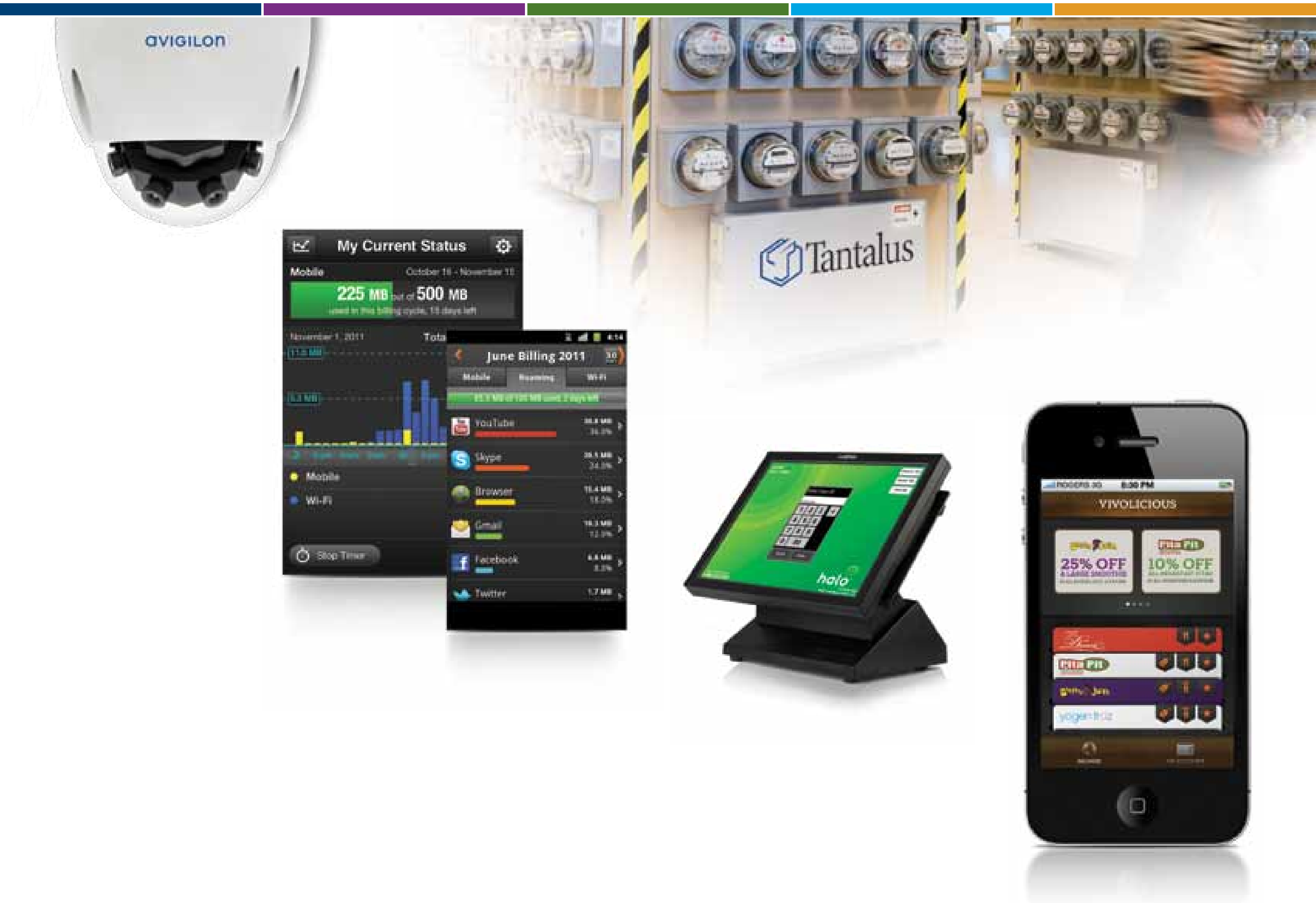
BC DISCOVERY FUND

Innovation to Commercialization

ANNUAL REPORT

Building BC's Future in Technology | 2011



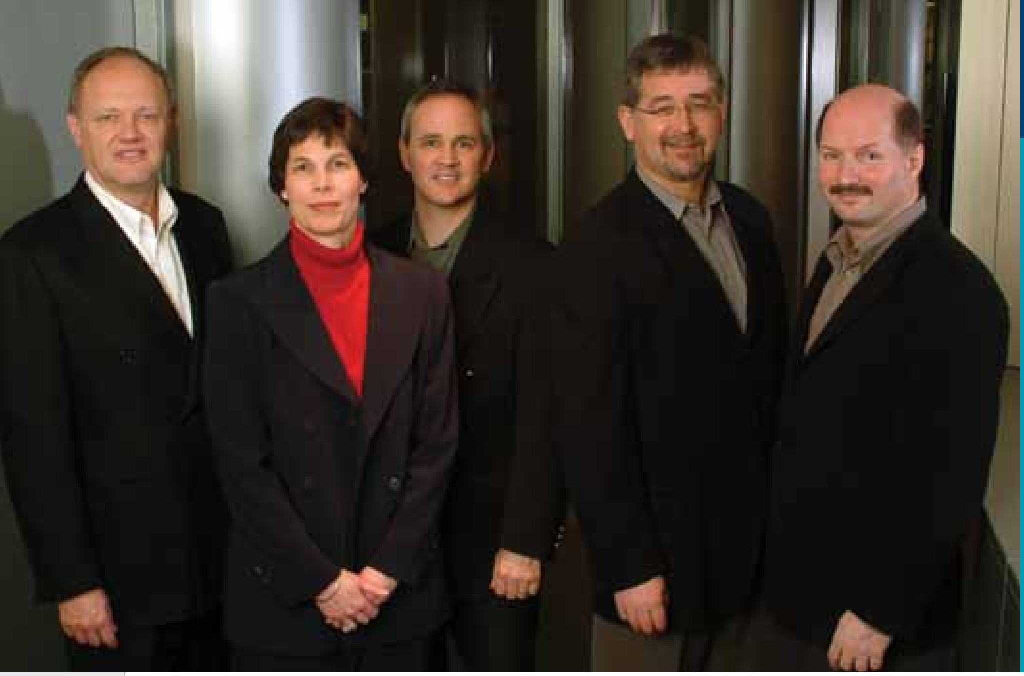


Table of Contents

« Discovery Capital Team

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.

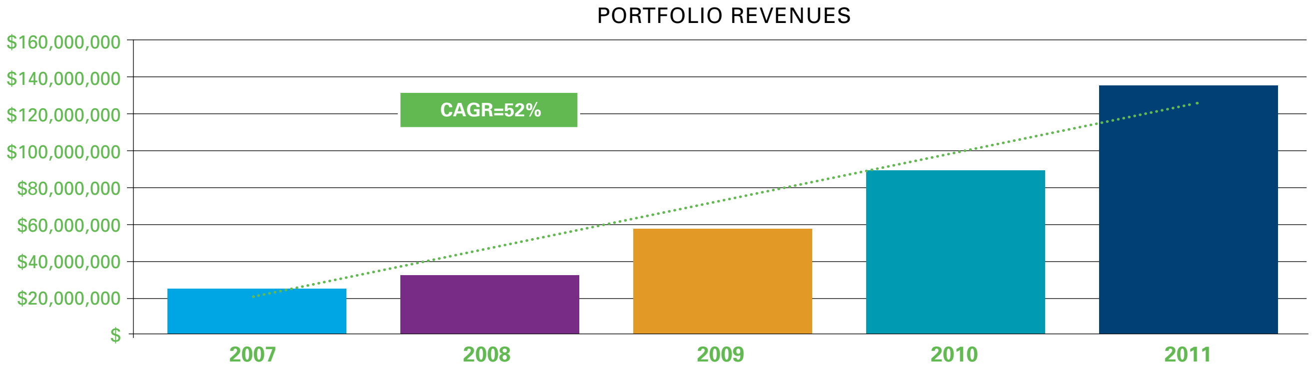
While financial markets faced uncertainty, and volatility continued throughout 2011, half of the portfolio companies of **British Columbia Discovery Fund (VCC) Inc.** were again recognized for business awards - locally, nationally and internationally - continuing to receive accolades for their business success, technology leadership, growth potential, and overall excellence.

- **Avigilon** was named to **Deloitte's FAST 500** list as the fastest growing software company and the **4th fastest growing of all technology companies** in North America. **In Motion** and **Vivonet** were also in this very select group.
- In 2011, **Avigilon** was awarded the BC Technology Industry Association's prestigious **'Team of the Year'** and **Vivonet** was BCTIA's **'Emerging Company of the Year'**, with **Avigilon** and **Tantalus** also named as two of the three finalists for **'Company of the Year'**.
- **Avigilon** was recognized as No. 3 on **PROFIT Magazine's 200 Fastest Growing Companies in Canada**, with **Vigil Health** and **Vivonet** also named to this elite group.
- Highlighted among **Deloitte's 50 fastest growing technology companies in Canada** in 2011 were **Avigilon**, **Tantalus**, and **Vivonet**.
- **Inimex**, **Paradigm**, **Rx Networks**, and **Vivonet** were named to British Columbia's **Life Science, Cleantech and ICT 'Ready to Rocket'** 2011 lists.

This consistent recognition by top industry experts of the venture portfolio of BC Discovery Fund highlights the quality and maturity of these growing companies. **Avigilon** was the first of these award-winners to complete its initial public offering on the Toronto Stock Exchange in November 2011.

The highest priority now for BC Discovery Fund management is to assist as many of our mature portfolio companies as possible to achieve liquidity events, opening the door to increasing value for shareholders of the Fund, share redemptions, and re-investment into new ventures which we firmly believe will become tomorrow's gold medal award winners.

Portfolio Company Revenue Growth



- Revenues for the portfolio companies in the Fund's current portfolio have grown at a remarkable rate with a cumulative average growth rate (CAGR) of 52% over the past five years.
- Revenues for certain individual companies are unaudited. The accompanying chart does not include revenues from Day4 Energy as the business model of that portfolio company has changed such that revenue from year-to-year is no longer comparable.

Invested Capital $3,750,000
PUBLIC (TSX: AVO)

Avigilon is a leader in the design, manufacturing and marketing of high definition, network based video surveillance systems and equipment for the global security market. The Avigilon high-definition surveillance system has been designed to provide high quality video capture, transmission, recording and playback. Since the commercial launch of its surveillance system in 2007, Avigilon has experienced significant growth in sales. From 2008, its first full year of sales, up to and including 2010, the compound annual growth rate of revenue has been 148%. Avigilon completed its initial public offering (IPO) on the Toronto Stock Exchange in November 2011.

www.avigilon.com

Invested Capital $2,290,052
PUBLIC (TSX: DFE)

Day4 Energy is 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. Based on its patented innovations, superior product quality and exceptional in-field performance, Day4 Energy is extending the reach of solar energy.

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 is a biopharmaceutical company focused on the development and commercialization of Innate Defense Regulators (IDRs), novel first in class drugs that selectively modulate the body's innate defenses without causing inflammation. IDR products have major market potential for infectious disease, side effects of cancer therapies, and inflammatory disease. These products will significantly reduce morbidity and mortality in the rapidly growing population of "at-risk" immune suppressed and elderly patients. IDR products will also benefit health care payors by reducing costs associated with hospitalization.

www.inimexpharma.com

Invested Capital $6,437,853
PRIVATE

In Motion is the leader in mobile networking technologies that efficiently 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, anytime. Today, In Motion's solutions are used by numerous municipal, health care, public safety, transportation and utility organizations worldwide.

www.inmotiontechnology.com

Invested Capital $5,262,499
PRIVATE

Mobidia develops software and solutions for enhancing mobile data networks. By leveraging the collective, distributed computing power of tens of millions of smartphones, Mobidia can increase network efficiency and enhance experiences for subscribers. In addition to offering a transport optimization solution and the My Data Manager consumer application, which is a subscriber-centric policy technology for managing mobile data, Mobidia provides a wide range of development services for developing and licensing custom mobile solutions.

www.mobidia.com

Invested Capital $1,000,000
PRIVATE

Navarik's mission is to be the leading provider of physical operations software and data services for the commodity trading industry by leveraging its on-demand software platform and industry expertise. 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 optimize trade with their counterparties and achieve better performance from their inspection firms, terminals and vessels.

www.navarik.com

Invested Capital $3,160,039
PRIVATE

Paradigm provides innovative products for wastewater treatment plants to efficiently convert waste streams into renewable energy and other valuable bio-products, and to significantly reduce waste for disposal. Paradigm's products reduce a plant's environmental footprint, including greenhouse gas emissions. In particular, Paradigm has developed MicroSludge®, a patented technology that significantly enhances the anaerobic digestion process, thereby reducing operating costs and increasing plant capacity while generating more biogas for renewable energy. MicroSludge® is modular, and can be easily deployed at existing facilities. Industrial wastewater applications include pulp and paper, meat and food processing, pharmaceutical, and chemical plants.

www.microsludge.com

Invested Capital $3,514,725
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 mobile devices.

www.rxnetworks.com

Invested Capital $3,564,140
PRIVATE

Tantalus provides Smart Grid communications technology that enables electric, gas and water utilities to optimize their resources by automating monitoring and control processes, improving operational efficiency, and delivering the information that 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 that utilities need today for Automated 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

Invested Capital $1,226,800
PUBLIC (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.vigil.com

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™, 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 those customers to benchmark their performance against other users and the industry at large. In 2011, Vivonet introduced Halo Mobile™, an end-to-end mobile ordering and customer service application. With Halo Mobile™, restaurant customers can place orders, pay via their smartphones, set pick-up times, and skip the line-up, while restaurants obtain automatic integration with their in-store Halo™ POS and online reporting capabilities.

www.vivonet.com

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 ("Financial Statements"), 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, 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 2012 prospectus.

Redemption Priority of Class B Shares

In 2011, in order to raise equity capital to meet minimum investment requirements under the SBVCA, the Fund issued a new class of common shares that are not eligible for tax credits – "Class B Shares" – see "Results of Operations – Year ended December 31, 2011" below. Except in very limited circumstances, redemption of the common shares that are eligible for tax credits and have been issued by the Fund since inception – redesignated as "Class A Shares" – is prohibited for a period of five years from the date of investment and is subordinate to the redemption rights of holders of Class B Shares. Holders of Class B Shares are not entitled to redemption until the occurrence of a "qualified liquidity event" – see "Recent Developments – Redemptions Update" below. In addition, the Fund is prohibited from redeeming Class A Shares or Class B Shares in certain circumstances and may, in those and certain other permitted circumstances, suspend or decline requests for redemption for substantial periods, with the result that, for practical purposes, shareholders may not be able to redeem Class A Shares for periods longer than five years from the date of investment or Class B Shares notwithstanding the occurrence of a "qualified liquidity event".

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 issued Class B Shares in 2011 to address these issues, and although the Fund had sufficient cash resources at December 31, 2011, it was still short of its minimum investment obligations under the SBVCA at that date. The Fund is required to fully comply with its minimum investment obligations by December 31, 2012 and may need to 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 of Investment in Common Shares of the Fund

There currently is no market for the Class A Shares or Class B Shares and shareholders will not, generally, be able to dispose of their Class A Shares or Class B Shares other than by way of redemption. As noted above, redemption of Class A Shares is subordinate to redemption of Class B Shares, and all redemptions are subject to constraints and conditions. The Fund has suspended redemptions of Class A Shares since December 2008 and the Manager cannot predict the date on which the Fund will re-commence redeeming its Class A 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 its 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 Class A Shares of the Fund will increase or decrease with the value of such assets. The redemption value of Class B Shares, other than in the case of the minimum redemption value, will also 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 Class A Shares in each of the periods January 1, 2012 to February 15, 2013 and January 1, 2013 to February 15, 2014. The Fund also has the ability to access additional authorization should the limit be met in any period.

There is no assurance the Fund will receive authorization to issue additional Class A 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 Class A Shares would not qualify for tax credits.

Results of Operations – Year ended December 31, 2011

Pricing Net Asset Value per Class A Share (the price at which the Fund sells and redeems its Class A Shares) was $7.21 at December 31, 2011, a decrease of 1.0% over the year.

There was a decrease in net assets from operations of $62,684 over the year, which included realized gains of $1,878,248 and unrealized losses on the estimated fair value of the Fund's venture investments of $222,599, as explained below under "Operating Results".

In 2011, the Fund sold both Class A Shares, the common shares eligible for tax credits that have been offered by the Fund since its inception in late 2002 (and re-designated as **"Class A Shares"**), and **"Class B Shares"**, a new class of common shares offered for the first time in 2011 in a limited allotment of up to 800,000 shares. Sales of Class A Shares have been in decline over the last several years, being $2.6 million in 2011 and $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 Fund's ability to sell Class A Shares has been adversely impacted by 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.

Thus, in order to expeditiously raise funds for its investment requirements under the SBVCA, the Fund determined to offer to investors Class B Shares having certain rights and attributes, including a redemption priority in advance of the Class A Shares and no minimum hold period prior to redemption entitlement – refer to note 6 of the Financial Statements for a summary of these rights and attributes. The Fund sold $5.2 million of Class B Shares from July through October 2011, and, in accordance with their terms and conditions, subsequently redeemed Class B Shares having an aggregate redemption value of $2.5 million. Sales of Class B Shares were suspended after October 2011 and remain suspended. As at December 31, 2011, the aggregate redemption value of the remaining outstanding Class B Shares is approximately $3.0 million. See note 6 of the Financial Statements.

Net proceeds from the issuance of Class B Shares are being held in a separate account, for use only to make eligible investments in accordance with the SBVCA. The Manager will not earn any management fees on the net proceeds outstanding from time to time from the issuance of the Class B Shares.

Net Assets

Net assets for financial statement reporting purposes were $52,229,160 at December 31, 2011, an increase of 9.6% from net assets of $47,648,309 at December 31, 2010. The increase in net assets is the net result of the positive impacts of proceeds from sales of Class A Shares and Class B Shares of $7,200,630 (net of share issue costs), offset by Class A Share redemptions of $44,281 and Class B Share redemptions of $2,512,814, and a decrease in net assets from operations of $62,684 (see "Operating Results" below). (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 Class A Share) discussed in the preceding section. See disclosure in "Financial Highlights" below for additional discussion as to the nature of this difference.)

Operating Results

Net assets from operations decreased by $62,684 for the year ended December 31, 2011, compared to an increase of $2,416,001 for the year ended December 31, 2010.

The decrease in net assets from operations in 2011 includes net realized gains of $1,878,248 as a net result of: (a) the Fund's sale, at a gain, of 1,000,000 shares of **Avigilon Corporation**, where the Fund was a selling shareholder in a secondary offering under Avigilon's prospectus for its initial public offering; (b) the Fund's disposal, at a loss, of its investment in privately-held portfolio company **GaleForce Solutions Inc.** upon the wind-up and dissolution of that company subsequent to the sale of its assets and business; and, (c) the sale, at a significant loss, of 300,500 shares of the Fund's shareholding in publicly-traded investment **Day4 Energy Inc.** The Fund also had net unrealized losses of $222,599, mainly as a net result of: (a) write-downs to $nil in the estimated fair values of the Fund's investments in privately-held portfolio companies, **Lat49 Media Inc.** and **MovieSet Inc.**, as these companies ceased operations; (b) write-downs in the estimated fair value of the Fund's investments in privately-held portfolio companies **Gatekeeper Systems Inc.** and **Inimex Pharmaceuticals Inc.**, due to greater risk in the realization of the business objectives of these companies; and (c) a write-up in the estimated fair value of the Fund's investment in privately-held portfolio company **In Motion Technology Inc.**, as a consequence of a major financing undertaken by that company.

By comparison, the increase in net assets from operations in 2010 included $4,248,454 of net unrealized gains as a result of changes to the estimated fair value of the then privately-held investments of the Fund. The most notable increase in 2010 resulted from the Fund's investment in **Avigilon**, where, as a result of its extraordinary revenue growth and achievements, an independent valuation process resulted in the Fund recording a substantial unrealized gain on that 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 included 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 2010 at a higher valuation than its previous financings.

Total investment income of $882,483 for 2011 was lower than total investment income of $1,163,964 for 2010 as dividends and interest accrued on venture investments of the Fund were substantially lower, while interest from marketable securities (as a result of higher cash balances) was somewhat higher. Total expenses of $2,600,816 in 2011 were lower than total expenses of $2,791,082 in 2010. While there was no bad debt expense in 2011, as compared to a bad debt expense of $669,236 in 2010, total expenses were otherwise higher in 2011 mainly due to: (a) higher management fees and trailer fees reflecting the increased pricing net assets of the Fund between the two years; (b) higher (by $345,374) transaction costs related primarily to the Fund's disposition of a portion of its shareholdings in **Avigilon**; and (c) higher (by $98,011) HST expense. The overall result was a net investment loss of $1,718,333 in 2011 compared to a net investment loss of $1,627,118 in 2010.

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 2011, the Fund made cash investments of $3,838,235 into five existing portfolio companies, while in 2010 the Fund made cash investments of $2,956,926 into eight existing portfolio companies. The Fund's last new portfolio investment was made in 2009, as funds available from capital raising have been constrained and allocated toward follow-on investments in existing portfolio companies and to the Fund's operating activities.

At December 31, 2011, the Fund's portfolio was comprised of venture investments in twelve active emerging technology companies, diversified across its targeted technology sectors. Nine of these investments were in privately-held companies, representing 80% of the total estimated fair value of the Fund's venture investment portfolio at December 31, 2011. The impact of portfolio company **Avigilon** becoming a publicly-traded company late in 2011 has resulted in a higher percentage of the Fund's portfolio value being held in publicly-traded companies as compared to previous years.

The Fund's asset mix at December 31, 2010 was 77% in venture investments and 23% 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 Class A Shares in each of the periods January 1, 2012 to February 15, 2013 and January 1, 2013 to February 15, 2014, with the ability to receive further authorization should the limit be met in any period.

Typically, a substantial portion of the sale of Class A Shares occurs between the months of September and February. However, as mentioned previously in this report, annual sales of Class A Shares have declined significantly over the years. The Fund sold approximately $1.8 million of its $10 million allocation for 2011 which expired on February 29, 2012.

Although the Fund had increased its cash resources as at December 31, 2011, the Fund was still short of its minimum investment obligations under the SBVCA at that date by approximately $3.7 million. The Fund is also required to invest an additional approximately $2.4 million in 2012 to fulfill its minimum investment obligations for 2012. The Fund received a letter dated January 17, 2012 from the SBVCA Administrator requiring the Fund to rectify, by December 31, 2012, 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, 2011, the Fund had sufficient cash resources to meet these obligations. However, generally, the ability of the Fund to meet its required investment obligations for all years thereafter 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 in recent times and current global economic uncertainty have negatively impacted the Fund in several respects. Since 2009, 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 very cautious about higher-risk, longer-term investment commitments such as an investment in the Fund. This combination of circumstances has resulted in much slower sales of Class A Shares over the last three years, which materially reduced liquidity for the Fund. Although the Fund did alleviate its weak liquidity position by successfully raising funds during 2011 by way of the offering and sale of the Class B Shares, the Fund's principal source of equity capital remains from the sale of Class A Shares. The prospect for raising equity capital from the sale of Class A Shares remains very challenging and uncertain in 2012.

In spite of these challenges, several of the Fund's portfolio companies have continued to achieve strong revenue growth and other positive business milestones. Portfolio company Avigilon Corporation is an excellent example of this type of achievement, as it succeeded in completing a $26 million initial public offering (IPO) in the last quarter of 2011 and was the only IPO completed in Canada in that period. The Fund was able to realize gross proceeds of $4.5 million by way of participating in the secondary offering under the Avigilon IPO.

The Manager remains optimistic that the portfolio companies of the Fund are well-positioned to take advantage of exit opportunities as market conditions continue to improve, and certain of these companies are actively engaged in discussions pertaining to potential exit transactions. As most of the Fund's portfolio companies are revenue-generating, the necessity for additional or follow-on investment in them by the Fund 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

As explained earlier in this Report, the Class B Shares have a priority of redemption in advance of the Class A Shares. Generally, holders of Class B Shares are entitled to redemption upon occurrence of a "qualified liquidity event" – i.e., where net cash proceeds to the Fund from investment realizations or dispositions exceed $4 million in a rolling six-month period. The Fund made an "early redemption offer" to holders of Class B Shares as a result of its realization under the Avigilon IPO, and redeemed Class B Shares having a redemption value of $2.5 million. As at December 31, 2011, the aggregate redemption value of the remaining outstanding Class B Shares is approximately $3.0 million and, generally, the Fund is required to redeem the remaining outstanding Class B Shares, at the prevailing redemption value of those shares at the time of redemption, before the Fund can consider redemption of any Class A Shares.

Pursuant to the requirements of the SBVCA, the sources of funds available to the Fund to meet redemption requests from holders of Class A Shares 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 Class A Shares issued in December 2002 and in 2003 the holders of which had become eligible during 2008 to request redemption of their Class A Shares. During 2009, 2010 and 2011, holders of an additional approximately 3.0 million Class A Shares issued in 2004, 2005 and 2006 became eligible to request redemption of their Class A Shares, none of which Class A Shares were redeemed, as the Fund has continued to suspend redemptions. During 2012, holders of an additional approximately 1.5 million Class A Shares issued in 2007 will also become eligible to request redemption of their Class A Shares. An aggregate of approximately $35.0 million of Class A Shares will be eligible to request redemption on or before December 31, 2012, based on Pricing Net Asset Value per Class A Share as at December 31, 2011.

The ability of the Fund to redeem Class B Shares or Class A Shares 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 $26.0 million of "mature" investments by the end of 2012 (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 Class B Shares or Class A Shares in any year. Class B Shares have redemption priority over Class A Shares. Therefore, **holders of Class A Shares and investors in Class A Shares are cautioned that the redemption period applicable to Class A 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 Class A Shares.**

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, 2014.

Accordingly, the Fund will adopt IFRS in its reporting period ending December 31, 2014 with an effective transition date of January 1, 2013 for financial statements prepared on a comparative basis.

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 Class A Share. However, as at December 31, 2011, 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, 2011 and 2010.

	2011	2010
Directors' fees and expenses	$ 52,633	$ 41,309
Management fees	1,339,312	1,246,870
Reimbursement of expenses	30,399	28,216
Total related party fees and expenses	**$ 1,422,344**	**$ 1,316,395**

Management fees are payable to the Manager pursuant to the amended and restated management agreement dated as of June 13, 2011 between the Manager and the Fund – see "Management Fees" below. Reimbursement of expenses is comprised of directors' and officers' insurance and miscellaneous office expenses which the Manager paid on behalf of the Fund.

As at December 31, 2011, the Fund had an investment cost of $2,290,052 (2010 - $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, 2011 (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 Class A Share [(1)]	2011	2010	2009	2008	2007
Net Assets attributable to Class A Shares, beginning of year	$ 7.09	$ 6.76	$ 7.58	$ 9.68	$ 8.28
Section 3855 transitional adjustment [(3)]	-	-	-	-	0.01
Increase (decrease) from operations:					
Total revenue	0.13	0.18	0.21	0.28	0.30
Total expenses	(0.37)	(0.42)	(0.38)	(0.39)	(0.43)
Realized gains (losses) for the period	0.26	0.05	(0.30)	-	0.04
Unrealized gains (losses) for the period	(0.03)	0.56	(0.29)	(2.27)	2.05
Performance fees accrued on unrealized gains	-	-	-	0.36	(0.44)
Total increase (decrease) from operations [(2)]	**$ (0.01)**	**$ 0.37**	**$ (0.76)**	**$ (2.02)**	**$ 1.52**
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total Annual Distributions	-	-	-	-	-
Net Assets attributable to Class A Shares at December 31	**$ 6.95**	**$ 7.09**	**$ 6.76**	**$ 7.58**	**$ 9.68**

(1) This information is derived from the Fund's audited annual financial statements. The net assets per Class A Share presented in the financial statements differs from the net asset value calculated for fund pricing purposes (Pricing NAV per Class A 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 Class A 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 Class A Share instead of the closing bid prices at period-end required for the financial statements Net assets attributable to Class A Shares as at December 31, 2011 is the result of deducting the net assets attributable to the outstanding Class B Shares as at December 31, 2011, which was $3,002,952 at that date. The Class B Shares were issued in 2011 only – they have a redemption priority over the Class A Shares and are redeemable at the greater of: (a) the Class B Share issue price of $10.00 per share, plus an amount equal to the percentage increase in the Pricing NAV per Class A Share from the issue date of a Class B Share to the valuation date on which it is redeemed, and (b) the Class B Share issue price of $10.00 per share plus 6% per annum, calculated from the issue date of a Class B Share to the valuation date on which it is redeemed, plus, in either case, any dividends then declared and remaining unpaid in respect of the Class B Shares. As such, no revenue, expenses, and portfolio gains or losses are attributed to the Class B Shares.

(2) Net assets attributable to Class A Shares are based on the actual number of Class A Shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of Class A 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	**2011**	**2010**	**2009**	**2008**	**2007**
Total net asset value (000's) (1)	$ 51,028	$ 48,889	$ 43,512	$43,880	$ 55,177
Number of Class A Shares outstanding (1)	7,081,113	6,717,758	6,208,337	5,593,942	5,515,592
Management expense ratio (2)	5.87%	6.63%	6.19%	5.33%	7.03%
Bad debt expense	-	*1.46%*	*0.83%*	-	-
Commissions and other share issue costs	*1.24%*	*0.72%*	*1.07%*	*1.02%*	*2.38%*
Management, administrative and other fees and expenses	*4.63%*	*4.45%*	*4.29%*	*4.31%*	*4.65%*
Trading expense ratio (3)	0.71%	0.18%	0.00%	0.00%	0.00%
Portfolio turnover rate (4)	10.01%	4.95%	3.44%	0.00%	10.00%
Pricing NAV per Class A Share (1)	$ 7.21	$ 7.28	$ 7.01	$ 7.84	$ 10.00

(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 Class A Share of the Fund. Management expense ratio was restated for 2010 as it incorrectly included portfolio transaction costs which were included in the calculation of the trading expense ratio for that year. See note (3) below.

(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 adjusted Pricing Net Asset Value of the Fund up to $100 million and 2.50% of the adjusted Pricing Net Asset Value of the Fund in excess of $100 million. (The Pricing Net Asset Value of the Fund is the value which is used by the Fund to calculate the price at which it issues and redeems its Class A Shares – refer to Note 6 b) of the Financial Statements accompanying this Report. The adjusted Pricing Net Asset Value of the Fund excludes the net proceeds outstanding from time to time from the issuance of the Class B Shares for the purpose of calculating management fees payable to the Manager.)

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.

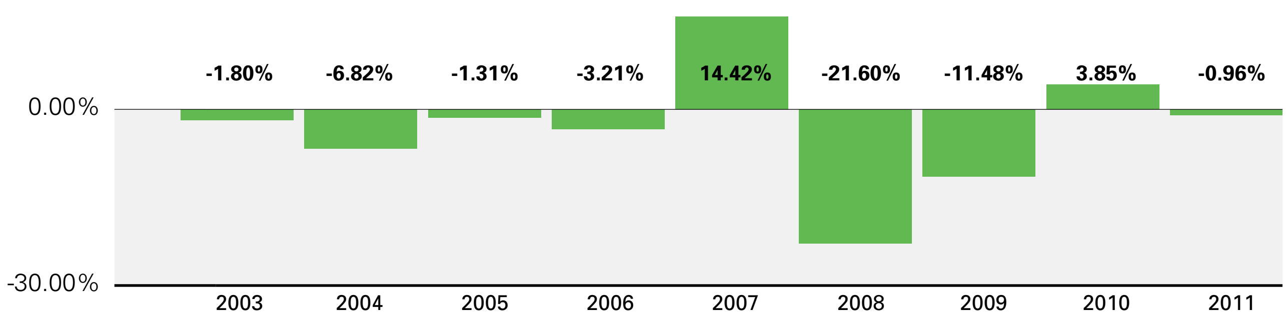
Past Performance

The following bar charts and tables indicate the past performance of the Class A 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 Class A Shares of the Fund for each year shown and illustrate how the Fund's performance has varied in each of the years 2003 through 2011. The Fund was incorporated on November 6, 2002 and offered Class A 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 Class A Shares of the Fund. The charts do not take into account the 30% tax credit received on the purchase price of an investment in Class A 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 Retail Venture Capital 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, 2011.

	1 Year Return/(Loss)	3 Year Return/(Loss)	5 Year Return/(Loss)	Return/(Loss) Since Inception[1]
BCDF – Pricing NAV	(0.96)%	(2.75)%	(3.78)%	(3.57)%
Globe Peer Index	(8.62)%	(5.80)%	(6.75)%	(5.27)%
S&P/TSX Capped Information Technology Index	(20.13)%	8.68%	(6.27)%	(4.43)%

(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 Class A 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 Class A 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 Class A Shares to an RRSP for a tax deduction, as that benefit is available in respect of many investments. Returns are calculated to December 31, 2011.

	1 Year Return/(Loss)	3 Year Return/(Loss)	5 Year Return/(Loss)	Return/(Loss) Since Inception[1]
Purchase price [2]	$ 7.28	$ 7.84	$ 8.74	$ 10.00
Tax credit rate	30%	30%	30%	30%
Net capital invested [3]	$ 5.10	$ 5.49	$ 6.12	$ 7.00
December 31, 2011 price	$ 7.21	$ 7.21	$ 7.21	$ 7.21
Return (excl. tax credit) [4]	(1.0)%	(2.8)%	(3.8)%	(3.6)%
Return from tax credit [5]	7.4%	7.4%	7.4%	4.0%
After tax credit return	**6.4%**	**4.6%**	**3.6%**	**0.4%**

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

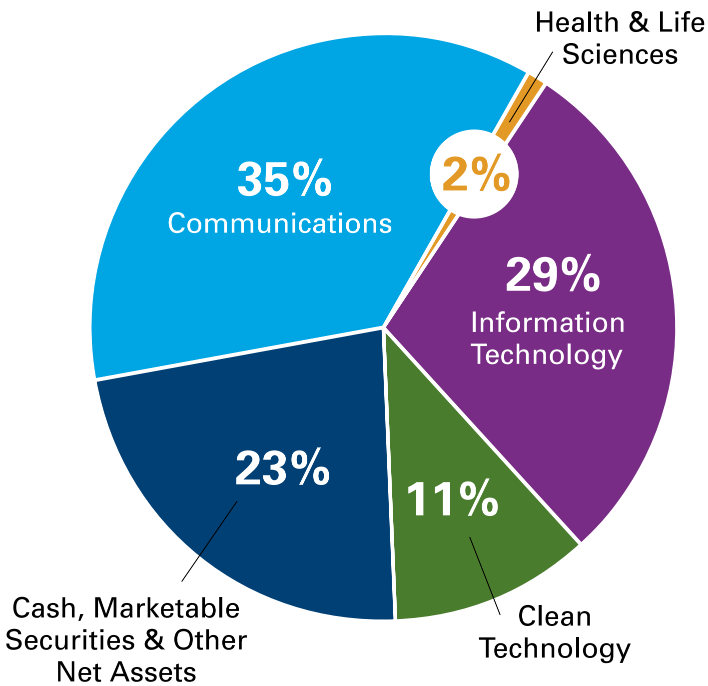
(3) Net capital invested equals the purchase price minus the tax credits received on the purchase. It assumes that the tax credits were fully claimed and allowed at the same time as the purchase was made.

(4) This is the annual, compound return associated with the increase (decrease) in the Pricing NAV per Class A 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 Class A 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 $6.12 net capital invested would grow to a redemption claim on the full purchase price of $8.74 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 Class A 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, 2011 (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, 2011, the Fund had positions in twelve active portfolio companies, nine of which are privately-held and three of which are publicly-trading. The Fund's privately-held investments comprise 62% of net assets and its public company investments (in shares of Avigilon Corporation, Day4 Energy Inc. and Vigil Health Solutions Inc.) comprise 16% 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 active investments are: Gatekeeper Systems Inc., Inimex Pharmaceuticals Inc., In Motion Technology Inc., Mobidia Technology Inc., Navarik Corp., Paradigm Environmental Technologies Inc., Rx Networks Inc., Tantalus Systems Corp. and Vivonet Inc. The estimated fair value of the Fund's investments in inactive companies MovieSet Inc. and Lat49 Media Inc. is nil.

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, 2011 and 2010, the statement of investment portfolio as at December 31, 2011, 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, 2011 and 2010, the investments of the Fund as at December 31, 2011, 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

Vancouver, BC
March 1, 2012

Chartered Accountants

Statements of Net Assets

As at December 31, 2011 and 2010

	2011	2010
Assets		
Venture investments (note 2 and 3)	$ 40,370,701	$ 39,997,077
Funds held in investment protection account (note 4)	2,587,233	3,093,505
Cash	6,514,608	2,230,717
Interest and dividends receivable	2,904,088	2,563,259
Disposition proceeds receivable	118,428	-
Prepaid expenses	12,032	6,835
Total assets	52,507,090	47,891,393
Liabilities		
Accounts payable and accrued liabilities	128,518	110,496
Due to related parties (note 8)	149,412	132,588
Total liabilities	277,930	243,084
Net Assets		
Net assets attributable to Class A common shares (note 6(b))	49,226,208	47,648,309
Net assets attributable to Class B common shares (note 6(b))	3,002,952	-
Total net assets, representing shareholders' equity (note 7)	**52,229,160**	**47,648,309**
Class A common shares outstanding	**7,081,113**	**6,717,758**
Class B common shares outstanding	**281,350**	**-**
Net assets per Class A common share	**$ 6.95**	**$ 7.09**
Net assets per Class B common share	**$ 10.67**	**-**

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, 2011 and 2010

	2011	2010
Investment income		
Dividends from venture investments	$ 826,013	$ 1,046,535
Interest from marketable securities	44,967	18,686
Interest from venture investments	11,503	97,243
Other income	-	1,500
Total investment income	882,483	1,163,964
Expenses		
Management fees (notes 5 and 8)	1,339,312	1,246,870
Transaction costs	345,374	80,333
Harmonized sales tax/goods and services tax	250,253	152,242
Trailer fees	205,227	192,128
Fund administration and transfer agency fees	130,930	125,295
Audit and advisory fees	112,910	118,580
Office expenses and administrative services	82,040	78,554
Directors' fees and expenses (note 8)	52,633	41,309
Shareholder communications	28,425	22,980
Directors' and officers' insurance	21,938	22,500
Marketing expenses	16,803	37,996
Legal fees	14,971	3,059
Bad debts (note 9)	-	669,236
Total expenses	2,600,816	2,791,082
Net investment loss	**(1,718,333)**	**(1,627,118)**
Realized gains on venture investments	1,878,248	353,822
Unrealized gains (losses) on investments	(222,599)	3,689,297
Increase (decrease) in net assets from operations	**(62,684)**	**2,416,001**
Increase (decrease) in net assets from operations per Class A common share - based on weighted average number of Class A common shares outstanding	**$ (0.01)**	**$ 0.37**

See accompanying notes to the financial statements

Statements of Changes in Net Assets

For the years ended December 31, 2011 and 2010

	2011	2010
Net assets - Beginning of year	$ 47,648,309	$ 41,981,212
Operating activities		
Increase (decrease) in net assets from operations	(62,684)	2,416,001
Capital transactions		
Proceeds from issuance of Class B common shares	5,181,450	-
Proceeds from issuance of Class A common shares	2,622,486	3,684,105
Less: Sales commissions	(304,194)	(198,664)
Other share issue costs	(299,112)	(128,512)
Redemption of Class B common shares	(2,512,814)	-
Redemption of Class A common shares	(44,281)	(105,833)
	4,643,535	3,251,096
Increase in net assets	4,580,851	5,667,097
Net assets - End of year	**52,229,160**	**47,648,309**
Unrealized losses on investments		
Unrealized losses – Beginning of year	(664,959)	(4,354,256)
Change during the period	(222,599)	3,689,297
Unrealized losses – End of year	**(887,558)**	**(664,959)**

See accompanying notes to the financial statements

Statements of Cash Flows

For the years ended December 31, 2011 and 2010

	2011	2010
Cash flows used in operating activities		
Increase (decrease) in net assets from operations	$ (62,684)	$ 2,416,001
Items not affecting cash from operating activities		
Unrealized (gains) losses on investments	222,599	(3,689,297)
Realized gains on venture investments	(1,878,248)	(353,822)
Non-cash investment income	-	(41,971)
Net change in non-cash operating accounts	(429,608)	(889)
Net change in investment protection account	506,130	69,404
Net change in marketable securities	-	-
Purchase of venture investments	(3,838,235)	(2,956,926)
Proceeds from disposal of venture investments	5,120,402	1,795,706
	(359,644)	(2,761,794)
Cash flows from financing activities		
Proceeds from issuance of common shares (note 6)	7,803,936	3,684,105
Share issue costs including sales commissions (note 6)	(603,306)	(327,176)
Redemption of common shares (note 6)	(2,557,095)	(105,833)
	4,643,535	3,251,096
Increase in cash during the year	4,283,891	489,302
Cash - Beginning of year	2,230,717	1,741,415
Cash - End of year	**6,514,608**	**2,230,717**
Supplemental cash flow information		
Interest received	59,271	153,942

See accompanying notes to the financial statements

Statement of Investment Portfolio

As at December 31, 2011

Venture investments

Investee	Number of Shares/ Par $ Value	Expiry Date/ Maturity Date	Cost $	Estimated Fair Value $
Public				
Avigilon Corp.				
Common shares	2,000,000	-	3,750,000	7,760,000
Day4 Energy Inc.				
Common shares	1,349,500	-	2,290,052	121,455
Vigil Health Solutions Inc.				
Common shares	3,055,406	-	1,226,800	259,710
Common share warrants	1,153,846	May 31, 2013	-	-
Total public venture investments			7,266,852	8,141,165
Private				
Gatekeeper Systems Inc.				
Class A preferred shares	5,405,405	-	2,000,000	
Inimex Pharmaceuticals Inc. (note 3)				
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	
6% Series 2D preferred shares	1,315,790	-	1,000,000	
Series 2D Preferred share warrants	657,895	December 16, 2013	-	
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$	$ 187,990	October 29, 2011	187,990	
Carried forward			12,425,234	

See accompanying notes to the financial statements

Statement of Investment Portfolio

As at December 31, 2011

Venture investments...cont'd

Investee	Number of Shares/ Par $ Value	Expiry Date/ Maturity Date	Cost $	Estimated Fair Value $
Brought forward			$ 12,425,234	
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	
Navarik Corp.				
Common shares	1,149,425	-	1,000,000	
Paradigm Environmental Technologies Inc.				
Class A voting common shares	983,976	-	2,910,039	
12% convertible note	$ 250,000	April 30, 2013	250,000	
Rx Networks Inc.				
8% Series A2 preferred shares	5,888,889	-	2,650,000	
8% Series B1 preferred shares	1,601,341	-	864,725	
Tantalus Systems Corp.				
10% Class A preferred shares	438,596	-	500,000	
Common shares	1,690,562	-	3,064,140	
Vivonet Inc. (note 3)				
Class B preferred shares	4,280,822	-	1,481,250	
Class C preferred shares	5,598,646	-	1,683,623	
Total private venture investments, at cost			33,991,510	
Unrealized loss on private venture investments			(1,761,974)	
Total private venture investments				32,229,536
Total venture investments - at estimated fair value				40,370,701
Other assets, net of liabilities				11,858,459
Net assets				**52,229,160**

See accompanying notes to the financial statements

Notes to Financial Statements

December 31, 2011 and 2010

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.

Class A common shares of the Fund (Class A Shares) are offered on a continuous offering basis at the pricing net asset value per Class A common share (Pricing NAV per Class A Share). Class B common shares of the Fund (Class B Shares) were issued for a period of time during 2011 for a fixed price of $10.00 per Class B 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.

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.

Notes to Financial Statements

December 31, 2011 and 2010

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).

New accounting pronouncements

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, 2014.

Accordingly, the Fund will adopt IFRS in its reporting period ending December 31, 2014 with an effective transition date of January 1, 2013 for financial statements prepared on a comparative basis.

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 Class A Share. However, as at December 31, 2011, the Manager is not able to quantify the extent of this impact.

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 and marketable securities of the Fund as at December 31, 2011 based on the following criteria:

Notes to Financial Statements

December 31, 2011 and 2010

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).

2011	Level 1 ($)	Level 2($)	Level 3 ($)	Total ($)
Public venture investments (listed equity securities)	8,141,165	-	-	8,141,165
Private venture investments		-	32,229,536	32,229,536
Marketable securities in investment protection account	2,498,178	-	-	2,498,178
	10,639,343	**-**	**32,229,536**	**42,868,879**

2010	Level 1 ($)	Level 2($)	Level 3 ($)	Total ($)
Public venture investments (listed equity securities)	1,135,510	-	-	1,135,510
Private venture investments	-	-	38,861,567	38,861,567
Marketable securities in investment protection account	2,598,086			2,598,086
	3,733,596	**-**	**38,861,567**	**42,595,163**

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, 2011.

Private venture investments	$
Opening Balance	**38,861,567**
Total realized gains	2,300,000
Total unrealized gains	(3,938,061)
Purchases	3,688,235
Dispositions	(4,932,205)
Transfers into or out of Level 3	(3,750,000)
Closing Balance	**32,229,536**

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

Realized gains on venture investments	$ 1,878,248
Unrealized losses on investments	$ (222,599)

As at December 31, 2011, the Fund held investments in Inimex Pharmaceuticals Inc. and Vivonet Inc. that are denominated in United States dollars. The unrealized foreign currency gain included in the estimates of fair value of investments denominated in United States dollars on the Statement of Investment Portfolio is $11,809 as at December 31, 2011 (December 31, 2010 – loss of $90,832).

See note 13 – Risks associated with financial instruments.

4 Investment Protection Account

Pursuant to the requirements of the SBVCA, a VCC that does not have 80% of its raised equity capital invested in eligible businesses is required to maintain investment protection accounts in amounts equal to 30% of the funds raised. As investments in eligible businesses are subsequently made, a drawdown from the investment protection accounts equal to 37.5% of the investment amount is available. These funds cannot be released without the consent of the administrator of the SBVCA. The amounts in the Fund's investment protection accounts at December 31, 2011 and 2010 were $2,587,233 and $3,093,505, respectively.

Notes to Financial Statements

December 31, 2011 and 2010

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 adjusted pricing net asset value of the Fund, up to $100 million, plus 2.5% of the adjusted 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 for cash and other cash income from each eligible venture investment of the Fund, calculated and paid quarterly in arrears. Adjusted pricing net asset value of the Fund is the pricing net asset value of the Fund less the aggregate issue price of the outstanding Class B Shares at the time of such calculation.

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 2011, the Manager was paid $nil in respect of realized gains on venture investments (2010 - $nil). As at December 31, 2011, the Fund recorded a liability of $nil (2010 - $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.

6 Share Capital

Authorized

The authorized capital of the Fund consists of 500,000,000 Class A Shares, an unlimited number of Class B Shares and an unlimited number of class C, class D and class E common shares issuable in series. These latter four classes were approved by special resolution at the Fund's annual meeting of shareholders held on April 26, 2005, and are to have rights and restrictions as the directors of the Fund may determine. On June 13, 2011, the directors of the Fund determined to affix rights and restrictions to the Class B Shares.

The Class A Shares, which are common shares eligible for British Columbia income tax credits, have been offered by the Fund since its inception in late 2002. The Class B Shares are a new class of common shares that were offered by the Fund for the first time during July to October 2011 in a limited allotment. In accordance with the terms and conditions of the Class B Shares, the Fund made an Early Class B Redemption Offer (as defined in the Articles of the Fund) to holders of Class B Shares in November 2011, and redeemed Class B Shares having an aggregate redemption value of $2,512,814. As at December 31, 2011, the aggregate redemption value of the remaining outstanding Class B Shares is $3,002,952. See note 6 b) below.

The following is a summary of the material terms and conditions attached to the Class A Shares and Class B Shares.

Rights and restrictions of Class A Shares and Class B Shares

Holders of Class A Shares and Class B Shares are entitled to receive notice of and attend all meetings of shareholders of the Fund and are entitled to vote all together, as if a single class, at any such meeting. Each Class A Share and Class B Share carries one vote per share.

On the liquidation, dissolution or winding-up of the Fund or other distribution of the assets of the Fund for the purpose of winding-up its affairs, the holders of Class B Shares will be entitled to receive an amount equal to the Class B Redemption Price (see definition below) but are not otherwise entitled to share in the assets of the Fund remaining after its liabilities have been paid. Subject to the rights of the holders of Class B Shares, the holders of Class A Shares will be entitled to share, according to their respective holdings of Class A Shares, all of the assets of the Fund remaining after all of the Fund's liabilities (including its obligations and liabilities to the holders of Class B Shares) have been paid.

Subject to the Fund's right to decline redemptions as described under "Suspension of Redemptions" below, Class B Shares will be redeemable at the Class B Redemption Price as follows:

a) as a requirement of the Fund if a Qualified Liquidity Event occurs on or after 18 months from the valuation date on which a Class B Share is issued (Class B Share Issue Date), where a Qualified Liquidity Event means, generally, where the Fund has received net cash proceeds from investment realizations or dispositions of at least $4 million in a rolling six-month period);

b) by the holder, at the holder's option, if a Qualified Liquidity Event occurs prior to 18 months from the Class B Share Issue Date; or

c) by the Fund, at the Fund's option, at any time on or after 18 months of the Class B Share Issue Date.

Class B Redemption Price means the greater of: (a) the Class B Share issue price of $10.00 per share, plus an amount equal to the percentage increase in the Pricing Net Asset Value per Class A Share from the Class B Share Issue Date to the valuation date on which a particular Class B Share is redeemed, and (b) the Class B Share issue price of $10.00 per share plus 6% per annum, calculated from the Class B Share Issue Date to the valuation date on which a particular Class B Share is redeemed plus, in either case, any dividends then declared and remaining unpaid in respect of the Class B Shares.

Notes to Financial Statements

December 31, 2011 and 2010

Class A Shares will not generally be redeemable prior to the fifth anniversary of the date of issuance thereof. Also, the redemption of Class A Shares is subordinate to the redemption of Class B Shares and no Class A Shares will be redeemed until all of the issued and outstanding Class B Shares have been redeemed unless holders of Class B Shares decline to exercise their redemption rights. Subject to the foregoing and to the Fund's right to decline redemptions as described under "Suspension of Redemptions" below, Class A Shares are redeemable after five years from the original issue date of any Class A Share.

Both Class A Shares and Class B Shares are redeemable at any time in the case of the death of the original owner of the shares, or the death of an annuitant under a registered plan that was the holder or, where the shares were held by a registered plan under which the original purchaser or his or her spouse is the annuitant, the original purchaser has died, as the case may be.

Suspension of redemptions

Pursuant to the Articles of the Fund, the Fund is not permitted to complete redemption requests relating to either Class A Shares or Class B Shares if the Fund is not in compliance with the minimum investment requirements under the SBVCA, the redemption would cause the Fund not to be in compliance with the minimum investment requirements under the SBVCA, or the redemption would leave the Fund in a position where, in the opinion of the Fund's directors, the Fund may not be able to comply with the minimum investment requirements under the SBVCA in the future, such as by having its available funds reduced to an amount that is less than the aggregate amount of all future investments it is required to make in order to remain in compliance with such investment requirements. There are also other circumstances prohibiting redemptions of Class A Shares or Class B Shares, such as if the Fund has or would have a working capital deficiency or if the redemption is otherwise prohibited under applicable law. Pursuant to the Articles of the Fund, the Fund is entitled to decline and refuse to complete redemptions relating to Class A Shares or Class B Shares if the amount to be redeemed, when added to the total amount of all previous redemptions of shares of the Fund in the same fiscal year of the Fund, would exceed 20% of the net asset value of the Fund (as defined in the Articles of the Fund) at the end of the immediately preceding fiscal year of the Fund.

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

a) Issued

	2011		2010	
Class A common shares	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**
Balance - Beginning of year	6,717,758	$ 55,246,884	6,208,337	$ 52,030,211
Common shares issued	369,675	2,622,486	524,889	3,684,105
Common shares redeemed	(6,320)	(59,586)	(15,468)	(140,256)
Less: Issue costs				
Sales commissions		(148,751)		(198,664)
Other share issue costs		(150,563)		(128,512)
Balance - End of year	**7,081,113**	**57,510,470**	**6,717,758**	**55,246,884**

	2011		2010	
Class B common shares	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**
Balance - Beginning of year	-	-	-	-
Common shares issued	518,145	$ 5,181,450	-	-
Common shares redeemed	(236,795)	(2,229,024)	-	-
Less: Issue costs				
Sales commissions		(155,443)		-
Other share issue costs		(148,549)		-
Balance - End of year	**281,350**	**2,648,434**	**-**	**-**

Other share issue costs relate directly to the issuance of shares and may include costs incurred by the Manager that are reimbursed by the Fund as set out in the Fund's prospectus.

Notes to Financial Statements

December 31, 2011 and 2010

b) Pricing of Class A Shares

For purposes of these financial statements, the Fund calculates its net assets in accordance with GAAP, and calculates its net assets per Class A Share by dividing the net assets attributable to the Class A Shares by the number of Class A Shares that are issued and outstanding.

Increase or decrease in net assets from operations per Class A Share is calculated using the weighted average number of Class A Shares outstanding, which for the year ended December 31, 2011 was 7,012,708 (2010 – 6,537,085). Diluted increase or decrease per Class A 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 Class A Share by (i) deducting the net assets attributable to the Class B Shares outstanding at the date of the calculation; (ii) adjusting for the impact of adoption of Section 3855 - ***Financial Instruments - Recognition and Measurement;*** and (iii) 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 Class A Share and net assets in accordance with GAAP per Class A common share:

	2011	2010
Net assets in accordance with GAAP as reported	$ 52,229,160	$ 47,648,309
Less: Net assets attributable to Class B Shares	(3,002,952)	-
Net assets attributable to Class A Shares	49,226,208	47,648,309
Section 3855 adjustments:		
Fair value of venture investments	504,205	(8,914)
Fair value of marketable securities	767	768
Add:		
Unamortized deferred share issue costs including sales commissions	1,297,180	1,271,723
Other financial statement adjustments	(425)	(23,202)
Pricing net asset value	51,027,935	48,888,684
Class A Common shares outstanding as at December 31	7,081,113	6,717,758
Pricing NAV per Class A Share	$ 7.21	$ 7.28
Net assets in accordance with GAAP per Class A common share	$ 6.95	$ 7.09

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

i) 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 Class A Share, such securities are valued based on the average of their closing prices over the preceding twenty days. In 2011, this adjustment occurred primarily as a result of the difference in methods for estimating the fair value of the Fund's shareholdings of Avigilon Corporation. Avigilon was a private venture investment that became a publicly traded venture investment in November 2011. The estimated fair value of each Avigilon share based on the closing bid price at year-end was $4.00 whereas under the valuation policies of the Fund used to calculate Pricing NAV per Class A Share, the estimated fair value of each Avigilon share was $4.23, causing a valuation difference of $460,000.

ii) 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 Class A Share, these securities (which are typically held to maturity) are recorded at cost plus accrued interest.

The calculation of Pricing NAV per Class A 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.

Notes to Financial Statements

December 31, 2011 and 2010

The following is a summary of unamortized deferred share issue costs, including sales commissions.

Share issue costs	**2011**	**2010**
Balance - Beginning of year	$ 1,271,723	$ 1,565,145
Add:		
Sales commissions	304,194	198,664
Other share issue costs	299,112	128,512
Less:		
Amortization	(577,849)	(620,598)
Balance - End of year	1,297,180	1,271,723

c) Net assets per Class B Share

Net assets per Class B common share of $10.67, as shown on the Statements of Net Assets, is determined by dividing net assets attributable to Class B Shares of $3,002,952 at December 31, 2011 by 281,350, the number of Class B Shares then issued and outstanding. The actual "Class B Redemption Price" of a Class B Share at the time of redemption will be dependent upon the date of issuance of that share.

7 Shareholders' Equity

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

	2011	**2010**
Class A share capital (net, per note 6 a))	$ 57,510,470	$ 55,246,884
Class B share capital (net, per note 6 a))	2,648,434	-
Accumulated deficit	(7,042,186)	(6,933,616)
Unrealized losses on investments	(887,558)	(664,959)
Net assets, representing shareholders' equity	52,229,160	47,648,309

8 Related Party Transactions

The following table summarizes related party fees and expenses payable in respect of the years ended December 31, 2011 and 2010:

	2011	**2010**
Directors' fees and expenses	$ 52,633	$ 41,309
Management fees	1,339,312	1,246,870
Reimbursement of expenses	30,399	28,216
	1,422,344	1,316,395
Due to related parties	$ 149,412	$ 132,588

Reimbursement of expenses comprises miscellaneous office expenses and directors' and officers' insurance, which the Manager paid on behalf of the Fund.

As at December 31, 2011, the Fund had an investment cost of $2,290,052 (2010 - $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 as at December 31, 2011 (in respect of beneficial entitlements of DCC's former shareholders): Vigil Health Solutions Inc. and Tantalus Systems Corp.

Notes to Financial Statements

December 31, 2011 and 2010

9 Bad Debts

There was no bad debt expense in 2011. 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 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, 2011, the Fund was required to have invested a minimum of $44.4 million in eligible businesses and was deficient of this requirement by approximately $3.7 million. The Fund has received relief from this requirement until December 31, 2012.

The board of directors approved a proposal of the Manager to make the payment of expenses incurred by the Manager during 2011 that are reimbursable from the Fund contingent on the Fund raising certain amounts of equity capital by March 1, 2012. The total liability which the Fund could incur in this respect is $88,373, which is in addition to $30,399 of expenses reimbursable to the Manager recorded as at December 31, 2011. 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 was renewed for a 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 2012 and 2013.

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:

	2011	2010
Realized losses on venture investments	$ 380,000	$ 398,000
Unrealized losses on investments	198,000	149,000
Non-capital losses carried forward	6,514,000	5,587,000
Share issue costs and trailer fees	614,000	610,000
Other	(89,000)	54,000
Valuation allowance	(7,617,000)	(6,798,000)
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, 2011 and 2010

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

Amount	Expiry
$ 987,000	2014
1,231,000	2015
1,494,000	2026
1,967,000	2027
2,141,000	2028
2,868,000	2029
1,836,000	2030
2,048,000	2031
$ 14,572,000	

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 holders of Class A Shares 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 recession in 2008 and more recent concerns over global financial and economic conditions, and in particular the adverse effects those events and conditions 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.

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. On the basis of the estimated fair value of the venture investments of the Fund and its net assets as at

Notes to Financial Statements

December 31, 2011 and 2010

December 31, 2011, there is an approximate 0.1% decrease in net assets as a result of each $0.01 increase in the value of the Canadian dollar against the U.S. dollar. 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 Disclosures

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 has authorizations to raise up to $10 million of its shares in each of the periods commencing January 1 and ending February 15, 2013 and 2014, respectively. 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, to comply 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 note 4 – Investment protection account and note 10 – Contingencies with respect to the Fund's compliance in these matters.

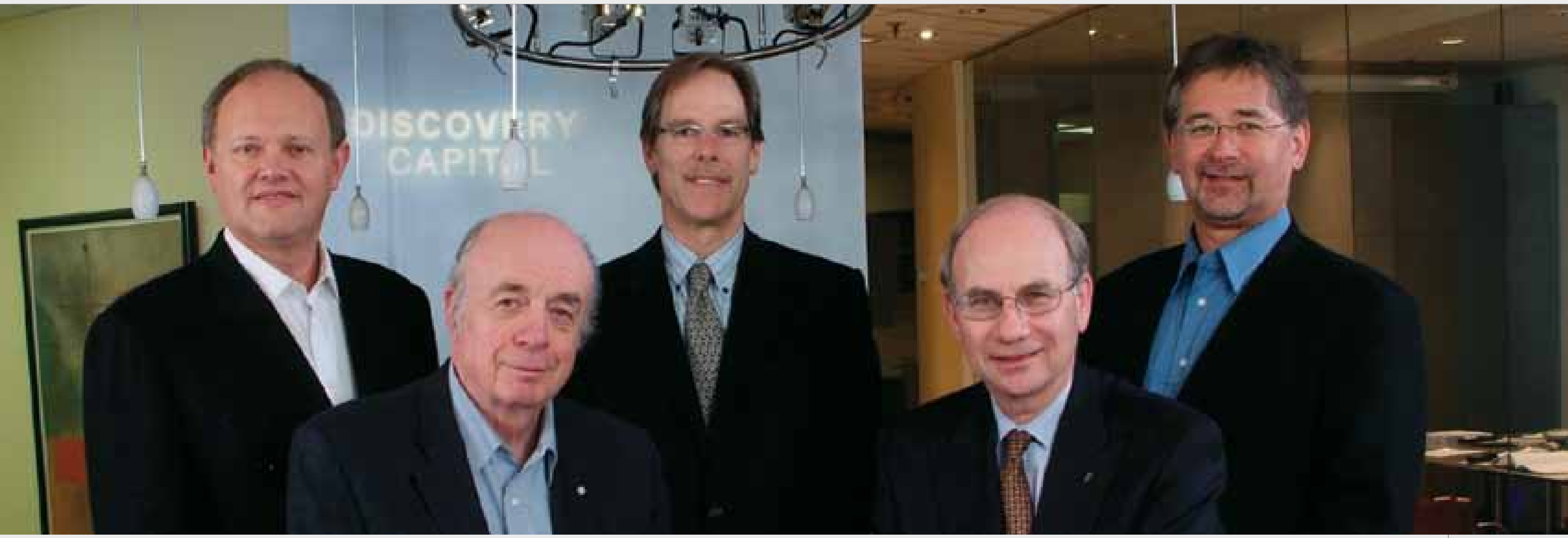
The overall capital level of the Fund is also impacted by redemptions of its shares. In 2011, the Fund issued Class B Shares, which have redemption priority over Class A Shares in accordance with certain rights and restrictions (see note 6 b) above), and redeemed a certain number of those Class B Shares. As at December 31, 2011, the remaining issued and outstanding Class B Shares had a redemption value of approximately $3.0 million. Generally, redemption of all outstanding Class B Shares must occur prior to redemptions of any Class A Shares and there are certain circumstances where the Fund is required to redeem Class B Shares. In addition, although holders of Class A Shares may request redemption of their shares after five years from the issue date, pursuant to constraints set forth in the Articles of the Fund and the requirements of the SBVCA, the Fund has not been able to reinstate redemptions of Class A Shares since December 19, 2008. The ability of the Fund to meet redemption requests in respect of Class A Shares 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, 2011, as required by NI 81-106, and reported that the fair value of the venture investment portfolio as determined by the Manager is, in all material respects, reasonable. This review was performed to permit the Fund, as provided in NI 81-106, to be exempt from the requirement of NI 81-106 to disclose the fair value of each private venture investment.

16 Comparative Figures

Certain of the prior 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 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.

Corporate Address
British Columbia Discovery Fund (VCC) Inc.
Suite 570 - 1285 West Pender St.
Vancouver, BC Canada V6E 4B1
Tel (604) 683 3000
Fax (604) 662 3457
Email info@discoverycapital.com
www.bcdiscoveryfund.com

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 29, 2012 at 2:30PM
Discovery Capital Management Corp.
Suite 570 - 1285 West Pender Street
Vancouver, B.C.

BC DISCOVERY FUND

Suite 570 - 1285 West Pender Street
Vancouver, B.C. V6E 4B1
Tel 604-683-3000 Fax 604-662-3457

www.bcdiscoveryfund.com

1-877-553-FUND