BC DISCOVERY FUND

Building BC's Future in Technology | 2012

ANNUAL REPORT

Innovation to Commercialization

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The Fund

British Columbia Discovery Fund (VCC) Inc. ("BC Discovery Fund" or the "Fund") is a diversified venture capital investment fund, which provides investors the opportunity to participate in the emerging technology industry in British Columbia. The Fund issues its shares under the Venture Capital Corporation (VCC) Program, a B.C. government initiative to promote economic diversification and investment in small businesses, including technology ventures. In addition to enabling participation in innovative, local companies, BC Discovery Fund provides retail investors access to private venture capital investment opportunities, which are often only accessible to institutional shareholders and "angel" investors.

Eligible individual investors in the Fund receive a tax credit equal to 30% of the amount invested, to a maximum of a $60,000 tax credit per annum. The tax credit on investments into the Fund during the first 60 days of the year can be carried back and applied against the prior year's taxes payable. To the extent that the amount of the tax credit exceeds an individual's British Columbia taxes otherwise payable, the individual is entitled to a refund of the difference. Shares in the Fund are eligible for RRSPs, RRIFs and RESPs. The tax credit is also available to B.C. corporations to reduce B.C. taxes payable.

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

The Manager

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

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

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

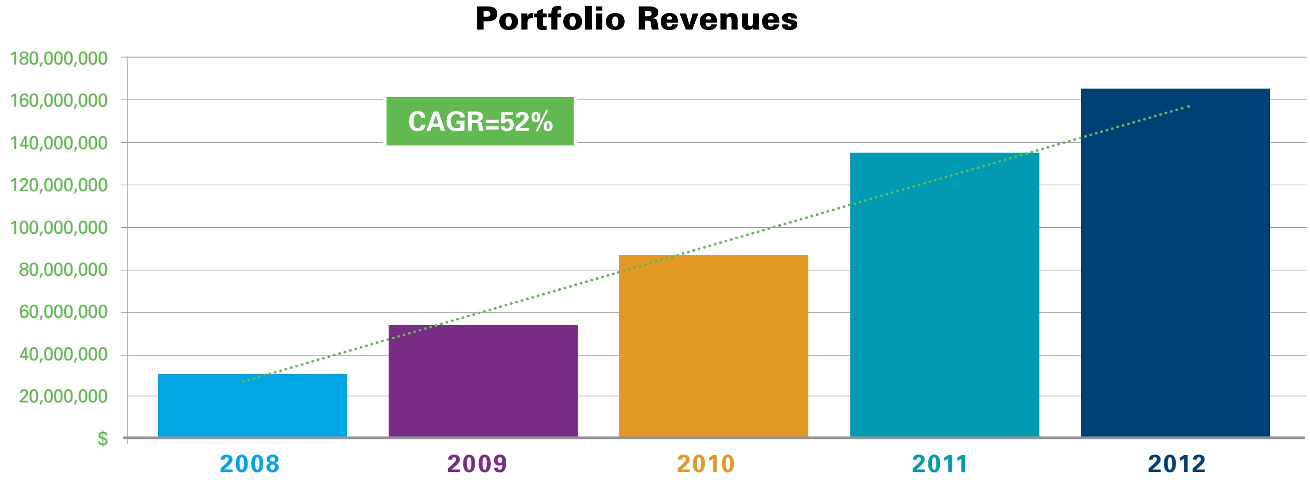
While financial markets faced uncertainty, and volatility continued throughout 2012, many of the portfolio companies of **British Columbia Discovery Fund (VCC) Inc** were again recognized for business awards - locally, nationally and internationally - continuing to receive accolades for their business success, technology leadership, growth potential, and overall excellence.

- **Avigilon** was named to **Deloitte's 2012 FAST 500** list as the **fastest growing software company** and the **8th fastest growing of all technology companies** in North America. **In Motion** and **Tantalus Systems** were also in this select group.
- In 2012, **Avigilon** was the winner of the BC Technology Industry Association's **'Company of the Year'** award. In 2011, **Avigilon** was recognized with the BCTIA's prestigious **'Team of the Year'** award 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'**.
- Highlighted among **Deloitte's 50 fastest growing technology companies in Canada** in 2012 were **Avigilon**, **In Motion** and **Tantalus** with **Avigilon** placing first overall.
- **D-Wave, In Motion, Paradigm, Rx Networks,** and **Vivonet** were all named to British Columbia's **Cleantech** and **ICT 'Ready to Rocket'** 2012 lists.

This consistent recognition by top industry experts of the Fund's venture portfolio highlights the quality and maturity of these growing companies.

Avigilon was the first of these award-winners to conclude a major liquidity event by completing its IPO on the Toronto Stock Exchange in November 2011. The highest priority for BC Discovery Fund management is to assist as many of our mature portfolio companies as possible to achieve their liquidity events, opening the door to increasing value for the Fund's shareholders, 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 reflect a remarkable cumulative average growth rate (CAGR) of 52% over the past five years.
- Revenues for certain companies are unaudited. The accompanying chart includes estimates for 2012 in certain cases.

avigilon
THE BEST EVIDENCE™

Invested Capital $2,625,000
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 2011, the compound annual growth rate of revenue has been 125%. Avigilon completed its initial public offering (IPO) on the Toronto Stock Exchange in November 2011.

avigilon.com

D:Wave

Invested Capital $2,000,000
PRIVATE

Founded in 1999, D-Wave's mission is to integrate new discoveries in physics and computer science into breakthrough new approaches to computation. The Company's flagship product, the D-Wave One™, is built around a novel type of superconducting processor that uses quantum mechanics to massively accelerate computation. In 2011 Lockheed Martin purchased serial number 1, completing the historic world's first sale of a commercial quantum computer. D-Wave has a blue-chip investor base including Business Development Bank of Canada, Draper Fisher Jurvetson, Goldman Sachs, Harris & Harris Group, International Investment and Underwriting, and Kensington Partners Limited.

dwavesys.com

evidence PIX

Invested Capital $1,500,000
PRIVATE

EvidencePix develops software products and services for businesses and enterprise mobile device users. The VerifyPro solution addresses a critical need for end-to-end data security as mobile workers are enabled with smartphones and tablets by capturing and tagging lossless (unaltered) authenticated images, documents, reports and video. These are uploaded and stored in VerifyCloud, a secured, redundant and encrypted cloud, with admin oversight and full audit trail. Data can be interfaced with a client's cloud or data management system. EvidencePix has two US patents and proprietary IP which focus on tamperproof methods/processes and distributes its products directly and via Integration and Channel Partners.

evidencepix.com

GATEKEEPER SYSTEMS INC.

Invested Capital $2,000,000
PRIVATE

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

gatekeeper-systems.com

Invested Capital $6,437,854
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.

inmotiontechnology.com

Invested Capital $5,262,500
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.

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.

navarik.com

Invested Capital $3,610,038
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.

microsludge.com

Invested Capital $4,014,725
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.

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.

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.

vigil.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 clean technology.

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

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

Risk

There are significant risks to an investment in shares of the Fund, 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 currently 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 2013 prospectus.

Cash Resources

Throughout 2009 and 2010, the Fund had less cash resources than in prior years and it had fallen materially short of its minimum investment obligations under the SBVCA at December 31, 2010. In 2011, the Fund sold $5.2 million of a new class of common shares that were not eligible for tax credits – "Class B Shares" - in order to address these issues. These Class B Shares had certain rights and attributes, including no minimum hold period prior to redemption entitlement and a redemption priority in advance of the common shares eligible for tax credits that the Fund has issued since inception (which were re-designated as "Class A Shares"). As a result of the issue of the Class B Shares, the Fund made significant progress in catching up on the shortfall with its minimum investment obligations. With the proceeds of the sale of shares of one of its publicly-traded investments, the Fund completed the redemption of all outstanding Class B Shares in 2012. The total redemption consideration for the Class B Shares was approximately $5.5 million. The Fund was still short of its minimum investment obligations under the SBVCA at December 31, 2012, however by a substantially lower amount than at December 31, 2010 or December 31, 2011. The Fund is required to fully comply with these obligations by December 31, 2013. The Fund 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 Class A Shares of the Fund

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

Credit Risk

Over the last five years, the Fund has incurred bad debts expense of approximately $1.8 million, due to the write-off of accrued dividends and interest in respect of investments in private companies whose business prospects had substantially deteriorated or where their businesses had failed. As at December 31, 2012, 5.5% of the total net assets of the Fund were attributable to dividends receivable from two private portfolio companies of the Fund. Should the business prospects of these companies deteriorate, the Fund may incur additional bad debt expense.

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 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 during each of the periods January 1, 2013 to March 1, 2014, January 1, 2014 to March 1, 2015 and January 1, 2015 to February 29, 2016. 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, 2012

Pricing Net Asset Value per Class A Share (the price at which the Fund sells and redeems its Class A Shares) was $7.43 at December 31, 2012, an increase of 3.05% over the year.

Factors impacting the value of the Class A Shares included an increase in net assets from operations of $2,418,393 over the year, which included realized losses of $1,960,639 and unrealized gains of $6,258,734 on the estimated fair value of the Fund's venture investments. See below under "Operating Results" for an explanation of these gains and losses. There was also a net decrease of $1,496,801 in net assets from capital transactions in 2012, primarily due to the Fund having redeemed all remaining outstanding Class B Shares, at a redemption value of $2,957,224.

Net Assets

Net assets for financial statement reporting purposes were $53,150,752 at December 31, 2012, an increase of $921,592, or 1.8%, from net assets of $52,229,160 at December 31, 2011. The increase in net assets is the net result of an increase in net assets from operations of $2,418,393 (see "Operating Results" below) and proceeds from sales of Class A Shares, net of share issue costs, of $1,609,867, offset by redemptions paid out (primarily with respect to the Class B Shares) of $3,106,668.

Sales of Class A Shares have been in significant decline over the last several years, being $1.9 million in 2012, $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, illiquid investments.

(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 used to determine the Pricing Net Asset Value per Class A Share referenced in the preceding section. See the footnote disclosure in "Financial Highlights" below for additional discussion as to the nature of this difference.)

Operating Results

Net assets from operations increased by $2,418,393 for the year ended December 31, 2012, compared to a decrease of $62,684 for the year ended December 31, 2011.

The increase in net assets from operations in 2012 includes net unrealized gains of $6,258,734 in 2012, as approximately $10,000,000 of unrealized gains with respect to the Fund's shareholdings in Avigilon was offset by unrealized losses arising from: (a) a write-down to $nil in the estimated fair value of the Fund's investment in privately-held portfolio company **Tantalus Systems Corp.**, as that company's business encountered unexpected technological delays leading to very serious financial challenges; (b) a write-down to an insignificant amount in the estimated fair value of privately-held portfolio company **Inimex Pharmaceuticals Inc.**, reflecting that the assets of that company had been sold without the company having achieved its business objectives; (c) a material write-down in the estimated fair value of privately-held portfolio company **Vivonet Inc.**, as the business of that company was sold for less than the historic carrying value; and (d) write-downs in the estimated fair values of privately-held portfolio companies **Navarik Corp.** and **Paradigm Environmental Technologies Inc**. reflecting under performance in the development of their business plans.

The Fund also had net realized losses of $1,960,639 mainly as a result of realized losses of $3,680,542 from the final dispositions of the Fund's investments in privately-held portfolio companies, **Lat49 Media Inc.** and **MovieSet Inc.**, whose businesses had ceased operations in 2011, offset by realized gains of $1,851,492 from the Fund's sale of 600,000 common shares of publicly-traded portfolio company **Avigilon Corporation**.

By comparison, the decrease in net assets from operations of $62,684 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 (the **"Secondary Avigilon Sale"**); (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.**, reflecting under performance in the realization of the business objectives of these companies; offset by (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.

Total investment income of $1,180,595 was higher by $298,112 than total investment income of $882,483 for 2011 as increased interest was earned from new investments in interest-bearing, convertible securities of portfolio companies and also as a result of set up and other fees associated with these loan investments. Total expenses of $3,060,297 were higher by $459,481 over total expenses of $2,600,816 in 2011. This was due almost entirely to bad debt expense of $741,366 in 2012 (compared to no bad debt expense in 2011) relating to the write-off of accrued dividends in respect of three private company investment holdings which the Fund had written down during the year, offset by a decrease of $333,574 in transaction costs as those costs in 2011 were of a one-time nature related primarily to the Fund's Secondary Avigilon Sale. Management fees and trailer fees were incrementally higher in 2012 as pricing net assets of the Fund tended to be higher in the year.

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 2012, the Fund made cash investments of $5,617,172, comprised of $3,499,999 into two new portfolio companies – **EvidencePix Systems Inc.** and **D-Wave Systems Inc.** – and $2,117,173 into three existing portfolio companies, while in 2011 the Fund made cash investments of $3,838,235 into five existing portfolio companies. Proceeds from the sale of the Class B Shares in 2011 helped to enable the Fund to make the two new investments in 2012.

At December 31, 2012, the Fund's portfolio was comprised of venture investments in eleven active emerging technology companies, diversified across its targeted technology sectors. Nine of these investments were in privately-held companies, representing 63% of the total estimated fair value of the Fund's venture investment portfolio at December 31, 2012, whereas two companies (Avigilon and Vigil Health Solutions) represented the other 37% of the total estimated fair value of the portfolio. 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, 2012 was 87% in venture investments and 13% in cash 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 during each of the periods January 1, 2013 to March 1, 2014, January 1, 2014 to March 1, 2015 and January 1, 2015 to February 29, 2016, 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 $1.1 million of its $10 million allocation for 2012 which expired on March 1, 2013.

The Fund was short of its minimum investment obligations under the SBVCA as at December 31, 2012 by approximately $0.8 million compared to approximately $3.7 million as at December 31, 2011. The Fund is also required to invest an additional approximately $1.6 million in 2013, such that a total of $2.4 million is required to fulfill its minimum investment obligations as at December 31, 2013. The Fund received a letter dated February 6, 2013 from the SBVCA Administrator requiring the Fund to rectify, by December 31, 2013, 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, 2012, the Fund had sufficient cash and cash-generating liquid investments (primarily, shares of Avigilon) with which to meet these obligations. 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 four 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 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 in 2011 by way of participating in the secondary offering under the Avigilon IPO, and an additional $3.0 million in 2012 by way of market sales of Avigilon shares held by the Fund. Also, the Fund realized on certain of its investments in Vivonet Inc. in 2012, as the business of that company was sold.

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, Class B Shares having a priority of redemption in advance of the Class A Shares were issued in 2011. The purpose for issuing these shares was achieved and, in 2012, the Fund completed the redemption of all outstanding Class B Shares for total redemption consideration of approximately $5.5 million.

The ability of the Fund to redeem Class A shares 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.

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.** Since that date, the Fund has continued to suspend redemptions of Class A Shares and, as of December 31, 2012, holders of approximately 4.8 million Class A Shares issued between 2002 and 2007 were eligible to request redemptions of their Class A Shares. During 2013, holders of an additional approximately 0.7 million Class A Shares issued in 2008 will also become eligible to request redemption of their Class A Shares. Consequently, an aggregate of approximately $41.0 million of Class A Shares will be eligible for redemption on or before December 31, 2013, based on the assumption that Pricing Net Asset Value per Class A Share at that time will be unchanged from Pricing Net Asset Value per Class A Share as at December 31, 2012.

The Fund will have a cumulative amount of approximately $35.6 million of "mature" investments by the end of 2013 (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 A Shares in any year. **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.**

New Accounting Pronouncement

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.

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, 2012, 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, 2012 and 2011.

	2012	**2011**
Directors' fees and expenses	$ 40,745	$ 52,633
Management fees	1,429,036	1,339,312
Reimbursement of expenses	29,489	30,399
Total related party fees and expenses	**$ 1,499,270**	**$ 1,422,344**

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.

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, 2012 (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)	**2012**	**2011**	**2010**	**2009**	**2008**
Net Assets attributable to Class A Shares, beginning of year	$ 6.95	$ 7.09	$ 6.76	$ 7.58	$ 9.68
Increase (decrease) from operations:					
Total revenue	0.16	0.13	0.18	0.21	0.28
Total expenses	(0.42)	(0.37)	(0.42)	(0.38)	(0.39)
Realized gains (losses) for the period	(0.27)	0.26	0.05	(0.30)	-
Unrealized gains (losses) for the period	0.86	(0.03)	0.56	(0.29)	(2.27)
Performance fees accrued on unrealized gains	-	-	-	-	0.36
Total increase (decrease) from operations (2)	**$ 0.33**	**$ (0.01)**	**$ 0.37**	**$ (0.76)**	**$ (2.02)**
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	**$ 7.26**	**$ 6.95**	**$ 7.09**	**$ 6.76**	**$ 7.58**

(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 and they had a redemption priority over the Class A Shares. The Fund subsequently redeemed all Class B Shares in 2011 and 2012 for aggregate redemption consideration of $5,470,038 such that, as at December 31, 2012, no Class B Shares were outstanding.

(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.

Ratios and Supplemental Data	**2012**	**2011**	**2010**	**2009**	**2008**
Total net asset value (000's) (1)	$ 54,422	$ 51,028	$ 48,889	$43,512	$ 43,880
Number of Class A Shares outstanding (1)	7,321,076	7,081,113	6,717,758	6,208,337	5,593,942
Management expense ratio (2)	6.42%	5.87%	6.63%	6.19%	5.33%
Bad debt expense	*1.44%*	-	*1.46%*	*0.83%*	-
Commissions and other share issue costs	*0.50%*	*1.24%*	*0.72%*	*1.07%*	*1.02%*
Management, administrative and other fees and expenses	*4.48%*	*4.63%*	*4.45%*	*4.29%*	*4.31%*
Trading expense ratio (3)	0.02%	0.71%	0.18%	0.00%	0.00%
Portfolio turnover rate (4)	9.67%	10.01%	4.95%	3.44%	0.00%
Pricing NAV per Class A Share (1)	$ 7.43	$ 7.21	$ 7.28	$ 7.01	$ 7.84

(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 $100 million. (The Pricing Net Asset Value of the Fund is the value which is used by the Fund to calculate the price at which it issues and redeems its Class A Shares – refer to Note 6 (b) of the Financial Statements accompanying this Report. The adjusted Pricing Net Asset Value of the Fund excludes the net proceeds outstanding from time to time ($nil as at December 31, 2012) from the issuance of the Class B Shares in 2011 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.

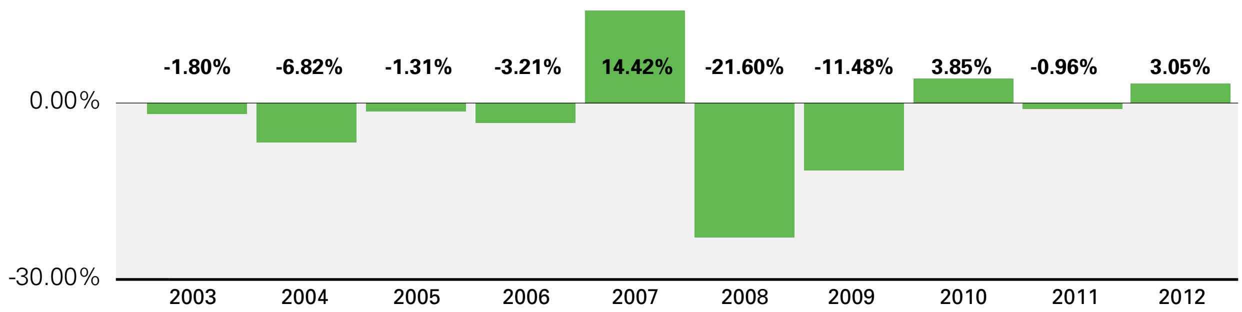
Past Performance

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 2012. 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, 2012.

	1 Year Return/(Loss)	3 Year Return/(Loss)	5 Year Return/(Loss)	10 Year Return/(Loss)(1)
BCDF – Pricing NAV	3.05%	1.95%	(5.78)%	(2.93)%
Globe Peer Index	(10.10)%	(7.56)%	(8.52)%	(5.31)%
S&P/TSX Capped Information Technology Index	7.18%	(3.58)%	(6.97)%	5.20%

(1) 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, 2012.

	1 Year Return/(Loss)	3 Year Return/(Loss)	5 Year Return/(Loss)	10 Year Return/(Loss)(1)
Purchase price (2)	$ 7.21	$ 7.01	$ 10.00	$ 10.00
Tax credit rate	30%	30%	30%	30%
Net capital invested (3)	$ 5.05	$ 4.91	$ 7.00	$ 7.00
December 31, 2012 price	$ 7.43	$ 7.43	$ 7.43	$ 7.43
Return (excl. tax credit) (4)	3.05%	1.95%	(5.78)%	(2.93)%
Return from tax credit (5)	7.40%	7.40%	7.40%	3.60%
After tax credit return	**10.45%**	**9.35%**	**1.62%**	**0.67%**

(1) 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.

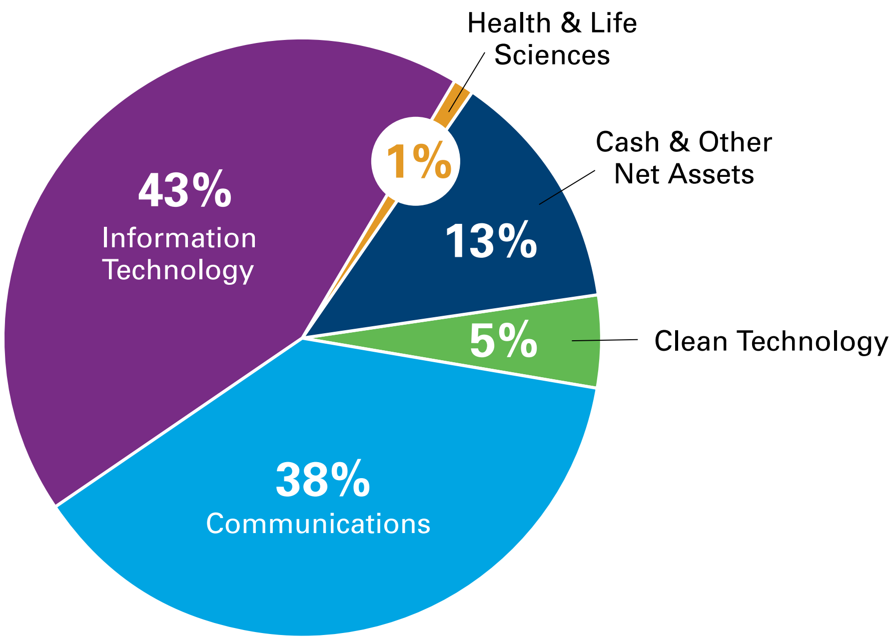
(3) Net capital invested equals the purchase price minus the tax credits received on the purchase. It assumes that the tax credits were fully claimed and allowed at the same time as the purchase was made.

(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 over a 10 year period where the annual, compound return is calculated for that period, commencing January 1, 2003. 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 January 1, 2003. For example, in the "5 Year Return" column, the $7.00 net capital invested would grow to a redemption claim on the full purchase price of $10.00 over 5 years. That represents 7.4% annual, compound growth over that period. Note that the return element in note 4 accounts for the return associated with changes in Pricing NAV per 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, 2012 (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, 2012, the Fund had positions in eleven active portfolio companies, nine of which are privately-held and two of which are publicly-trading. The Fund's active privately-held investments comprise 55% of net assets and its public company investments (in shares of Avigilon Corporation and Vigil Health Solutions Inc.) comprise 32% of net assets. The estimated fair value of the Fund's investments in inactive privately-held companies 0944460 B.C. Ltd. (formerly, Day 4 Energy Inc.), Inimex Pharmaceuticals Inc. and Vivonet Inc. comprises, in aggregate, approximately 2% of the net assets of the Fund.

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: D-Wave Systems Inc., EvidencePix Systems Inc., Gatekeeper Systems Inc., In Motion Technology Inc., Mobidia Technology Inc., Navarik Corp., Paradigm Environmental Technologies Inc., Rx Networks Inc. and Tantalus Systems Corp.

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, 2012 and 2011, the statement of investment portfolio as at December 31, 2012, 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 auditors consider 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, 2012 and 2011, the investments of the Fund as at December 31, 2012, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada,
March 6, 2013.

Statements of Net Assets

As at December 31, 2012 and 2011

	2012	2011
Assets		
Venture investments (note 2 and 3)	$ 46,273,995	$ 40,370,701
Funds held in investment protection account (note 4)	889,654	2,587,233
Cash	2,009,594	6,514,608
Interest and dividends receivable	2,922,184	2,904,088
Disposition proceeds and other receivable	1,353,338	118,428
Prepaid expenses	6,391	12,032
Total assets	53,455,156	52,507,090
Liabilities		
Accounts payable and accrued liabilities	154,312	128,518
Due to related parties (note 8)	150,092	149,412
Total liabilities	304,404	277,930
Net Assets		
Net assets attributable to Class A common shares (note 6(b))	53,150,752	49,226,208
Net assets attributable to Class B common shares (note 6(b))	-	3,002,952
Total net assets, representing shareholders' equity (note 7)	**53,150,752**	**52,229,160**
Class A common shares outstanding	**7,321,076**	**7,081,113**
Class B common shares outstanding	**-**	**281,350**
Net assets per Class A common share	**$ 7.26**	**$ 6.95**
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, 2012 and 2011

	2012	2011
Investment income		
Dividends from venture investments	$ 818,565	$ 826,013
Interest from venture investments	129,317	11,503
Interest from cash deposits	65,884	44,967
Other income	166,829	-
Total investment income	1,180,595	882,483
Expenses		
Management fees (notes 5 and 8)	1,429,036	1,339,312
Bad debts (note 9)	741,366	-
Harmonized sales tax	229,223	250,253
Trailer fees	216,035	205,227
Fund administration and transfer agency fees	134,111	130,930
Audit and advisory fees	109,793	112,910
Office expenses and administrative services	81,165	82,040
Directors' fees and expenses (note 8)	40,745	52,633
Directors' and officers' insurance	22,959	21,938
Shareholder communications	22,567	28,425
Marketing expenses	17,840	16,803
Transaction costs	11,800	345,374
Legal fees	3,657	14,971
Total expenses	3,060,297	2,600,816
Net investment loss	**(1,879,702)**	**(1,718,333)**
Realized gains (losses) on venture investments	(1,960,639)	1,878,248
Unrealized gains (losses) on investments	6,258,734	(222,599)
Increase (decrease) in net assets from operations	**2,418,393**	**(62,684)**
Increase (decrease) in net assets from operations per Class A common share - based on weighted average number of Class A common shares outstanding	**$ 0.33**	**$ (0.01)**

See accompanying notes to the financial statements

Statements of Changes in Net Assets

For the years ended December 31, 2012 and 2011

	2012	2011
Net assets - Beginning of year	$ 52,229,160	$ 47,648,309
Operating activities		
Increase (decrease) in net assets from operations	2,418,393	(62,684)
Capital transactions		
Proceeds from issuance of Class B common shares	-	5,181,450
Proceeds from issuance of Class A common shares	1,866,451	2,622,486
Less: Sales commissions	(105,431)	(304,194)
Other share issue costs	(151,153)	(299,112)
Redemption of Class B common shares	(2,957,224)	(2,512,814)
Redemption of Class A common shares	(149,144)	(44,281)
	(1,496,801)	4,643,535
Increase in net assets	921,592	4,580,851
Net assets - End of year	**53,150,752**	**52,229,160**
Unrealized gains (losses) on investments		
Unrealized losses – Beginning of year	(887,558)	(664,959)
Change during the period	6,258,734	(222,599)
Unrealized gains (losses) – End of year	**5,371,176**	**(887,558)**

See accompanying notes to the financial statements

Statements of Cash Flows

For the years ended December 31, 2012 and 2011

	2012	2011
Cash flows used in operating activities		
Increase (decrease) in net assets from operations	$ 2,4181,393	$ (62,684)
Items not affecting cash from operating activities		
Unrealized (gains) losses on investments	(6,258,734)	222,599
Realized (gains) losses on venture investments	1,850,777	(1,878,248)
Non-cash investment income	(1,789)	-
Net change in non-cash operating accounts	(1,220,891)	(429,608)
Net change in investment protection account	1,697,477	506,130
Purchase of venture investments	(5,617,172)	(3,838,235)
Proceeds from disposal of venture investments	4,123,726	5,120,402
	(3,008,213)	(359,644)
Cash flows from financing activities		
Proceeds from issuance of common shares (note 6)	1,866,451	7,803,936
Share issue costs including sales commissions (note 6)	(256,584)	(603,306)
Redemption of common shares (note 6)	(3,106,668)	(2,557,095)
	(1,496,801)	4,643,535
Net Increase (decrease) in cash during the year	(4,505,014)	4,283,891
Cash - Beginning of year	6,514,608	2,230,717
Cash - End of year	**2,009,594**	**6,514,608**
Supplemental cash flow information		
Interest received	174,195	59,271

See accompanying notes to the financial statements

Statement of Investment Portfolio

As at December 31, 2012

Venture investments

Investee	Number of Shares/ Par $ Value	Expiry Date/ Maturity Date	Cost $	Estimated Fair Value $
Public				
Avigilon Corporation				
Common shares	1,400,000	-	2,625,000	16,100,000
Common share options	100,000	June 18, 2013	-	591,150
Vigil Health Solutions Inc.				
Common shares	3,055,406	-	1,226,800	351,372
Common share warrants	1,153,846	May 31, 2013	-	17,308
Total public venture investments			3,851,800	17,059,830
Private				
0944460 B.C. Ltd (formerly Day4 Energy Inc.) (1)				
Common shares	1,349,500	-	2,290,052	
D-Wave Systems Inc.				
Series 2 Class E preferred shares	1,538,461	-	1,999,999	
EvidencePix Systems Inc.				
6% Series 1 Class A preferred shares	1,562,500	-	1,250,000	
Series 1 Class A preferred share warrants	500,000	May 10, 2013	-	
Series 1 Class A preferred share warrants	125,000	November 23, 2013	-	
Series 1 Class A preferred share warrants	9,375	December 28, 2013	-	
8% convertible notes	$ 250,000	-	250,000	
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	-	
Carried forward			16,434,744	

See accompanying notes to the financial statements

Statement of Investment Portfolio

As at December 31, 2012

Venture investments...cont'd

Investee	Number of Shares/ Par $ Value	Expiry Date/ Maturity Date	Cost $	Estimated Fair Value $
Brought forward			$ 16,434,744	
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	
Navarik Corp.				
Common shares	1,149,425	-	1,000,000	
Common share options	45,104	July 1, 2015	-	
Paradigm Environmental Technologies Inc.				
Class A voting common shares	1,006,976	-	2,910,038	
12% convertible note	$ 700,000	July 31, 2013	700,000	
Common share warrants	133,333	December 31, 2017	-	
Rx Networks Inc.				
8% Series A2 preferred shares	5,888,889	-	2,650,000	
8% Series B1 preferred shares	1,601,341	-	864,725	
Prime + 2% convertible note	$ 500,000	April 30, 2015	500,000	
Series B1 Preferred share warrants	27,778	April 30, 2019	-	
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			37,051,019	
Unrealized loss on private venture investments			(7,836,854)	
Total private venture investments				29,214,165
Total venture investments - at estimated fair value				46,273,995
Other assets, net of liabilities				6,876,757
Net assets				**53,150,752**

(1) Day4 Energy Inc. was delisted from the Toronto Stock Exchange on June 22, 2012 and changed its name on August 28, 2012.

See accompanying notes to the financial statements

Notes to Financial Statements

December 31, 2012 and 2011

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 and had all been redeemed as at December 31, 2012. 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 revenue 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.

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".

Notes to Financial Statements

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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 cash deposits represents interest earned on bank accounts and bankers' acceptances.

Interest and dividend income from venture investments is recognized on an accrual basis (See also note 9 – Bad debts and note 13 (a) – Risks associated with financial instruments).

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 CICA Handbook 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.

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, 2012, 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 is estimated in accordance with the valuation policies described in note 2 – Significant accounting policies.

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

The following table sets out the hierarchy of the fair values of the venture investments of the Fund as at December 31, 2012 based on the following criteria:

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

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

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

Notes to Financial Statements

December 31, 2012 and 2011

2012	Level 1 ($)	Level 2($)	Level 3 ($)	Total ($)
Public venture investments (listed equity securities)	17,059,830	-	-	17,059,830
Private venture investments	-	-	29,214,165	29,214,165
	17,059,830	**-**	**29,214,165**	**46,273,995**

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**

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, 2012.

Private venture investments	$
Opening Balance	**32,229,536**
Total realized losses	(3,680,542)
Total unrealized losses	(3,906,284)
Purchases	5,618,961
Dispositions	(1,168,962)
Transfers into or out of Level 3	121,456
Closing Balance	**29,214,165**

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

Realized losses on venture investments	$ (1,960,639)
Unrealized gains on investments	$ 6,258,734

As at December 31, 2012, 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 estimate of fair value of investments denominated in United States dollars on the Statement of Investment Portfolio is $2,284 as at December 31, 2012 (December 31, 2011 – $11,809).

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, 2012 and 2011 were $889,654 and $2,587,233, respectively.

5 Management Fees and Performance Fees

The Fund has entered into a management agreement with the Manager under which the Manager is paid an annual management fee of 2.75% of the 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 (if any) at the time of such calculation.

Notes to Financial Statements

December 31, 2012 and 2011

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 2012, the Manager was paid $nil in respect of performance fees from realized gains on venture investments (2011 - $nil). As at December 31, 2012, the Fund recorded a liability of $nil (2011 - $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 were offered by the Fund for the first time during July to October 2011 in a limited allotment. The Fund subsequently redeemed all Class B Shares in 2011 and 2012 at an aggregate redemption value of $5,470,038 such that, as at December 31, 2012, no Class B Shares were outstanding. See note 6 (a) below.

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

Rights and restrictions of Class A Shares

Holders of Class A Shares are entitled to receive notice of and attend all meetings of shareholders of the Fund and are entitled to vote at any such meeting. Each Class A 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 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 its liabilities have been paid.

Class A Shares will not generally be redeemable prior to the fifth anniversary of the date of issuance thereof. Subject 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.

Class A 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 Class A 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, 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 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.

Notes to Financial Statements

December 31, 2012 and 2011

a) Issued

	2012		2011	
Class A common shares	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**
Balance - Beginning of year	7,081,113	$ 57,510,470	6,717,758	$ 55,246,884
Common shares issued	260,686	1,866,451	369,675	2,622,486
Common shares redeemed	(20,723)	(190,730)	(6,320)	(59,586)
Less: Issue costs				
Sales commissions		(105,431)		(148,751)
Other share issue costs		(151,153)		(150,563)
Balance - End of year	**7,321,076**	**58,929,607**	**7,081,113**	**57,510,470**

	2012		2011	
Class B common shares	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**
Balance - Beginning of year	281,350	$ 2,648,434	-	$ -
Common shares issued	-	-	518,145	5,181,450
Common shares redeemed	(281,350)	(2,648,434)	(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.

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, 2012 was 7,275,520 (2011 – 7,012,708). 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.

Notes to Financial Statements

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

	2012	2011
Net assets in accordance with GAAP as reported	$ 53,150,752	$ 52,229,160
Less: Net assets attributable to Class B Shares	-	(3,002,952)
Net assets attributable to Class A Shares	53,150,752	49,226,208
Section 3855 adjustments:		
Fair value of venture investments	283,248	504,205
Fair value of marketable securities	-	767
Add:		
Unamortized deferred share issue costs including sales commissions	1,020,508	1,297,180
Other financial statement adjustments	(32,368)	(425)
Pricing net asset value	54,422,140	51,027,935
Class A Shares outstanding as at December 31	7,321,076	7,081,113
Pricing NAV per Class A Share	$ 7.43	$ 7.21
Net assets in accordance with GAAP per Class A Share	$ 7.26	$ 6.95

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 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 2012, 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. The estimated fair value of each Avigilon share based on the closing bid price at year-end was $11.50 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 $11.66, causing a valuation difference of $233,008.

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 Fund held no marketable securities as at December 31, 2012.

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.

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

Share issue costs	2012	2011
Balance - Beginning of year	$ 1,297,180	$ 1,271,723
Add:		
Sales commissions	105,431	304,194
Other share issue costs	151,153	299,112
Less:		
Amortization	(533,256)	(577,849)
Balance - End of year	1,020,508	1,297,180

Notes to Financial Statements

December 31, 2012 and 2011

7 Shareholders' Equity

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

	2012	2011
Class A share capital (net, per note 6 (a))	$ 58,929,607	$ 57,510,470
Class B share capital (net, per note 6 (a))	-	2,648,434
Accumulated deficit	(11,150,031)	(7,042,186)
Unrealized gains (losses) on investments	5,371,176	(887,558)
Net assets, representing shareholders' equity	53,150,752	52,229,160

8 Related Party Transactions

The following table summarizes related party fees and expenses payable in respect of the years ended December 31, 2012 and 2011:

	2012	2011
Directors' fees and expenses	$ 40,745	$ 52,633
Management fees	1,429,036	1,339,312
Reimbursement of expenses	29,489	30,399
	1,499,270	1,422,344
Due to related parties	$ 150,092	$ 149,412

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

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, 2012 (in respect of beneficial entitlements of DCC's former shareholders): Vigil Health Solutions Inc. and Tantalus Systems Corp.

9 Bad Debts

In 2012, the Fund recorded bad debt expense of $741,366 relating to unpaid dividend income accrued on its security holdings in three private portfolio companies in respect of which the Fund had written down its investment. There was no bad debt expense in 2011.

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, 2012, the Fund was required to have invested a minimum of $42.1 million in eligible businesses and was deficient of this requirement by approximately $0.8 million. The Fund has received relief from this requirement until December 31, 2013.

The board of directors approved a proposal of the Manager to make the payment of expenses incurred by the Manager during 2012 that are reimbursable from the Fund contingent on the Fund raising certain amounts of equity capital by March 1, 2013. The total liability which the Fund could incur in this respect is $59,907, which is in addition to $29,489 of expenses reimbursable to the Manager recorded as at December 31, 2012. See note 8 – Related party transactions.

Notes to Financial Statements

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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, 2013. The Fund paid a total of $860,493 under this agreement during the first three terms. The minimum payment of fees required under the IA Agreement is $66,000 per year during 2013, 2014 and 2015.

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:

	2012	**2011**
Realized losses on venture investments	$ 653,000	$ 380,000
Unrealized (gains) losses on investments	(1,222,000)	198,000
Non-capital losses carried forward	7,613,000	6,514,000
Share issue costs and trailer fees	538,000	614,000
Other	60,000	(89,000)
Valuation allowance	(7,642,000)	(7,617,000)
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 accumulated the following non-capital losses which are available to reduce taxable income in future years:

Amount	**Expiry date**
$ 987,000	2014
1,231,000	2015
1,494,000	2026
1,967,000	2027
2,141,000	2028
2,868,000	2029
1,977,000	2030
2,010,000	2031
2,356,000	2032
17,031,000	

The Fund has capital losses of $2,921,000 (2011 - $nil) that may be carried forward indefinitely to be applied against capital gains.

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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. As at December 31, 2012, 5.5% of the total net assets of the Fund were attributable to dividends receivable from two private portfolio companies of the Fund. See also 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, as at December 31, 2012, it continued to hold U.S. denominated dollar investments in two private companies (at cost, US$4,126,118) for which there is exposure to currency risk. On the basis of the estimated fair value of these venture investments and the net assets of the Fund as at December 31, 2012, there is negligible impact to net assets as a result of fluctuations 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 high interest savings accounts which have no sensitivity to interest rate fluctuations. As such, the Fund does not have significant exposure to interest rate risk.

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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 Class A Shares during each of the periods January 1, 2013 to March 1, 2014, January 1, 2014 to March 1, 2015 and January 1, 2015 to February 29, 2016. 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 having redemption priority over Class A Shares. All such Class B Shares had been redeemed as at December 31, 2012, for a total redemption value of approximately $5.5 million. 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, 2012, 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 MacDonald Neil de Gelder Harry Jaako Dr. Alan Winter

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.
DR. JOHN MACDONALD	Director	Independent science, technology and industrial policy advisor
DR. ALAN WINTER	Director	President and CEO of Genome B.C. and Winteck Consulting Inc.
CHARLES COOK	Chief Financial Officer	Vice-President and CFO of Discovery Capital Management Corp.

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Fund Code
DCC 100, 101, 102 & 104

Fund Manager
Discovery Capital Management Corp.

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

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

Tuesday, June 4, 2013 at 2:30PM
Discovery Capital Management Corp.
Suite 570 - 1285 West Pender Street
Vancouver, B.C.

BC DISCOVERY FUND

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