warrants	400,000	June 30, 2014	-	
12% secured convertible note	$ 100,000	On demand	100,000	
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	3,474,411	-	1,751,103	
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. (note 16)				
6% Class A preferred shares	3,609,187	-	702,719	
6% Class B preferred shares	4,503,233	-	889,832	
10% convertible note	$ 240,000	October 29, 2011	240,000	
Carried forward			15,507,439	

STATEMENT OF INVESTMENT PORTFOLIO...continued

As at December 31, 2010

VENTURE INVESTMENTS...*continued*

Investee	Number of Shares / Par $ Value	Expiry Date / Maturity Date	Cost $	Estimated Fair Value $
Brought forward			$15,507,439	
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	
Class A-1 preferred share warrants	123,093	June 8, 2019	-	
Class A-1 preferred share warrants	73,856	October 20, 2019	-	
8% convertible notes	$ 400,000	On demand	400,000	
9% convertible note	$ 50,000	On demand	50,000	
Navarik Corp.				
Common shares	1,149,425	-	1,000,000	
Paradigm Environmental Technologies Inc.				
Class A voting common shares	983,976	-	2,910,039	
Rx Networks Inc.				
8% Series A2 preferred shares	5,888,889	-	2,650,000	
8% Series B1 preferred shares	1,252,758	-	676,490	
Tantalus Systems Corp.				
10% Class A preferred shares	438,596	-	500,000	
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	5,598,646	-	1,683,623	
Total private venture investments, at cost			36,685,480	
Unrealized gain on private venture investments			2,176,087	
Total private venture investments				**38,861,567**
Total venture investments - at estimated fair value				**39,997,077**
Other assets, net of liabilities				**7,651,232**
Net assets				**47,648,309**

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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:

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.

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 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.

NOTES TO FINANCIAL STATEMENTS

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Marketable securities

Marketable securities are held within the investment protection account (see note 4) and are highly liquid short-term interest-bearing securities with maturity dates of less than 60 days at inception. They 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 bank accounts and bankers' acceptances.

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

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*.

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 (see note 5 – Management fees and performance fees).

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 International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for investment companies applying Accounting Guideline 18 *Investment Companies*, which includes the Fund, effective for fiscal years beginning on or after January 1, 2013.

Accordingly, the Fund will apply accounting policies consistent with IFRS beginning with its interim financial statements for the six months ended June 30, 2013. The Company's 2013 interim and annual financial statements will include comparative 2012 financial statements, adjusted to reflect accounting policies that are consistent with IFRS.

In light of the delay in issuance of a final accounting standard and the resultant deferral of the mandatory IFRS changeover date for investment companies, the Manager has not yet determined the impact of the adoption of IFRS on the Fund's financial statements. The Fund will incur additional audit and advisory fees leading up to the adoption of IFRS resulting in an adverse impact to Pricing NAV per Share. However, as at December 31, 2010, the Manager is not able to quantify the extent of this impact.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

3 *Financial Instruments*

Fair value estimates of financial instruments are made by the Fund 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.

The following table sets out the hierarchy of the fair values of the venture investments of the Fund as at December 31, 2010 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)	1,135,510	-	-	1,135,510
Private venture investments	-	-	38,861,567	38,861,567
	1,135,510	**-**	**38,861,567**	**39,997,077**

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, 2010.

Private venture investments	$
Opening Balance	**33,156,099**
Total realized gains	353,822
Total unrealized gains	4,248,454
Purchases	2,898,898
Dispositions	(1,795,706)
Transfers into or out of Level 3	-
Closing Balance	**38,861,567**

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

Realized gains on venture investments	$ 353,822
Unrealized gains on investments	$3,689,297

As at December 31, 2010, 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 ($90,832) as at December 31, 2010 (December 31, 2009 – loss of $118,970).

See note 13 – Risks associated with financial instruments.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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, 2010 and 2009 were $3,093,505 and $3,162,720, respectively.

5 Management Fees and Performance Fees

The Fund has entered into a management agreement with the Manager under which the Manager is paid an annual management fee of 2.75% of the pricing net asset value of the Fund, up to $100 million, plus 2.5% of the pricing net asset value of the Fund in excess of $100 million, calculated and paid monthly in arrears, as well as, subject to satisfaction of certain conditions, a performance fee equal to 20% of realized gains and other cash income from each eligible venture investment of the Fund, calculated and paid quarterly in arrears.

The payment of the management fee is subject to expense limitations set out in the SBVCA, including that the Fund not incur, in respect of any year, management fee expenses that exceed 3% of the aggregate equity capital it has raised. Payment of performance fees is also subject to such SBVCA expense limitations as may be applicable.

During 2010, the Manager was paid $nil in respect of realized gains on venture investments (2009 - $nil). As at December 31, 2010, the Fund recorded a liability of $nil (2009 - $nil) in respect of performance fees accrued on unrealized gains as the conditions for recording such liability in accordance with the accounting policy in note 2 had not been met.

See note 16 - Subsequent events.

6 Share Capital

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.

The Fund has suspended redemptions since December 19, 2008. See note 14 – Capital disclosures.

a) Issued and outstanding

Authorized: 500,000,000 common shares

Issued

	2010		2009	
	Number of Shares	**Amount**	**Number of Shares**	**Amount**
Balance - Beginning of year	6,208,337	$52,030,211	5,593,942	$47,992,823
Common shares issued	524,889	3,684,105	633,748	4,697,864
Common shares redeemed	(15,468)	(140,256)	(19,353)	(186,500)
Less: Issue costs				
Sales commissions	-	(198,664)	-	(283,255)
Other share issue costs	-	(128,512)	-	(190,721)
Balance - End of year	6,717,758	55,246,884	6,208,337	52,030,211

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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.

Increase or 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, 2010 was 6,537,085 (2009 – 5,935,138). Diluted increase or decrease per share has not been presented as no dilutive equity instruments have been granted or issued.

For share pricing purposes, the Fund calculates Pricing NAV per Share by adjusting for the impact of adoption of Section 3855 – *Financial Instruments – Recognition and Measurement* 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:

	2010	2009
Net assets in accordance with GAAP as reported	$ 47,648,309	$ 41,981,212
Section 3855 adjustments:		
Change in method for estimating fair value of venture investments	12,762	73,728
Change in method for estimating fair value of marketable securities	768	210
Add:		
Unamortized deferred share issue costs including sales commissions	1,271,723	1,565,145
Other financial statement adjustments	(44,878)	(108,184)
Pricing net asset value	48,888,684	43,512,111
Common shares outstanding at December 31	6,717,758	6,208,337
Pricing NAV per Share	$7.28	$7.01
Net assets in accordance with GAAP per common share	$7.09	$6.76

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 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.

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

	2010	2009
Share issue costs		
Balance - Beginning of year	$ 1,565,145	$ 1,729,530
Add:		
Sales commissions	198,664	283,255
Other share issue costs	128,512	190,721
Less:		
Amortization	(620,598)	(638,361)
Balance - End of year	1,271,723	1,565,145

7 Shareholders' Equity

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

	2010	2009
Share capital (net, per note 6 a))	$ 55,246,884	$ 52,030,211
Accumulated deficit	(6,933,616)	(5,694,743)
Unrealized losses on investments	(664,959)	(4,354,256)
Net assets, representing shareholders' equity	47,648,309	41,981,212

8 Related Party Transactions

The following table summarizes related party fees and expenses payable in respect of the years ended December 31, 2010 and 2009:

	2010	2009
Directors' fees and expenses	$ 41,309	$ 41,911
Management fees	1,246,870	1,193,659
Reimbursement of expenses	28,216	84,637
	1,316,395	1,320,207
Due to related parties	$ 132,588	$ 115,873

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, 2010, the Fund had invested $2,800,000 (2009 - $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, 2010 (in respect of beneficial entitlements of DCC's former shareholders): Vigil Health Solutions Inc. and Tantalus Systems Corp.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

9 Bad Debts

In 2010, the Fund recorded bad debt expense of $669,236 relating to unpaid interest and dividend income accrued on its security holdings in three private portfolio companies in respect of which the Fund had written down the estimated fair value. In 2009, the Fund wrote off unpaid interest of $368,390 accrued on its security holdings in a private portfolio company in respect of which the Fund had written off its investment.

10 Contingencies

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, 2010, the Fund was required to have invested a minimum of $44,467,631 in eligible businesses and was deficient of this requirement by approximately $4.7 million. The Fund has received relief from this requirement until December 31, 2011.

The board of directors approved a proposal of the Manager to make the payment of expenses incurred by the Manager during 2010 that are reimbursable from the Fund contingent on the Fund raising certain amounts of equity capital by March 1, 2011. The total liability which the Fund could incur in this respect is $72,706, which is in addition to $28,216 of expenses reimbursable to the Manager recorded as at December 31, 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 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 tax rates for investment income earned by Canadian-controlled private corporations.

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

	2010	2009
Realized losses on venture investments	$ 398,000	$ 398,000
Unrealized losses on investments	149,000	973,000
Non-capital losses carried forward	5,587,000	4,884,000
Share issue costs and trailer fees	610,000	544,000
Other	54,000	25,000
Valuation allowance	(6,798,000)	(6,824,000)
Net future income tax assets	-	-

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

The Fund has reduced the tax benefit from the amounts that would be recorded using statutory rates to $nil through the change in the valuation allowance.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

Amount	Expiry Date
$ 987,000	2014
1,231,000	2015
1,494,000	2026
1,967,000	2027
2,141,000	2028
2,868,000	2029
2,057,000	2030
$12,745,000	

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 significant credit risks and although these risks are attempted to be mitigated through active review of the venture investment portfolio, they can nonetheless have an adverse impact on the net assets of the Fund. See note 9 – Bad debts.

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 continuing effects of the credit crisis and global economic slow-down experienced in 2008 and 2009, and in particular the adverse effects those events have had on private venture capital markets, the potential of the Fund to achieve successful liquidity events within its venture investment portfolio has been adversely impacted and the environment in which the Fund raises equity capital for investment and to sustain operations continues to be 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 managing its investments toward a path to liquidity.

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

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.

NOTES TO FINANCIAL STATEMENTS

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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 (US$4,126,118) for which there is exposure to currency risk. 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 estimated 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*

The CICA 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.

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 – Contingencies with respect to the Fund's compliance in these matters.

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 has not been able to reinstate redemptions since then.

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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, 2010, 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 Subsequent Events

a) Amendment to Management Agreement

The management agreement with the Manager was renewed and amended effective January 1, 2011 (the "Renewed Agreement"). Pursuant to the amendments, the management agreement may be terminated by the Fund at any time by special resolution of the common shareholders of the Fund at a meeting of shareholders called for the purpose of considering the termination of the Manager. Pursuant to the Renewed Agreement, termination of the Manager is effective as of the date on which the Fund pays the Manager a fee (subject to any applicable SBVCA expense limitations) in respect of such termination equal to 24 times the average monthly management fee paid to the Manager in each of the three months immediately preceding the month in which the resolution approving the termination of the Manager is passed by shareholders of the Fund. In the event of termination, the Manager will also continue to receive (subject to any applicable SBVCA expense limitations) a 20% performance fee in respect of investments held by the Fund on the effective date of such termination as well as a reduced 10% performance fee on follow-on investments made by the Fund subsequent to the termination date in investee companies in which the Fund holds an investment on the termination date.

b) Write off of portfolio investment

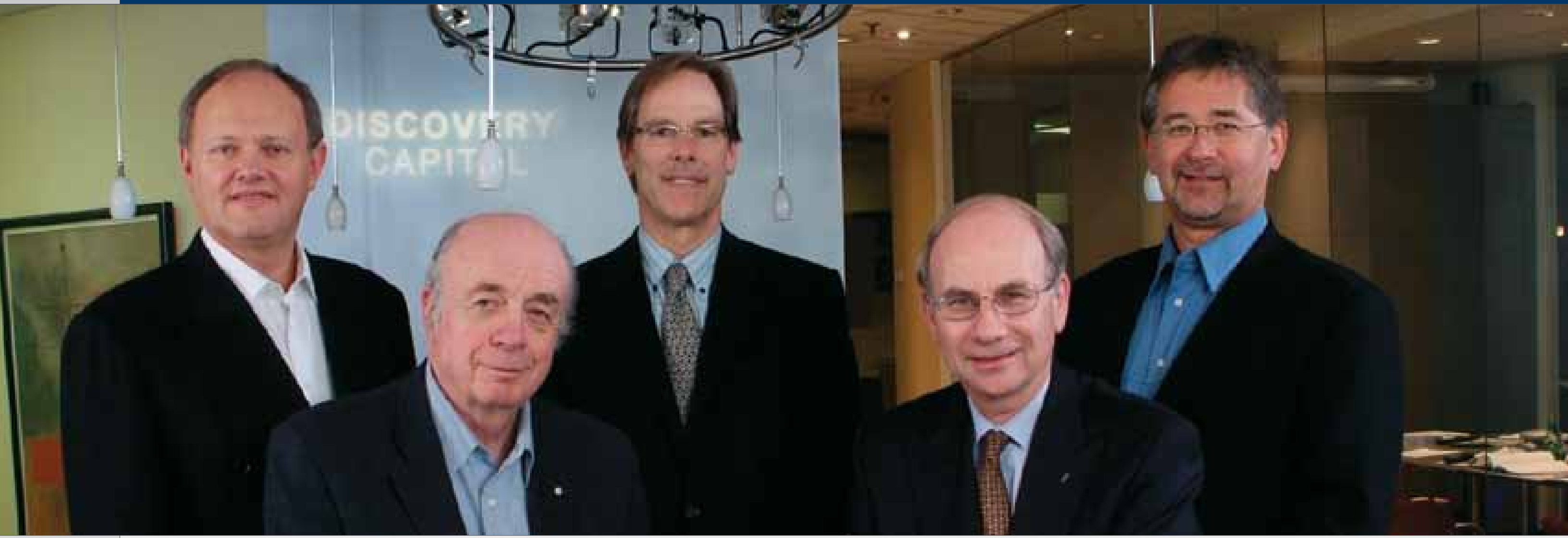
As at December 31, 2010, portfolio company Lat49 Media Inc. ("Lat49") was in negotiations with and had proposed terms to certain third parties that it would have accepted for the acquisition of the company. During the month of January 2011, these certain third parties either terminated negotiations or counter-proposed terms that were unacceptable to the board of Lat49. After concluding that the sales process had effectively terminated, and after also considering the financial state of the company, the Fund wrote off its investment in Lat49. Total realized loss with respect to this investment is approximately $1.83 million.

c) Sale of business of portfolio investment

Effective January 1, 2011, the assets and business of portfolio company, GaleForce Solutions, Inc. ("GaleForce") were sold to a third-party buyer (the "Sale"). From the initial cash proceeds payable to GaleForce in respect of the Sale, the Fund received repayment of a $100,000 loan to GaleForce, with interest, as well as approximately $65,000 in respect of its equity investment in GaleForce. The Sale contemplates additional cash payments by the buyer, subject to certain earn-out provisions, such that, assuming all earn-out requirements are met, the Fund is entitled to receive an additional approximate $500,000 over the ensuing 12 to 18 months. As at December 31, 2010, the estimated fair value of GaleForce had been written down to an amount that approximated the initial cash payments anticipated to be received by the Fund. This write down resulted in an unrealized loss of $1.2 million with respect to the Fund's investment in GaleForce as at December 31, 2010. As a condition of the Sale, the Fund and certain other shareholders of GaleForce provided certain indemnities to the buyer in relation to certain matters, the exposure for which, generally, does not exceed the amount that the Fund and these other shareholders could receive in connection with distribution of the Sale proceeds.

17 Comparative Figures

Certain of the prior year's 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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Fund Code DCC 100, 101, 102 & 104

Fund Manager
Discovery Capital Management Corp.

Administration
The Investment Administration Solution Inc.
330 Bay St., Suite 400
Toronto, Ontario M5H 2S8
Toll Free 877 427 2520
Tel 416 368 9569 ext. 309
Fax 416 368 7355

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

May 31, 2011 at 2:30PM
Discovery Capital Management Corp.
Suite 570 - 1285 West Pender Street
Vancouver, B.C.

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