



BRITISH COLUMBIA DISCOVERY FUND (VCC) INC.

A Venture Capital Corporation

Annual Information Form

For the year ended December 31, 2019

Dated March 31, 2020

Class A Common Shares

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GLOSSARY

The following terms used in this Annual Information Form have the respective meanings set forth below, unless the context otherwise requires or specifies. Certain other terms are defined elsewhere in this Annual Information Form.

Administrative Services means those administrative services, described under “Responsibility for Fund Operations – Administration”, which the Fund may from time to time require to properly and effectively conduct its business;

Administrative Services Agreement means the agreement dated February 17, 2003, as renewed and amended on September 18, 2018, between the Fund and The Investment Administration Solution Inc. (and the amending agreement entered into contemporaneously therewith), pursuant to which The Investment Administration Solution Inc. acts as the Registrar and Transfer Agent of the Fund and provides certain other Administrative Services to the Fund;

Administrator means any person who or which from time to time provides any Administrative Services to the Fund;

Affiliate, if used to indicate a relationship between corporations, means any corporation where one is the subsidiary of the other, or both are subsidiaries of the same corporation or each of them is controlled by the same person or the same group of persons or one of them is controlled by one person and the other is controlled by an Associate, as defined in paragraphs (e) or (f) of the definition of Associate, of that person;

Annuitant has the same meaning as “annuitant” in the *Federal Tax Act*;

Articles mean the notice of articles and articles of the Fund, as amended from time to time;

Associate, if used to indicate a relationship with a person, means:

- (a) a corporation of which the person owns, directly or indirectly, shares carrying 10% or more of the voting rights attached to all outstanding shares of the corporation;
- (b) a partner of the person;
- (c) a participant in a joint venture with the person;
- (d) a trust or estate:
 - (i) in which the person has, in the opinion of the SBVCA Administrator, a substantial beneficial interest; or
 - (ii) for which the person serves as trustee or in a similar capacity;
- (e) a spouse, parent, grandparent, child, grandchild, brother or sister of the person; or
- (f) a parent, grandparent, child, grandchild, brother or sister of the spouse of the person residing in the same residence;

Audit Committee means a committee of the Board, composed of two Independent Directors, which carries out those responsibilities of an audit committee specified by the *Business Corporations Act* and such other responsibilities as may from time to time be delegated to it by the Board, including responsibilities with respect to the determination of the Pricing Net Asset Value of the Fund in accordance with the Valuation Methodology;

BC Tax Act means the *Income Tax Act* R.S.B.C. 1996 c. 215, as amended and in force from time to time, and includes all regulations made pursuant to that act;

Board of Directors or the **Board** means the board of directors of the Fund;

Business Corporations Act means the *Business Corporations Act* (British Columbia), R.S.B.C. 2002, c. 57, as amended and in force from time to time, and includes all regulations made pursuant to that act;

Business Day means any day of the week other than a Saturday, Sunday or a day that is a statutory holiday in the Province of British Columbia;

Class A Redemption Price means the Pricing Net Asset Value per Class A Share determined as at the end of the Valuation Date which falls on or occurs immediately after the date on which a fully completed Redemption Request is received by the Fund plus any dividends then declared and remaining unpaid in respect of the Class A Shares (with

any Redemption Request received at or after 1:00 p.m. Vancouver time on a Valuation Date being deemed, for such purpose, to be received on the following day);

Class A Shares means the class A common shares without par value in the authorized capital of the Fund;

Class B Shares means the class B common shares without par value in the authorized capital of the Fund which were issued in 2011 and all redeemed by November 30, 2012;

Common Interest Group, in relation to a corporation, means two or more persons, whether or not Associated or Affiliated, who, pursuant to an agreement, commitment or understanding, exercise, or intend to exercise, in concert, any rights attached to or associated with their shares;

Corporate Tax Credit Recipient means a corporation that subscribes for Class A Shares and maintains a permanent establishment in British Columbia at any time in the taxation year of the corporation in which the corporation subscribes for such Class A Shares;

CRA means the Canada Revenue Agency;

Directors mean the directors of the Fund, and **Director** means any one of them;

Eligible Investment means an investment permitted by section 10 of the *Small Business Venture Capital Act*, being an investment in Eligible Securities of an Eligible Small Business;

Eligible Security means a security which satisfies the requirements of subsection 10(1)(d) of the *Small Business Venture Capital Act* and the regulations referenced therein, which are described under “Investment Restrictions – Statutory Restrictions”;

Eligible Small Business or **ESB** means a business which satisfies the requirements of section 10 of the *Small Business Venture Capital Act* and the regulations referenced therein, which are described under “Investment Restrictions – Statutory Restrictions”;

Employee Investment Act means the *Employee Investment Act*, R.S.B.C. 1996, c. 112, as amended and in force from time to time, and includes all regulations made pursuant to that act;

Federal Tax Act means the *Income Tax Act* R.S.C. 1985, c.1 (5th Supp.), as amended and in force from time to time, and includes all regulations made pursuant to that Act;

Fund means British Columbia Discovery Fund (VCC) Inc., a company incorporated pursuant to the former *Company Act* (British Columbia), transitioned under the *Business Corporations Act* and registered as a VCC under the *Small Business Venture Capital Act*;

Independent Director means a Director of the Fund who is not an employee or officer (other than chairman of the Board) of the Fund or a director, officer or employee of the Manager or of any Affiliate of the Manager, who is not an Associate of any such person, and who deals with the Manager and would, but for being a Director of the Fund, deal with the Fund at arm’s length for the purposes of the *Federal Tax Act*;

Individual Tax Credit Recipient means an individual (other than an estate or trust) who subscribes for Class A Shares or who is the Annuitant of an RRSP or RRIF that subscribes for Class A Shares and, in either case, the applicable individual:

- (a) is resident in British Columbia at the time such Class A Shares are subscribed for; and
- (b) is either resident in British Columbia on the last day of the taxation year in which such Class A Shares are subscribed for or has income earned in that taxation year in British Columbia;

Investment Capital Branch means the operating name for the government department which delivers the investment incentive program as set out in the SBVCA;

Investment Committee means a committee of the Board, composed of two Independent Directors, which carries out those responsibilities, with respect to investments and divestitures made or proposed to be made by the Fund, which may from time to time be delegated to it by the Board;

Investment Policy means the investment policy of the Fund, as established and revised from time to time by the Board of Directors, including its investment objectives, its investment and divestiture strategies, and the statutory

and voluntary restrictions applicable in respect of its investments and proposed investments. See “Investment Restrictions – Changes to Investment Policy”;

Investment Protection Account or **IPA** means the investment protection account of the Fund held by a Canadian chartered bank and established by the Fund pursuant to the *Small Business Venture Capital Act* in relation to the sale of Class A Shares under this Prospectus;

Issue Costs at any particular time means those sales commissions paid to registered dealers prior to that time and/or payable to registered dealers at that time in respect of the issuance of Shares of the Fund and all other costs directly related to the issuance of Shares of the Fund incurred by the Fund prior to that time;

Management Agreement means the third amended and restated management agreement dated as of January 1, 2011 between the Manager and the Fund pursuant to which the Manager provides management services to the Fund, as further amended on June 13, 2011;

Manager means Discovery Capital Management Corp., the manager of the Fund;

Net Asset Value of the Fund means the Pricing Net Asset Value of the Fund less the UDC Amount;

Permitted Investment means an investment permitted under subsection 18(1) of the *Small Business Venture Capital Act* and the regulations referenced therein, as described under “Investment Restrictions – Statutory Restrictions”;

Permitted Redemption means a redemption of Class A Shares by the Fund upon receipt of notice in writing, satisfactory to the Registrar and Transfer Agent or to the Fund, that the Class A Shares have devolved to the holder as a consequence of the death of a registered owner thereof or the death of an Annuitant under an RRSP or RRIF that was the registered owner thereof, or, where the Class A Shares are held by an RRSP or RRIF under which the original purchaser thereof or his or her Spouse is the Annuitant, the original purchaser thereof has died; The definition of Permitted Redemption also includes the redemption of Class A Shares coded as DCC400 as described under the heading “Redemption of shares – Permitted Redemptions”.

Pricing Net Asset Value of the Fund means the value of the Fund which is used by the Fund to calculate the price at which it issues and redeems Class A Shares, and which, on any particular date, is equal to the difference between the aggregate value of the assets of the Fund on that date and the aggregate of the liabilities of the Fund on that date, where the values of the assets of the Fund on that date are determined in accordance with such asset valuation principles as have been established by the Board and/or the Audit Committee, as applicable, and are then in effect, plus the UDC Amount on that date;

Pricing Net Asset Value per Class A Share at any time means the Pricing Net Asset Value of the Fund at that time divided by the number of Class A Shares then issued and outstanding;

Registrar and Transfer Agent means The Investment Administration Solution Inc. or such other registrar and transfer agent of the Fund as may be appointed by the Board and approved by the SBVCA Administrator from time to time;

RESP means a trust governed by a registered education savings plan, as defined in the *Federal Tax Act*;

RRIF means a trust governed by a registered retirement income fund, as defined in the *Federal Tax Act*;

RRSP means a trust governed by a registered retirement savings plan, as defined in the *Federal Tax Act*;

SBVCA Administrator means the person designated under the *Small Business Venture Capital Act* to perform the duties of the administrator under that Act;

SBVCA Expense Limitations means those limitations imposed by the *Small Business Venture Capital Act* and the regulations thereunder on the amount of expenses which the Fund is permitted to incur, as described under “Fees and Expenses”;

Securities Act means the *Securities Act*, R.S.B.C. 1996, c. 418, as amended and in force from time to time, and includes all regulations and rules made pursuant to that act;

Small Business Venture Capital Act or **SBVCA** means the *Small Business Venture Capital Act*, R.S.B.C. 1996, c. 429, as amended and in force from time to time and includes all regulations made pursuant to that Act;

Special Resolution means a special resolution as defined under the *Small Business Venture Capital Act*, that is:

- (a) a resolution passed by a majority of not less than 1/2 of the votes cast by those shareholders of a company who, being entitled to do so, vote in person or by proxy at a general meeting of the company:
 - (i) of which notice as the articles provide, and not being less than 21 days' notice specifying the intention to propose the resolution as a special resolution, has been duly given, or
 - (ii) if every shareholder entitled to attend and vote at the meeting agrees, at a meeting of which less than 21 days' notice has been given, or
- (b) a resolution consented to in writing by every shareholder of a company who would have been entitled to vote in person or by proxy at a general meeting of the company;

Spousal RRSP means an RRSP which has received or may receive a contribution by the Spouse of the Annuitant;

Spouse means a spouse or common law partner as defined in the *Federal Tax Act*;

Start-up Costs means those expenses, totalling \$152,758, which were incurred by the Fund prior to July 1, 2003, other than sales commissions and other expenses related to the issuance of Class A Shares;

Tax Credit means the British Columbia income tax credit granted for eligible subscriptions for shares of a company registered as a VCC under the *Small Business Venture Capital Act*;

Tax Credit Certificate means the certificate issued or to be issued, pursuant to subsection 20(4) of the *Small Business Venture Capital Act*, to a Tax Credit Recipient;

Tax Credit Recipient means an Individual Tax Credit Recipient or a Corporate Tax Credit Recipient;

TFSA means a tax free savings account established under the provisions of the *Federal Tax Act*;

UDC Amount on any particular date means an amount equal to the balance of the Start-up Costs of the Fund and the Issue Costs of the Fund on that date which would remain unamortized on that date if the Start-up Costs of the Fund and those Issue Costs of the Fund that were incurred prior to July 1, 2003 were to be amortized on a straight-line basis over five years from July 1, 2003, and those Issue Costs of the Fund that were incurred on or after July 1, 2003 were to be amortized on a straight-line basis over five years from the date of issuance of the applicable Shares;

Valuation Date means the last Business Day of any week, and any other day which may be specified as such by the Manager;

Valuation Methodology means the methodology by which the Pricing Net Asset Value of the Fund is determined, as established and revised from time to time by the Board of Directors. See "Calculation of Net Asset Value - Valuation Methodology"; and

Venture capital corporation or **VCC** means a company registered as such under the *Small Business Venture Capital Act*.

NAME, FORMATION AND HISTORY OF THE FUND

The full name of the Fund is British Columbia Discovery Fund (VCC) Inc. The Fund was incorporated under the former *Company Act* (British Columbia) on November 6, 2002. The Fund transitioned under the *Business Corporations Act* on August 4, 2004. The Fund adopted new Articles consistent with the provisions of the *Business Corporations Act* on November 10, 2005 and subsequently amended its Articles to attach rights and restrictions to the Class B Shares, as determined by the Directors in their sole discretion.

The head office of the Fund is #43 – 1238 Eastern Drive, Port Coquitlam, British Columbia V3C 6C5. The registered office of the Fund is #2500 – 700 West Georgia Street, Vancouver, BC, V7Y 1B3.

The Fund was registered as a VCC under the SBVCA on November 20, 2002. The SBVCA authorizes the British Columbia Ministry of International Trade to register as VCCs companies that are established to make investments in Eligible Small Businesses in accordance with the provisions of the SBVCA, and to provide business and managerial advice to Eligible Small Businesses in which they make or propose to make investments. The SBVCA regulates a VCC's capitalization, Eligible Investments, Permitted Investments and Investment Protection Account. The SBVCA Administrator does not pass on the merits of individual investments made by VCCs.

On March 2, 2020, the Board announced that it had completed a strategic review of liquidity options for the Fund with the goal of maximizing shareholder value. As a result, the Board recommended that an orderly liquidation by distributing an undivided beneficial interest in the portfolio's shares by way of a return of capital and voluntary dissolution of the Fund be undertaken, subject to shareholder approval at a meeting of the shareholders to be held concurrently with the annual meeting of the shareholders. See "TERMINATION OF THE FUND".

Capital and Liquidity

The Fund decided, effective March 10, 2015, to voluntarily discontinue the sale of its Class A Shares, thereby no longer raising new capital for investment and growth. The Fund is now focussed on the management of its existing portfolio investments and, over time, the realization of its investments and distribution of the proceeds therefrom to shareholders.

The overall capital level of the Fund was formerly impacted by redemptions of its shares and, as of June 8, 2017 when the Fund converted to a dividend distribution model, by distributions. The Fund suspended redemptions in 2008, but has made redemption offers in 2013, 2014, 2016, and 2017 aggregating \$26.0 million. The Fund made distributions in 2017 and 2019 aggregating \$6.5 million.

Small Business Venture Capital Act Considerations

Under the investment pacing requirements of the SBVCA, the Fund is required to have invested in Eligible Investments, by the end of its next succeeding fiscal year, at least 40% of the equity capital eligible for Tax Credits raised by the Fund in each fiscal year of the Fund, and by the end of the second succeeding fiscal year, a further 40% of the equity capital eligible for Tax Credits raised by the Fund in each such fiscal year, and the Fund must maintain those levels of investment for a period of at least five years. The Fund was in compliance of its investment pacing requirements as at December 31, 2019 and has been advised that it is not required to make any further Eligible Investments. Should the Fund for any reason divest itself of an Eligible Investment prior to the expiration of the statutory five-year period and fall below the minimum investment level requirements, the Fund is required to reinvest additional funds into another Eligible Investment for the remainder of the five-year period or it may face the possibility of program suspension and repayment of Tax Credits.

There are a variety of situations that can arise to cause a venture capital corporation to not be in compliance with the SBVCA. The result of a failure to comply with the legislation varies, depending upon the particular nature of the non-compliance, but, essentially, the SBVCA Administrator can require any non-complying venture capital corporation to either rectify the circumstances of non-compliance or to pay back the Tax Credits previously issued to its shareholders. The SBVCA Administrator may also recapture funds in the Investment Protection Account to bring minimum investment levels into compliance. In some circumstances, the directors, officers or major shareholders of a VCC, or a small business, may be held jointly liable to repay the Tax Credits. The SBVCA Administrator may also retroactively revoke Tax Credit Certificates that have been issued, if the SBVCA has been contravened, or suspend or revoke the registration of the venture capital corporation. The SBVCA gives the SBVCA Administrator discretion to refrain from suspending or revoking the registration of a VCC and may grant certain

other relief from the strict requirements of the SBVCA in circumstances where the SBVCA Administrator considers that the VCC is conducting its business and affairs in a manner consistent with the SBVCA.

The SBVCA currently provides that a venture capital corporation may not acquire any of its own shares without incurring a liability to repay all or a specified portion of the Tax Credits that were issued in respect of the shares acquired, depending on the price at which they are acquired. The SBVCA also currently provides that there is no such liability to repay if a venture capital corporation has invested the prescribed amounts of equity capital eligible for Tax Credits within the prescribed time limits and has maintained those levels of investments for at least five years. In the case of requests for Permitted Early Redemptions, the SBVCA Administrator reviews and confirms the amount of the Tax Credits to be repaid to the Investment Capital Branch and the Fund deducts this amount from the redemption proceeds payable. This applies where requests for Permitted Early Redemptions are made prior to the elapsing of the five-year period over which the equity capital giving rise to the Tax Credits has been required to be invested. The SBVCA further provides that where a venture capital corporation has been deemed to purchase its own shares and the SBVCA Administrator considers that the venture capital corporation has conducted its business and affairs in a manner consistent with the SBVCA and has held an Eligible Investment for at least three years, the SBVCA Administrator may reduce the amount that would otherwise be payable by the venture capital corporation.

The Province of British Columbia in no way guarantees the value of any shares issued by a venture capital corporation registered under the *Small Business Venture Capital Act*. Nor does it in any way express an opinion as to the financial condition of any Eligible Small Business, the merits of an investment in shares of the venture capital corporation, or the merits of the venture capital corporation's investments in Eligible Small Businesses.

This Annual Information Form was not reviewed by the Investment Capital Branch.

The foregoing summary is very general and any shareholders who require further information on the provisions of the *Small Business Venture Capital Act* or the regulations pursuant thereto are advised to consult their legal advisers.

INVESTMENT OBJECTIVES

The Fund was created to provide early-stage ventures in the technology sector in British Columbia with a source of equity capital to grow and expand their businesses and to provide British Columbia investors with an experienced and proven management team capable of maximizing shareholder returns from these investments.

The investment objectives of the Fund are:

- (a) to achieve long-term capital appreciation; and
- (b) to contribute to the growth in value and employment of the technology industry in British Columbia by making diverse investments in Eligible Small Businesses located in British Columbia in the areas of:
 - information technology;
 - communications;
 - environmental and energy technologies; and
 - health and life sciences.

INVESTMENT STRATEGIES

Investment Strategy

The Fund ceased to issue shares and raise capital for investment in March 2015. Accordingly, the Fund is no longer seeking to make Eligible Investments in new Eligible Small Businesses but may make follow-on investments into existing investees of the Fund in certain circumstances. The Fund has been advised that it is in full compliance with the investment pacing requirements of the SBVCA and therefore is not required to make any further Eligible Investments.

The investment strategy of the Fund specifies, generally, how the Manager will add value to its existing investments and how the Manager will generate liquidity for these investments.

Value Creation

The Manager continues to work closely with its 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 venture capitalists, corporate investors and/or capital markets.

Divestiture Strategy

The Manager utilizes an approach to managing the investments of the Fund which is more active than that adopted by many other venture capital investment firms, with the aim of accelerating the growth of its portfolio companies to the stage where exit strategies can be effectively implemented. The Manager has available significant experience in managing divestitures to ensure liquidity for follow-on investments and redemptions. The Manager will look to disposition of investments in portfolio companies once liquidity is available and, in its assessment, gains that a venture capital investor would expect to achieve are realizable.

OVERVIEW OF THE SECTOR THAT THE FUND INVESTS IN AND ITS INVESTMENTS

The Fund is invested directly in the securities of ESBs in British Columbia, primarily in the technology sector. As at December 31, 2019, the Fund's portfolio comprised venture investments in five active, emerging technology companies, four of which were in privately-held companies and one of which was in a publicly-traded company, as well as an investment interest in a private limited partnership that holds the shares of a U.S.-based technology company acquired upon the sale of a former privately-held portfolio company of the Fund.

The technology ESBs in which the Fund has invested are typically at an early stage of development. They generally have limited operating histories and will expect to incur significant costs to fund their development, marketing and sales initiatives, technology improvements and other enhancements to their businesses. The Fund has generally made an initial investment in an ESB in the range of \$500,000 to \$2,000,000 and typically supports its portfolio investments with further investment through follow-on rounds of financing. The portfolio investments of the Fund, by their nature, involve a longer commitment than that typical for other types of funds.

The opportunity to exit the portfolio investments of a venture capital investment fund such as the Fund is largely dependent upon the state of financial markets and the economy in general. In the view of the Manager, the valuations of high risk/high reward venture capital investments, such as those of the Fund, and the ability for venture capital fund portfolio companies to participate in "liquidity events" (such as initial public offerings or merger and acquisition transactions) tend to lag those in the senior financial markets.

Significant Holdings of the Fund

The following table provides information concerning each active portfolio company of which the Fund beneficially owns, directly or indirectly, 5% or more of the securities, as at December 31, 2019.

Significant Holdings of the Fund		
Name and Address of Entity	Nature of Entities' Principal Business	Percentage of Issued & Outstanding Securities of each Class Owned by Fund
Navarik Corp. 4 th Floor, 56 East 2nd Avenue Vancouver, BC V5T 1B1	Software-as-service developer and provider to the worldwide maritime shipping industry.	7.3% of common shares

Significant Holdings of the Fund		
Name and Address of Entity	Nature of Entities' Principal Business	Percentage of Issued & Outstanding Securities of each Class Owned by Fund
PHEMI Systems Corporation 300 - 157 Alexander St, Vancouver, BC V6A 1B8	Big data warehouse company that lets organizations easily access and mine any variety of data at any volume to drive insights that lower costs, improve outcomes, and allow better decisions faster.	18.2% of Class C preferred shares 4.% of Class D1 preferred shares
Tantalus Systems Corp. 301 – 3480 Gilmore Way Burnaby, BC V5G 4Y1	Provider of advanced wireless data communications networks for electric, water and gas utilities.	38.0% of common shares 3.4% of Class A preferred shares 15.9% of Class B preferred shares 8.7% of Class D preferred shares 20.0% of multi-voting shares

INVESTMENT RESTRICTIONS

The Fund is subject to certain restrictions and practices contained in securities legislation which are designed in part to ensure that the investments in the Fund are diversified and relatively liquid and to ensure the proper administration of the Fund. The Fund is managed in accordance with these restrictions and practices.

As a VCC regulated by the SBVCA, the Fund may not make or hold any investments not permitted by the SBVCA (see “Statutory Restrictions”, below). In addition, the Board of Directors has adopted certain voluntary restrictions on investments which the Fund may make or hold (see “Voluntary Restrictions”, below).

Statutory Restrictions

Investments to be made by the Fund are, pursuant to the SBVCA and the regulations thereunder, subject to the restrictions and requirements set out therein, except as may also be permitted in the discretion of the SBVCA Administrator. The Fund’s current investments are in compliance with these restrictions and requirements and these restrictions and requirements are not otherwise materially relevant to the Fund as the Fund is now closed to making new investments.

Voluntary Restrictions

In addition to the investment restrictions contained in the SBVCA and the regulations thereunder, the Board of Directors of the Fund may from time to time establish certain other investment policies. The Board of Directors of the Fund has approved the following investment restrictions and policies, which may be varied from time to time as opportunities and market conditions dictate.

Further Restrictions

The Fund will not:

- (a) pledge or mortgage any of its assets (except in connection with a put or call transaction permitted below) or borrow money, except as a temporary measure for the purpose of accommodating requests for redemptions of Shares while effecting an orderly liquidation of portfolio securities, provided that after giving effect to such borrowing the outstanding amount of all such borrowing does not exceed 5% of the Net Asset Value of the Fund at the time of such borrowing;
- (b) lend its portfolio assets;
- (c) make loans except in the ordinary course of investing its funds;
- (d) act as an underwriter of securities; or

- (e) make short sales of securities or purchase securities on margin, or purchase puts, calls or combinations thereof, except that the Fund may:
 - (i) obtain options to acquire additional securities or rights to sell securities of the Eligible Small Businesses in which it invests; and
 - (ii) subject to regulatory restrictions, purchase puts, calls or combinations thereof to facilitate an orderly sale of publicly traded securities in its investment portfolio;

Exceptions

Notwithstanding the foregoing, the Fund may:

- (a) provide guarantees as funding alternatives for portfolio companies;
- (b) invest in securities that may require it to make additional contributions;
- (c) lend money to Eligible Small Businesses by investing in debt obligations that are Permitted Investments; and
- (d) make investments representing more than 10% of the issued securities of a portfolio company.

Portfolio Diversity

No investment by the Fund in a single Eligible Small Business will exceed 25% of the share capital of the Fund as at the date of making that investment.

Cash Management

Pending investment in Eligible Investments and/or Permitted Investments in securities of Eligible Small Businesses, the Fund's cash assets (including funds received on the liquidation of investments) will be invested in liquid reserves and/or other liquid securities permitted by the SBVCA and the regulations thereunder (see "Eligibility Restrictions", above), and will earn the rate of return generated by such investments, rather than the rate of return sought from investments in Eligible Securities of Eligible Small Businesses.

Investment Protection Account

The SBVCA requires each registered VCC to establish a special account, called an investment protection account, and to deposit into it 30% of all equity capital eligible for Tax Credits raised by the VCC. The SBVCA Administrator authorizes a payment out of the IPA only if the VCC has made or proposes to immediately make an Eligible Investment. During 2019, the SBVCA Administrator advised the Fund that all remaining amounts held in the IPA could be released to the Fund since it was in compliance with the investment pacing requirements of the SBVCA. Accordingly, the Fund has closed its IPA.

Changes to Investment Policy

The investment objectives, investment strategy and investment restrictions described above constitute the Investment Policy of the Fund, as currently established by the Board of Directors.

The portions of the Investment Policy of the Fund that are governed by the SBVCA, and, in particular, the investment restrictions imposed thereby, may only be altered in the event the SBVCA is amended by the Government of British Columbia or if permitted in the discretion of the SBVCA Administrator. In the event that the SBVCA is amended or such discretion is exercised, those portions of the Investment Policy of the Fund that are governed by the SBVCA will be altered to reflect the amendments made thereto. Those portions of the Investment Policy of the Fund that are not governed by the SBVCA may be changed by the Board of Directors of the Fund, in their sole discretion.

PURCHASE OF SHARES

The Fund is no longer offering Class A Shares for purchase – see "Name, Formation and History of the Fund".

DESCRIPTION OF SHARES

Description of Class A Shares

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

Redemption by Holders

The Fund no longer generally redeems its shares. Redemptions of Class A Shares are permitted in limited circumstances as set out in the Articles of the Fund. See “Redemption of Shares – Permitted Redemptions” in this Annual Information Form for full particulars regarding redemption rights and restrictions.

Dividends

Holders of Class A Shares are entitled to receive dividends and to returns of capital at the discretion of the Board.

Voting Rights

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 entitles the holder thereof to one vote per Class A Share.

Election of Directors

Holders of Class A Shares are entitled to elect all of the Directors of the Fund; however, the number of directors to be elected is set by the Directors.

Dissolution

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.

Modification of Terms

Provisions as to the modification, amendment or variation of rights attached to the Class A Shares are contained in the Articles. Generally, subject to the provisions of the *Business Corporations Act* and the *Small Business Venture Capital Act*, the creation, variation or deletion of rights or restrictions to the Class A Shares requires the approval of shareholders of the Fund by special resolution (three-quarters of the votes cast).

Transfer Procedure

There are generally no restrictions on the transfer of Class A Shares. A shareholder who wishes to transfer any of his, her or its Class A Shares must deliver to the Registrar and Transfer Agent of the Fund or to such other office as may be designated by the Fund for such purpose from time to time, a request to transfer, signed by the shareholder or his or her authorized investment dealer or broker, specifying the number of Class A Shares which the shareholder wishes to have transferred, all in form satisfactory to the Fund or its designate. Notwithstanding the foregoing, the procedure for transfer of any Class A Shares may be modified by agreement between the Fund and the holder thereof or his, her or its authorized agent, investment dealer or broker.

CALCULATION OF NET ASSET VALUE

Calculation of Net Asset Value of the Fund

The Fund believes that Pricing Net Asset Value of the Fund determined in accordance with the methodology described below and which has been applied by the Fund consistently since its inception meets the definition of “net asset value” under National Instrument 81-106 *Investment Fund Continuous Disclosure*, as that instrument has been amended over the years (“**NI 81-106**”). Pricing Net Asset Value per Class A Share is the price at which the Fund formerly sold its Class A Shares and calculates the Class A Redemption Price. See “Calculation of Pricing Net Asset Value per Class A Share” below for a reconciliation of Pricing Net Asset Value per Class A Share and net assets per share for financial statement reporting purposes.

The Pricing Net Asset Value of the Fund will be determined by an Administrator, which is currently the Manager, in accordance with the Valuation Methodology specified from time to time by the Board of Directors of the Fund (see “Valuation Methodology”, below). The Pricing Net Asset Value of the Fund will be determined as of 1:00 p.m. PST on the Valuation Date.

Valuation Methodology

The valuation methodology currently specified by the Board of Directors as the Valuation Methodology is as follows:

On any Valuation Date, the Pricing Net Asset Value of the Fund is equal to the estimated “fair value” (within the meaning of NI 81-106) on that date of the Fund’s:

- (a) marketable securities (if any), cash and cash equivalents; **plus**
- (b) investments in portfolio companies for which a published market exists and investments in portfolio companies for which no published market exists (see “Valuation Policies and Procedures” below); **plus**
- (c) other assets; **less**
- (d) total liabilities, including an estimate of the amount that would be payable to the Manager as a performance fee on that date (see “Fees and Expenses – Management Fees”) if all of the Fund’s investments in portfolio companies and non-cash reserves were to be disposed of on that date and the obligation to pay such performance fee were to be accelerated to that date; **plus**
- (e) the UDC Amount.

This method of calculating Pricing Net Asset Value of the Fund had been consistent with Canadian generally accepted accounting principles (“GAAP”) prior to 2004. However, effective as of January 1, 2004, GAAP no longer permitted the Fund to capitalize Start-up Costs and Issue Costs and record them as deferred assets on its financial statements. Because Start-up Costs represented up-front costs associated with incorporating and organizing the Fund, which were of benefit to the Fund over a period of time, the Board of Directors determined that the amount that would remain unamortized at any time if Start-up Costs had been capitalized and amortized on a straight-line basis over five years from July 1, 2003 should continue to be included in determining the price at which Shares were sold. Because Issue Costs were associated with the raising of capital that the Fund would typically have available for at least five years, the Board of Directors determined that it was appropriate, for the purposes of determining the price at which Shares were sold, to spread such costs equally, in the case of those incurred prior to July 1, 2003, over five years from July 1, 2003, and, in the case of those incurred after July 1, 2003, over five years from the date of issuance of the shares in respect of the issuance of which they were incurred.

Further, under GAAP, Section 3855, Financial Instruments – Recognition and Measurement (“Section 3855”) issued by the Canadian Institute of Chartered Accountants established standards for the fair value of investments for financial statement reporting purposes. The introduction of Section 3855 impacted the value of the Fund’s investments for financial statement reporting purposes commencing January 1, 2007. For example, Section 3855 required that the fair value of investments in publicly-traded securities be measured based on their closing bid prices, whereas the Fund used an average of their closing prices for purposes of calculating its Pricing Net Asset Value of the Fund. Effective January 1, 2014, and as required, the Fund commenced to prepare its financial statements in accordance with International Financial Reporting Standards (“IFRS”) whereby, similar to the application of Section 3855, the Fund estimates the fair value of its publicly-traded venture investments based on the bid price for these securities whereas the Fund continues to use the average of their closing prices over the preceding twenty days for purposes of calculating its Pricing Net Asset Value of the Fund.

See “Calculation of Pricing Net Asset Value per Class A Share” below for a reconciliation of Pricing Net Asset Value per Class A Share and net assets per Class A Share for financial statement reporting purposes.

Calculation of Pricing Net Asset Value per Class A Share

The Administrator responsible for determining the Pricing Net Asset Value of the Fund determines, with the assistance of the Registrar and Transfer Agent of the Fund, the Pricing Net Asset Value per Class A Share of the Fund on each Valuation Date, by dividing the Pricing Net Asset Value of the Fund on that date by the total number of Class A Shares of the Fund outstanding on that date. **The Pricing Net Asset Value per Class A Share**

determined in this manner may not be directly comparable to the pricing methods used by venture capital funds, such as labour sponsored funds, based in other provinces. The Pricing Net Asset Value per Class A Share is the price per share at which the Fund will redeem Class A Shares pursuant to Permitted Redemptions. The Pricing Net Asset Value per Class A Share of the Fund may differ from the prices at which holders of Class A Shares may be able to sell their Class A Shares to third party purchasers.

To assist investors in assessing the difference between Pricing Net Asset Value per Class A Share for purposes of purchasing and redeeming Class A Shares and net assets per Class A Share for financial statement reporting purposes, the Fund has provided a reconciliation in the notes to its year-end audited financial statements. As at December 31, 2019, there was a difference of +28.8% between Pricing Net Asset Value per Class A Share and net assets per Class A Share under IFRS, as summarized in the following reconciliation:

Total equity in accordance with IRFS as reported	\$9,974,791
Add: UDC Amount (unamortized deferred share issue costs), including other financial statement adjustments (including changes in accrued performance fees)	\$(646,190)
Add: Measurement differences in the fair value of venture investments	\$4,697,426
Pricing net asset value	\$14,026,027
Class A Shares outstanding as at December 31, 2019	4,335,864
Pricing Net Asset Value per Class A Share	\$3.23
Total equity in accordance with IFRS per Class A Share	\$2.30
% difference	28.8%

The calculation of Pricing Net Asset Value per Class A Share incorporates the Fund's current assets and liabilities, which may include estimates. Estimates of such assets and liabilities for the purpose of calculating Pricing Net Asset Value per Class A Share may differ from estimates for the purpose of calculating net assets under IFRS due to timing differences. In addition, certain subsequent events may be treated differently for the calculation of Pricing Net Asset Value of the Fund in comparison to IFRS net assets. Specifically, IFRS may require certain subsequent events to be recorded as at a financial statement date based on information that has arisen at a subsequent date. For the purposes of Pricing Net Asset Value of the Fund, adjustments that are recorded as at the prior financial statement date in accordance with IFRS are recorded at the next available Valuation Date, and not retroactively.

Valuation Policies and Procedures

In respect of the Fund's portfolio companies, "fair value" is defined to be the amount at which the investment could be bought or sold in a current transaction between willing parties acting at arm's length – that is, other than in a forced or liquidation sale.

Valuation of Portfolio Companies for which a Published Market Exists

On any Valuation Date, the estimated fair value of the Fund's investments in portfolio companies for which there exists a published market will be calculated on the basis of the average closing market quotations over the preceding twenty trading days. A reasonable discount to market will normally be used if trading in the applicable securities is restricted in any way. For this purpose, a published market means any market on which such securities are traded, if the prices are regularly published in a newspaper or business or financial publication of general and regular paid circulation.

Valuation of Portfolio Companies for which no Published Market Exists

The fair value of the Fund's investments in portfolio companies for which no published market exists will be estimated on the following basis:

- (a) the fair value of investments will be estimated on the basis of the expected realizable value of the investments on a going concern basis if they were disposed of in an orderly fashion over a reasonable period of time to an unrelated third party acting at arm's length;
- (b) a new investment will normally be carried at cost from the date on which it was acquired, unless there is a substantial arm's length transaction which establishes a different value or the performance of the entity in which the investment was made varies significantly and adversely from the Fund's expectations;
- (c) if there is a substantial arm's length, *bona fide*, enforceable offer or transaction with respect to an entity in which an investment has been made, the values used in such offer or transaction may be used in valuing the investment, if circumstances warrant, or, similarly, if a valuation of an entity in which an investment has been made has been prepared by a qualified independent person, such valuation will be given due consideration in determining the estimated fair value of the investment;
- (d) if the entity in which an investment has been made is progressing satisfactorily in relation to the Fund's expectations, in estimating the fair value of the investment, a reasonable multiple of sustainable earnings, cash flow, sales revenue or discounted cash flow (as considered appropriate) may be used;
- (e) where the performance of an entity in which an investment has been made varies adversely from the Fund's expectations, a write-down of the investment or other provision will be considered and made where appropriate;
- (f) warrants and options will be valued at the amount by which the estimated fair value of the investment into which the warrant or option would convert upon exercise exceeds the exercise price of the warrant or option, with no value estimated for the time to expiry and volatility of the applicable warrant or option;
- (g) debt instruments, other than short-term liquid debt instruments, will initially be valued at their principal amount (with accrued interest or discounts earned included in interest receivable), and thereafter by having regard to whether the instrument is in arrears or whether a write-down or other provision is considered prudent due to the likelihood of less than full realization on the instrument;
- (h) short-term liquid debt instruments (having a term to maturity of 365 days or less) will be valued at cost (with accrued interest or discounts earned included in interest receivable);
- (i) convertible securities will generally be valued at the greater of their principal amount and their estimated fair value as if they had been converted, in each case with such estimated fair value being determined on the basis described above; and
- (j) in the event that the valuation policies and procedures described above are not appropriate to the particular circumstance of the entity in which an investment has been made, such valuation techniques as may be determined by the Audit Committee to be appropriate may be used to estimate the fair value of the investment.

The process of valuing investments for which no published market exists will inevitably be based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for those investments. The valuation of investments for which no published market exists will be reviewed annually, as at the last day of the fiscal year of the Fund, by a qualified independent third party (see "Review and Approval", below).

Review and Approval

The Audit Committee of the Board will review, revise (if and as required) and approve the Pricing Net Asset Value of the Fund, as determined by the Administrator responsible for determining the Pricing Net Asset Value of the Fund:

- (a) as of the last Valuation Date in each six month interim period of the Fund;
- (b) as of the last Valuation Date of each fiscal year of the Fund; and
- (c) as of any Valuation Date on which the Pricing Net Asset Value per Class A Share of the Fund, as initially determined by the Manager or Administrator, has, as a result of changes to the valuation

of investments for which no public market exists, changed by more than 5% in the aggregate from the Pricing Net Asset Value per Class A Share of the Fund determined four weeks earlier.

A qualified independent third party will review annually the valuation of the venture investments of the Fund to confirm that such valuation is, in all material respects, reasonable.

If, on review by the Audit Committee or an independent third party engaged to confirm the reasonableness of the valuation of venture investments, the Pricing Net Asset Value of the Fund, as determined by the applicable Administrator at any time, is determined to require revision, the Fund will reimburse, for the amounts underpaid, any persons who were underpaid for shares of the Fund as a result of having shares redeemed at a Pricing Net Asset Value per Class A Share that was derived from the Pricing Net Asset Value of the Fund that required revision.

Neither the British Columbia Securities Commission nor the SBVCA Administrator approves or substantiates any Pricing Net Asset Value of the Fund or Pricing Net Asset Value per Class A Share which may be determined or approved at any time or from time to time.

Reporting of Pricing Net Asset Value per Class A Share

The Pricing Net Asset Value per Class A Share is disseminated weekly to The Globe and Mail, The Vancouver Sun and other financial publications. The Pricing Net Asset Value per Class A Share and Pricing Net Asset Value of the Fund are updated weekly and available at no cost on the website of the Fund at www.bcdiscoveryfund.com or by calling the Fund at 604-683-3000.

DISTRIBUTION POLICY

Effective June 8, 2017, the Fund converted to a dividend distribution model and adopted a policy to distribute available cash from an orderly realization of value from dispositions in the Fund's portfolio first by way of capital dividends (to the extent the Fund has a positive capital dividend account), second by way of returns of capital (to the extent that capital is available for return), and thirdly by way of taxable dividends, each subject to maintenance of a restricted cash account to satisfy SBVCA investment obligations, such extra reserves for 'follow on investments' in existing portfolio companies as the Board deems appropriate, and a reserve for working capital, again as the Board deems appropriate.

Actual distribution performance of the Fund pursuant to the Distribution Policy will depend on a range of factors including the actual and projected levels and timing of divestment activity, the prospects for generating exit values in excess of carrying values and the Fund's cash position from time to time. The first distribution of \$1.10 per Class A Share was made on September 12, 2017. No distributions were made during 2018. A second distribution of \$0.35 per Class A Share was made on September 23, 2019.

REDEMPTION OF SHARES

Redemption of Class A Shares by Holders

Concurrently with the adoption of the dividend distribution model on June 8, 2017, the Articles of the Fund were amended by special resolution of the Shareholders to eliminate the redemption rights on the Class A Shares, except in certain specified circumstances described below.

Permitted Redemptions

Although the Class A Shares are not generally redeemable, the 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 and the original purchaser has died, as the case may be.

In addition, holders of Class A Shares which are currently eligible for redemption and who hold their Class A Shares coded as DCC400 shares on the FundSERV network can continue to fulfill a redemption at any time, which will be processed through the FundSERV network. The Fund intends to retain sufficient funds available to satisfy redemptions of outstanding DCC400 shares. As of December 31, 2019, there were \$0.4 million of outstanding DCC400 shares.

In circumstances where the Class A Shares are redeemable, the Fund will redeem Class A Shares for the Class A Redemption Price.

RESPONSIBILITY FOR FUND OPERATIONS

Officers and Directors of the Fund

The name, municipality of residence, office, and principal occupation within the preceding five years of each of the current Directors and officers of the Fund are set out below:

<u>Name and Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
JOHN MCEWEN ⁽¹⁾ ⁽²⁾ Naramata, British Columbia	Director, Chief Executive Officer and Secretary	CEO and Director of the Manager
HARRY JAAKO Vancouver, British Columbia	Director and President	President and Director of the Manager
NEAL CLARANCE ⁽¹⁾ ⁽²⁾ North Vancouver, British Columbia	Director and Chairman of the Board of Directors	Financial and Business Consultant
DEREK SPRATT ⁽¹⁾ ⁽²⁾ Vancouver, British Columbia	Director	Independent businessman
CHARLES COOK North Vancouver, British Columbia	Chief Financial Officer	Vice-President, CFO and Director of the Manager

Notes:

- (1) Denotes member of the Audit Committee.
- (2) Denotes member of the Investment Committee.

The Board has overall responsibility for all investments and divestitures made by the Fund, as well as for the establishment of appropriate investment and divestiture policies and the implementation of appropriate procedures with respect to the investment and divestiture processes. The Board currently consists of four Directors. The size of the Board is determined by the Directors. The Directors are elected by the shareholders of the Fund. Harry Jaako and John McEwen were first appointed effective November 6, 2002, and continue to serve on the Board of Directors and will hold office until the next annual general meeting of the shareholders of the Fund. Mr. Neal Clarence was appointed to the Board on December 14, 2016 to fill the vacancy left by Dr. John MacDonald who retired from the Board after serving on the Board for 14 years. Mr. Derek Spratt was elected to the Board of Directors at the Annual General Meeting of Shareholders held on June 8, 2017 to fill the vacancies left by Mr. Neil de Gelder and Dr. Alan Winter who both retired from the Board after serving on the Board for 15 years. All four Directors will hold office until the next annual general meeting of the shareholders of the Fund when all will stand for re-election by the shareholders of the Fund.

The Independent Directors are Neal Clarence and Derek Spratt.

The Board has, in accordance with the Articles of the Fund, constituted an Investment Committee and an Audit Committee, and, except as restricted by the Articles of the Fund, may delegate to those committees (and/or any other committee or committees of the Board which may be duly established and constituted) such of its responsibilities as the Board may from time to time determine to be appropriate. The Board had also previously constituted a “Valuation Committee”, the responsibilities of which have been assumed by the Audit Committee in 2008.

A majority of the members of the Investment Committee are independent of both the Fund and the Manager, and the Fund and the Manager will use their best efforts to ensure that the majority of the members of the Investment Committee will continue to be independent of both the Fund and the Manager.

A majority of the members of the Audit Committee are independent of both the Fund and the Manager, and the Fund and the Manager will use their best efforts to ensure that the majority of the members of the Audit Committee will continue to be independent of both the Fund and the Manager.

The Fund has a policy of insurance for the Directors and officers of the Fund. The Articles of the Fund provide for the indemnification of the Directors and officers of the Fund from and against liability and costs in respect of any action or suit brought against them in connection with the execution of their duties of office, subject to certain limitations. In addition, the Fund has entered into an indemnity agreement dated December 21, 2009 with each of the Directors and officers of the Fund.

The following are biographical descriptions of the Directors and officers of the Fund.

John McEwen co-founded Discovery Capital Corporation in 1986 and was its President and Co-CEO. Mr. McEwen has also served as a director of the Manager since June 2001 and as Chief Executive Officer of the Manager since June 2004. He has over twenty-five years' experience in advising early-stage technology companies, in managing technology sector investment funds, in sourcing, analyzing and closing venture capital investment opportunities, and in structuring corporate finance transactions. He is currently on the board of directors of one of the Fund's venture investment companies, was former Chair of the Operating Committee of the Vancouver Enterprise Forum and is an active member of B.C.'s technology and investment communities. Mr. McEwen holds a B.Comm. degree from the University of British Columbia. Prior to co-founding Discovery Capital, Mr. McEwen was responsible for the principal marketing operations of computer software developer Sydney Development Corporation, from 1982 to 1984, and of Penny Software Inc., a national computer software marketing company, which he co-founded in 1985. Until becoming a principal of Discovery Capital, Mr. McEwen provided management services to several technology companies raising capital from private and public sources. From 1975 to 1980, Mr. McEwen was employed by IBM Canada Ltd. in various marketing capacities, receiving several company-wide awards.

Harry Jaako co-founded Discovery Capital Corporation in 1986 and was its Chairman and Co-CEO. Mr. Jaako has also served as a director of the Manager since June 2001 and President of the Manager since June 2004. He has over twenty-five years' experience in advising early-stage technology companies, in managing technology sector investment funds, in sourcing, analyzing and closing venture capital investment opportunities, and in structuring corporate finance transactions. Mr. Jaako is currently on the board of directors of one of the Fund's venture investment companies and has been a Director of The Toronto Stock Exchange (now, the TMX Group Inc.) since 2001. He also served as an advisory board member of the National Research Council IRAP program. Mr. Jaako is also an active member of B.C.'s technology and investment communities, and frequently appears as a key advocate for the B.C. technology sector through local and national media outlets. Mr. Jaako holds a B.Eng. degree from Lakehead University. Prior to co-founding Discovery Capital, Mr. Jaako was a consulting manager with DMR Group, Inc., an international management consulting firm, where, from 1983 to 1986, he headed its B.C. technology consulting practice, and from 1980 to 1983 was an independent information systems consultant in Vancouver, in connection with which he served as director of information systems for Lions Gate Hospital. From 1976 to 1980, Mr. Jaako served in several marketing positions at IBM Canada Ltd.

Charles Cook, formerly Vice-President and Chief Financial Officer of Discovery Capital, has also served as a director of the Manager since September 2007 and as Vice President and Chief Financial Officer of the Manager since June 2004. He has over 20 years of investment banking experience in advising public and private companies. Mr. Cook is currently on the board of directors of two of the Fund's venture investment companies and is also a director of DMP Holdings Limited, a wholly-owned inactive subsidiary of MTI Limited Partnership. He holds an M.B.A. from the University of British Columbia and is a CPA, CMA.

Neal Clarence has over 35 years of experience as a financial and business consultant. He is a retired Partner from E&Y where he most recently served as the Canadian Leader of the firm's services to the Entertainment Industry. He also had extensive experience with servicing a broad range of clients in a wide variety of industries including, Banking, Brokerage, Investment, Venture Capital, Manufacturing and Technology. Mr. Clarence is a Director of the Canadian Film Centre, a past Director of the International Financial Centre and a member of the Corporate Institute of Directors.

Derek Spratt is a 34 year veteran of the Canadian technology sector having founded and run several Canadian technology companies, including PCS Wireless, Intrinsyc Software and Mobidia. Mr. Spratt is an active

participant in the technology community having held board positions with various associations including Wavefront, Acetech, DigiBC, WinBC, the Vancouver Enterprise Forum, Scientist in Residence Program and the TSX Advisory Committee. He is also an active investor in the technology sector and has advised venture capital firms in Canada and the US. Mr. Spratt holds a Bachelor of Science in electrical engineering from Queens University (1983).

Mr. Spratt is a unitholder in the MTI Limited Partnership (the “MTI LP”), in which he controls, directly and indirectly, approximately 3.7% of the outstanding limited partnership units, as well as being a director of MTI General Partner Inc. and of DMP Holdings Limited, a wholly-owned inactive subsidiary of MTI LP. The Fund holds material investments in MTI LP. It is the policy of the Board that Mr. Spratt does not participate in discussions and decision-making and abstains from voting on matters related to MTI LP.

Cease Trade Orders and Bankruptcies – Directors and Executive Officers of the Fund

John McEwen, director and CEO of the Fund, was a director of EvidencePix Systems Inc., a former private portfolio company of the Fund, which made a proposal to creditors under the Bankruptcy and Insolvency Act on April 10, 2015.

Harry Jaako, director and President of the Fund, was a director and Chairman of Paradigm Environmental Technologies Inc., a former private portfolio company of the Fund, which was placed in receivership by its creditors in June 2014.

Manager of the Fund

The Manager was incorporated on June 19, 2001 under the *Company Act* (British Columbia). Its registered and records office is at #2500 – 700 West Georgia Street, Vancouver, BC, V7Y 1B3. Its head office is at #43 – 1238 Eastern Drive, Port Coquitlam, BC, V3C 6C5. The Manager’s telephone number is 604-683-3000. The Manager’s email address is info@discoverycapital.com and its website address is www.discoverycapital.com.

The Manager is also the portfolio adviser of the Fund.

The Manager was formerly a wholly-owned subsidiary of Discovery Capital Corporation (“**Discovery Capital**”), a venture investment company originally established in 1986, which had officers and management in common with the Manager. In 2007, shareholders of Discovery Capital approved a plan of liquidation whereby the assets of Discovery Capital were distributed to its shareholders and the company was wound up. In connection with this plan of liquidation, the management team of the Manager, led by John McEwen, Chief Executive Officer, Harry Jaako, President and Charles Cook, Chief Financial Officer, purchased all of the issued and outstanding shares of the Manager effective September 14, 2007. The management team of the Manager has significant experience in the areas of strategic business development, corporate finance, capital raising, and corporate governance, enabling it to add true value to portfolio companies as part of its hands-on investment management philosophy.

Except for those capabilities brought to the Fund by its Independent Directors and by such staff and/or Administrators as may be hired and/or engaged directly by the Fund and who are independent of the Manager, the Fund is dependent upon the investment management and general management capabilities of the Manager, namely John McEwen, Harry Jaako and Charles Cook.

Duties and Services to be Provided by the Manager

The Manager has been retained pursuant to the Management Agreement to provide management services relating to investing in Eligible Small Businesses. The Fund has agreed to pay to the Manager an annual management fee and a performance fee. Fees and expenses payable to the Manager are described under “Fees and Expenses – Management Fees”.

The management services provided by the Manager under the Management Agreement include the overall day-to-day management of the Fund, including, without limitation but only to the extent still relevant given that the Fund is no longer raising new capital or making new investments:

- (a) seeking out and investigating opportunities for the Fund to invest in Eligible Small Businesses that meet the investment requirements of and do not violate the investment restrictions of the SBVCA;

- (b) analyzing and researching identified Eligible Small Business investment opportunities to determine whether the prospective investments meet the investment criteria of the Fund and would be desirable for the Fund to make;
- (c) negotiating and structuring, for and on behalf of the Fund, the terms and conditions under which prospective investments would be made by the Fund, subject to approval of the Board or the Investment Committee;
- (d) preparing a recommendation regarding a potential investment to the Board or the Investment Committee, as applicable, sufficient for the potential investment to be evaluated and a determination made as to whether or not to approve it;
- (e) preparing and submitting to prospective portfolio companies, for and on behalf of the Fund, offers to invest, setting out the terms and conditions under which the Fund would be prepared to invest, and using its best efforts to obtain acceptance of such offers;
- (f) arranging for and obtaining, where necessary in the reasonable opinion of the Manager, appropriate professional industry and marketing studies, operational analyses, executive searches and other professional advisory services in respect of portfolio companies and prospective portfolio companies;
- (g) monitoring the financial and operating performance of portfolio companies, including monitoring their cash management, financial reporting, budgetary processes and execution of corporate and product strategies, through, where warranted and practicable, but not exclusively through, representation on their boards of directors or other controlling entities, and providing reviews thereof to the Board
- (h) preparing a recommendation regarding a disposition of all or part of a particular investment to the Board or the Investment Committee, as applicable, sufficient for the potential disposition to be evaluated and a determination made as to whether or not to approve it;
- (i) using best efforts to effect, for and on behalf of the Fund, those dispositions of investments that have been approved by the Investment Committee or the Board;
- (j) assisting the Board and/or the Audit Committee and/or such administrator or other consultant engaged by the Fund as may from time to time be responsible therefor, in establishing the Pricing Net Asset Value of the Fund on each Valuation Date;
- (k) ensuring that appropriate accounting, bookkeeping and clerical records are maintained and preserved with respect to the affairs and operations of the Fund;
- (l) ensuring that a system of accounting is established, maintained and administered in accordance with Canadian generally accepted accounting principles, consistently applied;
- (m) ensuring compliance by the Fund with the *Small Business Venture Capital Act*, the *Securities Act*, the *Business Corporations Act* and the *Federal Tax Act* and with all reporting requirements imposed on the Fund by all applicable federal, provincial and municipal regulatory authorities, statutes, regulations and by-laws; and
- (n) carrying out those residual functions with respect to the day-to-day operations of the Fund that are not of the nature of those required to be carried out by the Board, the Investment Committee, the Audit Committee or any Administrator or custodian which the Fund may from time to time engage.

The Board of Directors has approved an investment and divestiture approval policy for the Fund, which specifies the circumstances under which the Manager may cause or permit the Fund to make investments or dispositions without the approval of the Board or the Investment Committee and the circumstances under which investments or dispositions may only be made with the approval of the Board or the Investment Committee. The policy was amended in 2005 to provide that, generally:

- (a) Initial investments in a portfolio company in an amount of less than \$5 million are subject to the approval of the Investment Committee, with the Board approving initial investments of \$5 million or more. The Manager has investment discretion for an initial investment in a portfolio company involving an amount of not more than \$500,000. Once an initial investment is made in any

portfolio company, the Manager will put forward, semi-annually, for Investment Committee approval, a follow-on investment/divestiture plan and the Manager will have discretion to cause or permit the Fund to make follow-on investments within the limits shown in such plan. Every investment in a company in which the Manager or a director of the Fund or their respective affiliates (as defined in the Management Agreement) has a direct or indirect interest is subject to Investment Committee approval if the amount involved is less than \$5 million, or to Board approval if the amount involved is \$5 million or more.

- (b) The Manager has discretion to make dispositions involving securities of portfolio companies for which a published market exists where the proposed sale price is not less than a target price set out in the follow-on investment/divestiture plan approved by the Investment Committee. If the proposed sale price is less than this target price, approval of at least one independent member of the Investment Committee is required except where such independent member cannot be contacted on a timely basis and the Manager believes that the interests of the Fund would be materially adversely affected by delaying the sale. The approval of the Investment Committee is required for dispositions of securities for which no published market exists if the amount involved is less than \$5 million, or of the Board if the amount involved is \$5 million or more.

The Manager has also agreed to provide to the Fund such support services as may from time to time be requested by the Board with respect to assisting the Fund and/or the Board with the governance requirements of the Fund. The Fund will, subject to any applicable SBVCA Expense Limitations, reimburse the Manager for all expenses (including personnel costs) which the Manager incurs in providing such support services. See also “Fees and Expenses - Management Fees”.

Details of the Management Agreement

The Management Agreement pursuant to which management services, support services and capital raising assistance are provided to the Fund by the Manager has been renewed and amended effective June 13, 2011 (the “**Renewed Agreement**”). Pursuant to the amendments, the Management Agreement may be terminated by the Fund at any time by special resolution of the common shareholders of the Fund at a meeting called for the purpose of considering the termination of the Manager. Previously, the Management Agreement renewed automatically at the end of each four year term for further successive terms of four years unless the shareholders of the Fund resolved by special resolution to terminate the engagement of the Manager at the expiry of any term. Pursuant to the Renewed Agreement, termination of the manager is effective as of the date on which the Fund pays the Manager a fee (subject to any applicable SBVCA Expense Limitations) in respect of such termination equal to 24 times the average monthly management fee paid to the Manager in each of the three months immediately preceding the month in which the resolution approving the termination of the Manager is passed by shareholders of the Fund. In the event of termination, the Manager will also continue to receive (subject to any applicable SBVCA Expense Limitations) a 20% performance fee in respect of investments held by the Fund on the effective date of such termination as well as a reduced 10% performance fee on follow-on investments made by the Fund subsequent to the termination date in investee companies in which the Fund holds an investment on the termination date. Previously, the Management Agreement provided that a 20% performance fee was payable to the Manager in respect of each of the eight quarters following the quarter in which the engagement of the Manager was terminated.

The Manager may terminate the Management Agreement in certain circumstances and the Fund may terminate the Management Agreement on grounds such as material breach of the agreement by the Manager without remedy within 60 days of the Manager being notified of the breach. The Fund has agreed to indemnify the Manager in respect of any claims resulting from any mistakes or errors of judgment or from any act or omission of the Manager in carrying out its duties under the Management Agreement, provided, however, that the Manager will not be indemnified for any claim, as determined by a court of final jurisdiction, resulting from the negligence or willful misconduct or willful disregard of the obligations of the Manager.

The Articles of the Fund currently prohibit the Fund from paying any fees or other remuneration to the Manager, unless payment thereof has been approved by an annual Special Resolution passed by the shareholders of the Fund. This will remain the case until each person of whom the Manager may be or be deemed to be an Associate ceases to be a Director, officer and/or shareholder of the Fund. Failure of the Fund to pay any of the fees and/or other remuneration provided for under the Management Agreement as a result of the shareholders of the Fund not having passed the requisite Special Resolution regarding payment thereof will not constitute a breach of the Management

Agreement. If the shareholders of the Fund fail to approve payment of any of the fees and/or other remuneration provided for under the Management Agreement, the applicable fees and/or other remuneration will continue to accrue, with interest, until the matter is resolved.

Officers and Directors of the Manager of the Fund

The primary responsibilities of the venture investment managers of the Manager are sourcing and identifying investment opportunities, performing due diligence investigations on prospective portfolio companies, structuring and negotiating the terms upon which investments in prospective portfolio companies are to be made and monitoring investments after they have been made.

The name, municipality of residence and position of each of the directors and officers of the Manager are:

Management of the Manager

<u>Name and Municipality of Residence</u>	<u>Position with the Manager</u>
HARRY JAAKO	Director, President and Venture Investment Manager
Vancouver, British Columbia	
JOHN MCEWEN	Director, Chief Executive Officer and Venture Investment
Naramata, British Columbia	Manager
CHARLES COOK	Director, Vice-President, Chief Financial Officer and
North Vancouver, British Columbia	Venture Investment Manager

Biographical descriptions of **Harry Jaako**, **John McEwen** and **Charles Cook** are set out above under “Officers and Directors of the Fund”.

Cease Trade Orders and Bankruptcies – Directors and Executive Officers of the Manager

Except as disclosed above under “Cease Trade Orders and Bankruptcies – Directors and Executive Officers of the Fund”, none of the directors and executive officers of the Manager has, within the 10 years prior to the date of this Annual Information Form, been a director or executive officer of any issuer that, while he was acting in that capacity or within a year of so acting, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of any such issuer.

Administration

Pursuant to the Administrative Services Agreement, the Fund has engaged The Investment Administration Solution Inc. to maintain its register of members, act as its transfer agent, receive, process and record purchases of its Shares, receive and process requests for redemptions of its Shares, record redemptions of its Shares, requisition cheques for redemption payments and assist in preparing summary reports and schedules required for income tax and information returns.

The Fund may from time to time engage another Administrator or Administrators, who or which may be independent third-parties or may be the Manager or an Associate or Affiliate of the Manager, to provide to the Fund those administrative services which the Fund has engaged The Investment Administration Solution Inc. to provide and/or to provide to the Fund such further administrative services as the Fund may from time to time require to properly and effectively conduct its business (such services, together with those services which the Fund has engaged The Investment Administration Solution Inc. to provide and such other services as may be specified as such by the Board of Directors of the Fund from time to time, being referred to herein as “**Administrative Services**”). These Administrative Services include:

- periodically determining the Pricing Net Asset Value of the Fund;
- managing cash reserves, maintaining books and accounts and a system of accounting;

- receiving and processing requests for redemptions of the Fund's shares and preparing cheques for redemption payments;
- preparing financial data and reconciliations, preparing summary reports and schedules required for income tax and information returns;
- completing forms required by statute or regulation, preparing annual and interim financial statements and corporate minutes and records, supplying financial statements and other required reports, statements, notices, information circulars and forms of proxies and income tax forms for delivery to shareholders; and
- applying for and obtaining for qualifying shareholders such Tax Credit Certificates as may be issuable to them under the *Small Business Venture Capital Act*.

The provision of any such Administrative Services to the Fund by the Manager or any Associate or Affiliate of the Manager must be at market rates and on market terms and conditions and must be approved by a majority of the Independent Directors of the Fund. The Articles of the Fund currently prohibit the Fund from paying any fees or other remuneration to the Manager or any Associate or Affiliate of the Manager in consideration for their providing any such Administrative Services to the Fund, unless payment thereof has been approved by an annual Special Resolution passed by the shareholders of the Fund. This will remain the case until each person of whom the Manager may be or be deemed to be an Associate ceases to be a Director, officer and/or shareholder of the Fund.

The Manager has agreed to provide to the Fund, at market rates and on market terms and conditions, all such Administrative Services as the Fund may require, other than those which The Investment Administration Solution Inc. has been engaged to provide, until such time as another Administrator is or other Administrators are engaged to provide some or all of such services. The provision of such Administrative Services to the Fund on such basis by the Manager has been approved by the Independent Directors of the Fund.

Auditor

The auditor of the Fund is Hay & Watson, Chartered Professional Accountants, of Vancouver, British Columbia.

Transfer Agent and Registrar

The registrar and transfer agent of the Fund is The Investment Administration Solution Inc. of Toronto, Ontario.

Custodian Exemption

The Fund received an exemption on April 5, 2019 from the custodian provisions set out in Part 6 on National Instrument 81-102 *Investment Funds*. This exemption terminates on April 23, 2021.

PRINCIPAL HOLDERS OF SECURITIES OF THE FUND AND OF THE MANAGER

The Fund

As at March 31, 2020, to the knowledge of the Manager, no person has direct or indirect beneficial ownership of more than 10% of the outstanding voting Class A Shares of the Fund.

The non-Independent Directors and senior officers of the Fund, as a group, directly or indirectly have beneficial ownership (with their spouses) of approximately 95% of the outstanding voting shares of the Manager.

The Manager

Each of John McEwen, Harry Jaako and Charles Cook, who are executive officers of the Fund (and in the case of Mr. McEwen and Mr. Jaako, also directors of the Fund), and who are all also directors and executive officers of the Manager, indirectly owns approximately 31.6% of the outstanding voting shares of the Manager. Each provides executive management services to the Manager and is compensated by the Manager for the provision of these services.

FUND GOVERNANCE

Board Seats on Reporting Issuers

In the normal course of providing venture capital management and investment services to the Fund, directors, officers or representatives of the Manager may act as directors or officers of reporting issuers (that is, publicly traded companies) in which the Fund invests, and may also advise the Fund as to trading in securities of those reporting issuers by exercising their discretion and judgment. Similarly, directors, officers and representatives of the Manager may become directors of ESBs in which the Fund invests and which are not reporting issuers. Also, the Fund may invest in ESBs of which Directors or officers of the Fund are directors or officers. While having board representation on investee companies is an important feature of venture capital investing, it can create potentially conflicting duties for such individuals, as well as issues concerning the protection of confidential information.

The Canadian securities regulatory authorities have indicated that it is their view that, in the case of a conflict with other duties, a Director's or advisor's first responsibility regarding a reporting issuer's confidential information is to the reporting issuer on whose board the Director serves, or to which the advisor provides advice. Under applicable corporate law, Directors and officers of the Manager or of the Fund who sit on the boards of ESBs, to the extent that they are "interested" individuals, will be required to declare their interest and refrain from voting in respect of matters relating to their conflict of interest. In addition, under applicable securities laws, these individuals are in a "special relationship" with ESBs that are reporting issuers and are prohibited from disclosing material confidential information about a reporting issuer to anyone, except in limited circumstances such as where the information is given in the necessary course of business. When, in the necessary course of business, they disclose material confidential information respecting an ESB that is a reporting issuer to the Manager or the Fund, the Manager or the Fund, as the case may be, also becomes a person in a "special relationship" with the reporting issuer and will be prohibited from trading in the securities of that ESB until the confidential information has been publicly disclosed and appropriately disseminated.

Proxy Voting Disclosure for Portfolio Securities Held

As part of its monitoring of the business and affairs of the Fund's portfolio companies, the Manager votes the proxies received in connection with regular and special meetings of the shareholders of the Fund's portfolio companies in a manner which it believes to be in the best interests of the Fund. Generally, this means that the Manager will vote the Fund's shares with management of the portfolio company on routine matters, provided however that those matters meet the corporate governance requirements that may be applicable to that portfolio company, since a decision to invest in a portfolio company is generally an endorsement of its management. On other matters, including those business issues specific to the portfolio company or those raised by shareholders of the portfolio company, the Fund's shares will be voted by the Manager on a case by case basis, in a manner which the Manager believes is in the best interests of the Fund, having regard to the information available to it.

From time to time, apparent conflicts of interest may arise with respect to the exercise of voting rights of the Fund, such as in situations where directors and officers of the Manager serve as directors of portfolio companies. In all situations of conflict or apparent conflict, the Manager will only exercise voting rights of the Fund in accordance with the best interests of the Fund.

The annual proxy voting disclosure record of the Fund prepared for the period ending June 30 of each year is posted to the website of the Fund at www.bcdiscoveryfund.com or on SEDAR at www.sedar.com as soon as practicable after June 30, but in any event no later than August 31 of each year. Shareholders may also contact the Fund to request a copy of the proxy voting policy or the proxy voting record by calling 604-683-3000 or by writing to the Fund at #43 – 1238 Eastern Drive, Port Coquitlam, BC, V3C 6C5.

FEES AND EXPENSES

The SBVCA provides that a venture capital corporation may incur annual expenses of no more than 20% of the equity capital eligible for Tax Credits it has raised, other than expenses paid out of retained earnings, if the expenses are reasonable and are incurred for share issuance, office occupancy, legal fees, preparation of financial accounts by an external accountant, preparation of the annual return required under the SBVCA or a management fee of no more than 3% per annum of the equity capital eligible for Tax Credits raised by the venture capital corporation.

Management Fees

Annual Management Fee. Under the Management Agreement, the Manager will, subject to such SBVCA Expense Limitations as may be applicable, be paid an annual management fee equal to 2.75% of the Pricing Net Asset Value of the Fund up to \$100 million and 2.50% of the Pricing Net Asset Value of the Fund in excess of \$100 million. This fee will be calculated monthly, by multiplying the Pricing Net Asset Value of the Fund on the last Valuation Date in the month in respect of which the fee is payable by the applicable percentage and dividing by twelve, and will be paid, in arrears, on receipt of the Manager's invoice therefor, if then permitted, or at such later time (if any) as the SBVCA Expense Limitations may permit.

Amounts received by the Manager as fees from any portfolio company or prospective portfolio company or any Affiliate of any portfolio company or prospective portfolio company for services that are within the scope of the Management Agreement, including finders' fees, commitment fees, directors' fees, and such amounts (net of exercise costs and applicable taxes) as the Manager may realize in respect of any stock options that are held by representatives of the Manager in portfolio companies or affiliates of portfolio companies, will be set off against the management fees otherwise payable by the Fund to the Manager. The Manager may, however, with the prior approval of the Board, retain advisory, syndication or similar fees paid by a portfolio company or investors that are not directly related to the Fund's investment in the portfolio company. Any portion of any amount received by any Affiliate of the Manager or any director, officer or employee of any Affiliate of the Manager as a commitment fee in respect of any aggregate investment or prospective investment of which an investment or prospective investment by the Fund is a part, which relates to the investment or prospective investment by the Fund and which is not paid over to the Fund, will be set off against the management fees otherwise payable by the Fund to the Manager.

Performance Fee. Under the Management Agreement, the Manager will also, subject to such SBVCA Expense Limitations as may be applicable, be paid a performance fee equal to 20% of the realized gains for cash and cash income from each venture investment of the Fund. Before a performance fee is paid on any venture investment, the following conditions must be satisfied:

- (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 paid quarterly in arrears, if permitted, or will be paid at such later time (if any) as the SBVCA Expense Limitations may permit. 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 Manager will continue to receive (subject to any applicable SBVCA Expense Limitations) a 20% performance fee in respect of investments held by the Fund on the effective date of such termination as well as a reduced 10% performance fee on follow-on investments made by the Fund subsequent to the termination date in investee companies in which the Fund holds an investment on the termination date.

These fees are intended to cover all of the expenses incurred by the Manager in managing the Fund, except travel expenses and expenses incurred by the Manager to obtain such specialized legal, accounting and/or other consulting and/or professional services, to attend such specialized conferences and/or trade shows, and to obtain such specialized research reports, industry and marketing studies, operational analyses, executive searches and other professional advisory studies and/or other specialized information as the Manager may from time to time be required to obtain and/or to attend in order to be able to effectively research and analyze potential investment and divestiture opportunities available to the Fund and/or effectively manage the investment portfolio of the Fund, which will, subject to any applicable SBVCA Expense Limitations, be paid or reimbursed by the Fund. The Manager is also, subject to any applicable SBVCA Expense Limitations, separately entitled to be reimbursed for all expenses incurred by the Manager in providing such governance and securities reporting support services as the Board may from time to time request the Manager to provide (see also "Responsibility for Fund Operations – Duties and Services to be Provided by the Manager").

Operating Expenses

The Fund will, subject to any applicable SBVCA Expense Limitations, pay all of its operating expenses, including all expenses related to portfolio transactions, security realization, financial and other reporting to shareholders and other administrative services, and all taxes, legal and audit fees, custodial fees (if any), registrar and transfer agency fees, directors' fees and expenses, consultants' and professional advisors' fees, servicing commissions to dealers, (see below), certain overhead expenses, as well as the fees and expense amounts payable to or for the Manager under the Management Agreement, and, where any such registrar, transfer agency and/or shareholder reporting services and/or other administrative services are provided by an Administrator engaged by the Fund, the fees and expenses of such Administrator. Where any Administrator so engaged is the Manager or any Associate or Affiliate of the Manager, the applicable fees and expenses to be paid by the Fund are, pursuant to the Management Agreement, required to be payable only at market rates and only after provision of the applicable services at such rates and otherwise on market terms and conditions has been approved by a majority of the Independent Directors of the Fund. The Fund has engaged The Investment Administration Solution Inc. to provide the Fund with registrar and transfer agency services and certain other administrative services, at and for a fee which is calculated on the basis of the number of shareholders of the Fund and will not be less than \$5,500 per month (see "Responsibility for Fund Operations – Administration").

The Fund is, pursuant to its Articles, prohibited from paying any fees or other remuneration to any Director or officer or shareholder of the Fund, or to any Affiliate or Associate of those persons, except as permitted by an annual Special Resolution of the shareholders of the Fund. Payment by the Fund to the Manager of the fees and other remuneration provided for under the Management Agreement will be required to be approved by annual Special Resolutions of the shareholders of the Fund, until each person of whom the Manager may be or be deemed to be an Associate ceases to be a Director, officer and/or shareholder of the Fund. Failure to pass any such annual Special Resolution will not terminate the Management Agreement or the obligations of the Fund thereunder. Failure of the Fund to pay any fees or other remuneration to the Manager under the Management Agreement because the requisite annual Special Resolution has not been passed will not constitute a breach of the Management Agreement by the Fund. If the shareholders of the Fund fail to pass any of the requisite annual Special Resolutions, those fees and other remuneration provided for in the Management Agreement will continue to accrue, with interest, until the matter is resolved. Pursuant to the regulations under the SBVCA, shareholders of a venture capital corporation are prohibited from voting on a Special Resolution approving payment to themselves or to any of their Associates or Affiliates.

Service Fees

The Fund continues to pay servicing commissions to those registered dealers that had elected to receive such commissions as part of their compensation at the time of originating a sale of Class A Shares. These servicing commissions are paid to each registered dealer that has clients holding Class A Shares at the end of any calendar month, and are equal to 1/12 of 0.5% of the Pricing Net Asset Value per Class A Share of the Fund on the last Valuation Date in that month times the number of Class A Shares held by clients of that registered dealer at the end of that month. Servicing commissions are calculated monthly and paid quarterly.

Directors' Fees and Expenses

Independent Directors of the Fund are currently paid an annual retainer of \$12,000 and a fee of \$600 for each meeting of the Board attended and for each meeting of a committee of the Board attended, except where a committee meeting is coincident with a meeting of the Board. Those Directors and officers of the Fund who are not Independent Directors are paid by the Manager. All Directors are entitled to be reimbursed for reasonable expenses incurred on behalf of the Fund.

GST

The Fund pays GST on all applicable fees and expenses.

Investor Fees

Investors do not pay a fee upon the transfer of Shares. Transfer fees may be imposed by the Board of Directors and, if imposed, will be subject to change from time to time as determined by the Board of Directors, provided that imposition of any such fees and any changes thereof shall be effective only upon 60 days' written notice to the holders of Shares.

Investors do not pay a fee upon the redemption of Shares. However, in the case of Permitted Early Redemptions of Class A Shares, the Fund deducts from redemption proceeds payable the amount, if any, which the Fund is required, under the SBVCA, to pay to the Government of British Columbia as a result of its acquiring the Class A Shares redeemed (see "Small Business Venture Capital Act Considerations"). Redemption fees may be imposed by the Board of Directors and, if imposed, will be payable to the Fund and subject to change from time to time as determined by the Board of Directors, provided that imposition of such fees and any changes thereof shall be effective only upon 60 days' written notice to the holders of Shares.

All NSF cheques will be subject to an NSF fee of \$25.

INCOME TAX CONSIDERATIONS

Management believes that the following summary presents fairly the principal federal and British Columbia income tax considerations generally applicable to the Fund and to holders of Class A Shares (sometimes hereinafter referred to herein as "**Investors**" or, individually, as an "**Investor**"). This summary assumes that the purchaser is an Investor who at all material times is resident in Canada and British Columbia, deals at arm's length and is not affiliated with the Fund and holds Class A Shares as capital property all within the meaning of the *Federal Tax Act* and the *BC Tax Act*. Class A Shares will generally be considered to be capital property to an Investor unless such Investor holds such Class A Shares in the course of carrying on a business or has acquired such Class A Shares as an adventure in the nature of trade.

This summary is not applicable to an Investor (i) that is a "financial institution", as defined in the *Federal Tax Act* for purposes of the mark-to-market rules in the *Federal Tax Act*, (ii) that is a "specified financial institution", as defined in the *Federal Tax Act*, (iii) an interest in which is a "tax shelter investment" as defined in the *Federal Tax Act*, (iv) that has elected to report its Canadian tax results in a currency other than the Canadian currency, or (v) that has entered into or will enter into a "derivative forward agreement", as that term is defined in the *Federal Tax Act*, with respect to the Class A Shares. Any such Investors should consult their own tax advisors.

Additional considerations, not discussed herein, may be applicable to an Investor that is a corporation that is, or becomes, or does not deal at arm's length for purposes of the *Federal Tax Act* with a corporation resident in Canada that is or becomes, as part of a transaction or series of transactions or events that includes the acquisition of the Class A Shares, controlled by a non-resident corporation for the purposes of the "foreign affiliate dumping" rules in section 212.3 of the *Federal Tax Act*. Any such Investor should consult its own tax advisor with respect to an investment in Class A Shares.

The Fund has obtained registration as a VCC under the *Small Business Venture Capital Act*. This summary assumes that the Fund is qualified as a VCC under the *Small Business Venture Capital Act* and will continue to be so qualified hereafter on a continuous basis.

This summary is based on the *Federal Tax Act*, the *BC Tax Act*, the SBVCA, all published and publicly announced proposals by the federal Minister of Finance for amendments to the *Federal Tax Act*, the *BC Tax Act* and the SBVCA (the "**Tax Proposals**"), and upon management's understanding of the prevailing administrative practices of the CRA and the British Columbia Ministry of Finance. This summary does not address all of the federal and British Columbia income tax consequences of an investment in the Class A Shares and also does not address the application of any income tax laws of any province other than British Columbia or any territory or foreign jurisdiction. This summary does not otherwise take into account or anticipate any change in law or administrative practice. No assurances can be given that the Tax Proposals will be enacted as proposed or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Investor. Each Investor is advised to obtain independent advice regarding the federal and British Columbia income tax consequences of holding and disposing of Class A Shares having regard to the Investor's particular circumstances.

Status of the Fund

Federal Taxation

The Fund is a private corporation. The Fund will qualify as a Canadian-controlled private corporation under the *Federal Tax Act* throughout each year in which it is not controlled or deemed to be controlled, directly or indirectly in any manner whatsoever, by one or more non-residents of Canada, public corporations, corporations a class of shares of which are listed on a prescribed stock exchange or any combination thereof.

The Fund will be required to calculate income or loss for each taxation year and file income tax returns and pay income tax on its taxable income for each year.

British Columbia Taxation

For the purposes of provincial corporate income tax, the Fund's aggregate income will be attributed to, and taxable, in those provinces in which it is earned. The Fund does not expect to earn any significant amount of income attributable to any province other than British Columbia. The British Columbia tax treatment of the Fund will parallel the federal tax treatment discussed below under the sub-heading "Taxation of the Fund – Federal Taxation".

Eligibility for Investment - Qualified Investment

A Class A Share will be a qualified investment under the *Federal Tax Act* for an RRSP, RRIF, RESP or TFSA, except in certain limited situations.

A Class A Share will not be a qualified investment for an RRSP, RRIF or TFSA (a "Registered Plan") if the Class A Share is a "prohibited investment" and not "excluded property" under the *Federal Tax Act* at the time the Registered Plan acquires the Class A Share. A Class A Share will generally be a "prohibited investment" under the *Federal Tax Act* and the holder or Annuitant, as the case may be, (i) does not deal at arm's length with the Fund for the purposes of the *Federal Tax Act*, or (ii) owns directly or indirectly, together with non-arm's length persons, 10% or more of the issued shares of any class of the Fund or any corporation that is related to the Fund for purposes of the *Federal Tax Act*. A Class A Share may also become a "prohibited investment" the time the Registered Plan acquires the Class A Share if the Fund ceases to be registered as a VCC under the SBVCA. Notwithstanding that a Class A Share shares may be qualified investments for a Registered Plan at the time of Acquisition, if the Class A Share shares subsequently become a prohibited investment while held by a Registered Plan, the holder or Annuitant, as the case may be, will be subject to a penalty tax in respect of the Class A Share.

A Class A Share will not be a qualified investment for an RESP if the Investor who is the Annuitant thereunder owns, directly or indirectly, 10% or more of the issued Class A Shares of any class of the Fund or of any other corporation that is related to the Fund unless the aggregate cost of all such Class A Shares is less than \$25,000 and the Investor deals at arm's length with the Fund. In determining whether the less than 10% and \$25,000 limits are exceeded, each Investor is deemed to own all the Class A Shares that are owned by persons with whom the Investor does not deal at arm's length and each beneficiary of a trust or member of a partnership, as the case may be, is deemed to own that proportion of all such Class A Shares owned by the trust or partnership, as the case may be, that the fair market value at that time of the beneficial interest of the beneficiary in the trust or the member's interest in the partnership, as the case may be, is of the fair market value of all beneficial interests in the trust or interests in the partnership, as the case may be.

A Class A Share may not be, or may cease to be, a qualified investment for an RESP if an individual provides services to, or acquires goods from, or is provided services by, the Fund or persons related to the Fund and the RESP receives an amount from the Fund in respect of the Class A Shares that could reasonably be considered to be on account of, or in lieu or satisfaction of, payment for such goods or services.

Investors who hold or intend to hold Class A Shares in a TFSA, RRSP, RRIF or RESP should consult their own tax advisors as to whether such securities will be a "prohibited investment" in their particular circumstances, including with respect to whether the Class A Shares would be "excluded property" in their particular circumstances.

As the Fund itself will be required to satisfy any income tax liabilities that may arise with respect to its net realized taxable capital gains and/or other investment income, rather than being able to, in effect, transfer those liabilities to

its shareholders, an investment in the Fund may be less appropriate for a trust governed by an RRSP, RRIF, RESP or TFSA than an investment in a fund that is able to, in effect, transfer its income tax liabilities to its shareholders.

Taxation of the Fund

Federal Taxation

Dividends Received

Dividends received by the Fund from taxable Canadian corporations will generally not be subject to income tax. Provided that the dividends are received by the Fund from a corporation that is an Eligible Investment of the Fund, the Fund will not be subject to Part IV tax in respect of the dividend.

Capital Gains and Losses

Gains or losses realized by the Fund on the disposition of its investments will generally be treated as either income or capital gains or losses, depending on the facts related to a particular transaction. One-half of any capital gain or capital loss will be the Fund's taxable capital gain or allowable capital loss, as the case may be. The Fund's taxable capital gains for a year, net of any allowable capital losses, will be included in computing the Fund's income for tax purposes. In certain circumstances a capital loss which arises in respect of shares disposed of by the Fund may be reduced by the amount of any dividends including deemed dividends which have been received by the Fund on such shares prior to the disposition. Allowable capital losses of the Fund may be deducted only against taxable capital gains arising in the three previous taxation years or any future year.

The Fund is not a "mutual fund corporation" under the *Federal Tax Act*. Subject to detailed rules specified in the *Federal Tax Act*, investment funds that are mutual fund corporations can avoid entity level taxes on capital gains by making distributions to shareholders. The effect of such distributions is to transfer to the shareholders the income tax liabilities the investment fund would otherwise have in respect of their net realized taxable capital gains. As a result, holders of the shares of such investment funds that are an RRSP, RRIF, RESP or TFSA, which are exempt from tax, and holders of the shares of such investment funds that are otherwise able to offset the income tax liabilities, may benefit from an increased net asset value per share to the extent that the investment fund is able to maintain an increased net asset value as a result of having so reduced its income tax liabilities. The Fund will not be able to provide this same benefit to the holders of its Class A Shares. In this respect the Fund is different from most other types of investment funds and an investment in the Fund may be less appropriate for an RRSP, RRIF, RESP or TFSA than an investment in a fund that is able to, in effect, transfer its income tax liabilities to its shareholders.

The Fund will be taxed on its capital gains as described above. Provided that the Fund is a Canadian-controlled private corporation (as defined in the *Federal Tax Act*) the current effective combined federal and British Columbia income tax rate in respect of capital gains realized by the Fund is 25.335%. However, if the Fund pays or is deemed to pay sufficient dividends in a year, the Fund may be entitled to a refund of a portion of this tax. See "Dividends Paid", below, for further discussion of the refund mechanisms that are currently applicable in respect of dividends paid by the Fund.

Interest and Other Investment Income

Interest and investment income (other than dividends received on shares of taxable Canadian corporations) will be included in computing the Fund's income for a year.

Dividends Paid

Although the Fund does not anticipate declaring any dividends for the foreseeable future (see "Distribution Policy"), to the extent that the Fund does pay out dividends or is deemed to pay out dividends on the Class A Shares, it will be entitled to a refund of the income tax paid by it on its investment income (including capital gains) equal to the lesser of:

- (a) 38^{1/3}% of the taxable dividends paid by it in the year to its shareholders; and
- (b) its refundable dividend tax on hand at the end of the year.

The refundable dividend tax on hand account is essentially a cumulative amount equal to a portion of the income tax paid on the Fund's investment income (including capital gains), determined in accordance with the detailed rules in the *Federal Tax Act*.

Provided the Fund is a Canadian-controlled private corporation (as defined in the *Federal Tax Act*) throughout its taxation year, the current effective combined federal and British Columbia income tax rate on investment income earned by the Fund (other than dividends from taxable Canadian corporations) is 50.67% including the refundable tax.

If the Fund is a financial intermediary corporation, as defined by subsection 191(1) of the *Federal Tax Act*, the Fund will not be subject to tax under Part VI.1 of the *Federal Tax Act* in respect of taxable dividends paid by the Fund. Provided that no other corporation or group of corporations (other than financial intermediary corporations or private holding corporations) together with persons not dealing at arm's length with such corporation or corporations owns more than 10% of the fair market value of all of the shares of the Fund, the Fund will generally be a financial intermediary corporation because it will be a prescribed venture capital corporation under the *Federal Tax Act*. If the Fund is not a financial intermediary corporation, Part VI.1 tax may be payable by the Fund in respect of dividends paid on the Class A Shares to shareholders, other than shareholders who have a substantial interest in the Fund as defined by subsection 191(2) of the *Federal Tax Act*. If the Fund is liable to pay Part VI.1 tax, a deduction will generally be available to the Fund in an amount equal to the amount of income that would have given rise to an amount of income tax equivalent to the applicable Part VI.1 tax.

Liability for Repayment of Tax Credits

The Fund may be required to pay to the British Columbia Minister of Finance all or part of the Tax Credits issued in respect of Class A Shares of the Fund if the Fund fails to comply with the SBVCA or regulations thereunder, or if the Fund directly or indirectly acquires or is deemed by the SBVCA to have acquired one or more of its shares. Members of common interest groups that control the Fund may be jointly and severally liable to repay such amounts.

Taxation of Securityholders

Tax Credit

An individual (other than an estate or trust) or a corporation that is a Tax Credit Recipient will generally be eligible for a Tax Credit equal to 30% of the amount of the price of Class A Shares subscribed for. For purposes of the SBVCA, an individual who is the Annuitant under an RRSP or RRIF will be deemed to have purchased, held or disposed of shares that are purchased by the RRSP or RRIF. As a result, Tax Credits will generally be available to a British Columbia resident individual who is an Annuitant under an RRSP or RRIF that subscribes for Class A Shares.

For SBVCA purposes, the Spouse of the Annuitant of a Spousal RRSP is not deemed to have purchased, held or disposed of Class A Shares that are purchased by the Spousal RRSP. As a result, Tax Credits will not be available to an individual who makes a contribution to fund the purchase of Class A Shares to a Spousal RRSP under which he or she is not the Annuitant. In such circumstances, Tax Credits will be available to the Annuitant of the Spousal RRSP.

The *BC Tax Act* provides that an Individual Tax Credit Recipient must deduct from tax otherwise payable under the *BC Tax Act* in the taxation year in which the Investor was issued a Tax Credit Certificate the lesser of (i) his or her Tax Credit or (ii) \$60,000. An Individual Tax Credit Recipient may elect to have a Class A Share purchase made within the first 60 days after the end of a calendar year as having been made in the immediately preceding calendar year and not in the calendar year of purchase, in which case the purchase is deemed to have been made in that immediately preceding calendar year. To the extent that the Tax Credit of an Individual Tax Credit Recipient exceeds the amount of tax otherwise payable under the *BC Tax Act* in the taxation year in which the Tax Credit was issued, the Individual Tax Credit Recipient will be entitled to a refund equal to the lesser of his or her remaining Tax Credit or \$60,000. In administering the refund process, the refund may first apply to offset other amounts payable, including arrears under both the *Federal Tax Act* and the *BC Tax Act*. The balance of any Tax Credit held by an Individual Tax Credit Recipient that was not claimed or refunded in the taxation year in which the Tax Credit was issued, may be carried forward for up to four taxation years, in which similar refundable tax credit rules apply. If an Individual Tax Credit Recipient dies prior to deducting the full amount of Tax Credits to which he or she is entitled, the estate of the deceased Individual Tax Credit Recipient will be entitled to receive a payment equal to the amount of the Tax Credit which has not yet been deducted.

The *BC Tax Act* provides that a Corporate Tax Credit Recipient must deduct from tax otherwise payable under the *BC Tax Act*, in respect of the taxation year in which the Class A Shares are subscribed for, an amount equal to the lesser of (i) the Tax Credit and (ii) the amount of tax that would otherwise be payable under the *BC Tax Act* but for

the Tax Credit. A Corporate Tax Credit Recipient is not limited to a maximum annual tax credit of \$60,000. A Tax Credit held by a Corporate Tax Credit Recipient is not refundable and may be carried forward for up to four subsequent taxation years, with the unutilized balance required to be utilized to the extent the Corporate Tax Credit Recipient has tax otherwise payable under the *BC Tax Act* in any such taxation year.

To claim a Tax Credit, the Tax Credit Recipient must file the Tax Credit Certificate provided by the SBVCA Administrator with his or her or its tax return for the taxation year in respect of which the Tax Credit is being claimed.

The Fund will apply on behalf of the Tax Credit Recipient for a Tax Credit Certificate entitling the Tax Credit Recipient to a Tax Credit. The British Columbia Minister of Finance will generally approve applications made by the Fund where the SBVCA Administrator is satisfied that:

- (a) the Fund has not contravened a provision of the SBVCA;
- (b) the Fund, its directors, officers and shareholders are conducting the business or affairs of the Fund in a manner that is not contrary to the SBVCA whether or not there has been a contravention of the SBVCA;
- (c) the Fund has established and maintained the Investment Protection Account;
- (d) no Tax Credit or grant under the SBVCA has been previously allowed or paid for those Class A Shares;
- (e) the Class A Shares, in respect of which the Tax Credit applied for under the SBVCA, is equity capital of the Fund that has been approved in accordance with section 9 of the SBVCA;
- (f) the Class A Shares, in respect of which the Tax Credit applied for, is not a type of security that entitles the holder to claim a tax credit against tax payable under the *Federal Tax Act*;
- (g) the Investor has acquired the Class A Shares directly from the Fund or its agent acting in that behalf;
- (h) the Investor, if an individual, was resident in British Columbia at the date the Investor subscribed for the Class A Shares.

The Fund has applied for Tax Credits in respect of all Class A Shares subscribed for prior to the last date of sales of Class A Shares in March 2015 and all such Tax Credit Certificates have been issued.

The SBVCA Administrator is entitled to revoke a Tax Credit Certificate if, at the time the Tax Credit Certificate is issued, the Fund is in contravention of the SBVCA or if, at a subsequent time, the Fund contravenes the SBVCA. Where a Tax Credit Certificate is revoked, it would be deemed never to have been issued. As a result, Tax Credits would not be available.

Consequences of the Disposition of Class A Shares

An Investor who disposes of or is deemed to dispose of a Class A Share will realize a capital gain (or capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition in respect of such Class A Share exceed (or are less than) the aggregate of the Investor's adjusted cost base of such Class A Share and all reasonable costs of disposition. If the Investor is an RRSP, RRIF, RESP or TFSA no income tax will be payable on any capital gain realized on a disposition of a Class A Share.

Any capital loss that would otherwise arise on the disposition of Class A Shares will be reduced by the amount of Tax Credits received in respect of the Class A Shares by the holder or by a person with whom the holder does not deal at arm's length, to the extent that the amount of such Tax Credits have not previously reduced a capital loss in respect of the Class A Shares.

Capital losses sustained on the transfer or contribution of Class A Shares to an RRSP, RRIF, RESP or TFSA are not allowable capital losses and cannot be used to offset capital gains. If a capital loss is realized by an RRSP, RRIF, RESP or TFSA the amount of the capital loss may not be deducted by the Annuitant in computing his or her income for tax purposes.

One-half of any capital gain is a taxable capital gain that must be included in computing income for income tax purposes. One-half of any capital loss is an allowable capital loss that may be deducted in computing income, but

only against taxable capital gains. Allowable capital losses not deductible in the current year may be deducted against taxable capital gains in computing income for the three preceding or any future taxation years.

Calculation of Adjusted Cost Base

In calculating the gain or loss on the disposition of Class A Shares, the adjusted cost base of the Class A Shares will generally be the amount paid to acquire the Class A Shares. The cost of all Class A Shares acquired by an Investor will be averaged for purposes of determining the adjusted cost base of the Investor's Class A Shares.

The Tax Credit will not reduce the adjusted cost base of the Class A Shares for federal or British Columbia income tax purposes; however, if a capital loss is realized in respect of the Class A Shares, the Tax Credit would reduce this loss. See "Consequences of the Disposition of Class A Shares", above.

Redemption of Class A Shares

A redemption of a Class A Share is treated as a disposition of the Class A Share to the Fund for proceeds equal to the redemption price paid by the Fund. Subject to the potential application of subsection 55(2) of the *Federal Tax Act* (discussed below), the Investor will be deemed to receive a dividend on the redemption of a Class A Share equal to the excess of the amount paid by the Fund over the paid-up capital of the Class A Share. The deemed dividend will be taxed in the same manner as described below in "Dividends". The gain or loss will be calculated as described above in "Consequences of the Disposition of Shares"; however, the proceeds of disposition will be reduced by the amount of the deemed dividend, if any.

Minimum Tax

A capital gain realized, or a dividend received, by an Investor who is an individual (including certain trusts and estates) may give rise to a liability for alternative minimum tax under the *Federal Tax Act*.

The Tax Credits do not affect the calculation of adjusted taxable income. The Tax Credit will reduce British Columbia income taxes otherwise payable even where minimum tax is payable under the *Federal Tax Act*.

Return of Capital

All amounts received by an Investor as a return of capital ("Return of Capital") will not be subject to tax under the *Federal Tax Act* or *British Columbia Tax Act*, provided that the amount of such Return of Capital on an Investor's Class A Shares does not exceed such Investor's adjusted cost base of their Class A Shares. The adjusted cost base and paid-up capital, within the meaning of the *Federal Tax Act*, of a Holder's Class A Shares will be reduced by the amount of such Return of Capital. If the Return of Capital on an Investor's Class A Shares exceeds such Investor's adjusted cost base of their Class A Shares, the Investor will be deemed to realize a capital gain to the extent that the Return of Capital exceeds such Investor's adjusted cost base of their Class A Shares, and the adjusted cost base of their Class A Shares will be immediately after deemed to be nil. See "Consequences of the Disposition of Class A Shares" above, in respect of the taxation of capital gains.

Dividends

All dividends (other than capital dividends) paid on Class A Shares and received, or deemed to be received, by an individual (including a deemed dividend on the redemption of Class A Shares), must be included in computing the individual's income subject to the gross-up and dividend tax credit rules in the *Federal Tax Act* applicable to dividends from taxable Canadian corporations.

Dividends (other than capital dividends) paid on Class A Shares and received, or deemed to be received, by a corporation, will be included in computing the corporation's income. However, the recipient corporation will generally be entitled to deduct an equivalent amount. In certain circumstances subsection 55(2) of the *Federal Tax Act* will treat a taxable dividend received by an Investor that is a corporation as proceeds of disposition or a capital gain. Investors that are private corporations or other corporations controlled by or for the benefit of an individual or related group of individuals, may be liable for a refundable tax under Part IV of the *Federal Tax Act* equal to 38.33% of the amount of the dividend. This tax is refundable upon the payment of sufficient taxable dividends by such corporation. Investors that are corporations other than private corporations may be liable for tax under Part IV.1 of the *Federal Tax Act* equal to 10% of the amount of the dividend. Where corporations are subject to tax under both

Part IV and Part IV.1, all or a portion of the tax payable under Part IV.1 will be deductible from the tax payable under Part IV.

The current maximum combined Federal and British Columbia tax rate on “eligible dividends” received by individuals who are residents of British Columbia is 36.54%. Eligible dividends are generally dividends paid after 2005 to a Canadian resident by a Canadian controlled private corporation such as the Fund, out of income which was taxed at the Federal general corporate tax rate, or out of income from eligible dividends received by the corporation, and which are validly designated as eligible dividends by the corporation paying the dividends. As a Canadian controlled private corporation, the Fund may also pay dividends which are “ineligible dividends”. The current maximum combined Federal and British Columbia tax rate on ineligible dividends received by individuals who are residents of British Columbia is anticipated to be 48.89%.

To the extent that the Fund has a positive balance in its capital dividend account, the Fund may elect to pay a capital dividend. A capital dividend would be received tax-free by an individual and corporate recipient. In general, the Fund may have a positive balance in its capital dividend account if the amount of the tax-exempt portion of capital gains realized by the Fund and capital dividends received by the Fund exceed the tax-exempt portion of capital losses realized by the Fund and capital dividends paid by the Fund.

A holder of a Class A Share which is an RRSP, RRIF, RESP or TFSA is exempt from tax on the amount of any dividend, provided that the share is a qualified investment and is not a prohibited investment for such RRSP, RRIF, RESP or TFSA.

The Fund will issue to the holders of Class A Shares a tax reporting form (T5 Supplementary) relating to all taxable dividends paid by the Fund or deemed to be paid.

MATERIAL CONTRACTS

The amended Articles of the Fund are as noted under “Name, Formation and History of the Fund”.

The Fund has entered into the following contracts that are material to investors:

- (a) the Management Agreement referred to under “Responsibility for Fund Operations - Duties and Services to be Provided by the Manager and Details of the Management Agreement”; and
- (b) the Administrative Services Agreement referred to under “Responsibility for Fund Operations - Administration”.

Copies of the above contracts may be inspected during regular business hours at the offices of the Fund.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

There are no legal or administrative proceedings material to the Fund to which the Fund or the Manager is a party and no such proceedings are known to be contemplated.

OTHER MATERIAL INFORMATION

Other than as disclosed in this Annual Information Form, details of the risk factors associated with an investment in the Fund can be found in the Fund’s last filed prospectus dated April 15, 2014 as well as the Fund’s most recent management reports of fund performance and financial statements, all available at www.sedar.com.

TERMINATION OF THE FUND

The Fund is a corporation existing under the provisions of the *Business Corporations Act* and has no fixed termination date. As disclosed under “Description of Shares”, 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 and such Class A Shares’ respective rights and restrictions, all of the assets of the Fund remaining after all of its liabilities have been paid. Because the Pricing Net Asset Value of the Fund is based on estimates only and is subject to inherent uncertainties and may not represent the realizable value of assets on a liquidation of the Fund and because the UDC amount, which is included in calculating Pricing Net Asset Value per Class A Share, will not be represented by realizable assets, on a liquidation of the Fund, the value of Class A Shares will likely be less than the Pricing Net Asset Value per Class A Share. The

type of payment, if any, to be made to shareholders at the time of termination of the Fund would be subject to determination by the Fund or other authority at that time.

On March 2, 2020, the Board announced that it had completed a strategic review of liquidity options for the Fund with the goal of maximizing shareholder value. As a result, the Board recommended that an orderly liquidation by distributing an undivided beneficial interest in the portfolio's shares by way of a return of capital and voluntary dissolution of the Fund be undertaken (the "Dissolution"), subject to shareholder approval at a meeting of the shareholders to be held concurrently with the annual meeting of the shareholders. Prior to the meeting, a management information circular will be provided that recommends the approval of shareholders and sets out the details of the Dissolution, which are still being finalized as at the date hereof. There are no assurances that the Dissolution will be approved by shareholders or, if approved, that it will be successfully completed.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Fund has retained the Manager to provide investment advice and recommendations to the Fund. See "Responsibility for Fund Operations – Duties and Services to be Provided by the Manager". The principal shareholders of the Manager are Harry Jaako, John McEwen and Charles Cook, who are each a director and/or officer of the Fund. The second amended and restated management agreement dated as of January 1, 2004 between the Manager and the Fund was amended and restated as of January 1, 2011. This amendment and restatement was approved by the independent Directors, with the Directors who are also directors of the Manager abstaining from the vote in respect of such approval. The Management Agreement was further amended and restated on June 13, 2011. Since that time, the Fund has continued to retain the Manager under that agreement.

EXEMPTIONS AND APPROVALS

As noted under "Responsibility for Fund Operations – Custodian Exemption", the Fund received an exemption on April 5, 2019 from the custodian provisions set out in Part 6 of National Instrument 81-102 *Investment Funds*. This exemption terminates on April 23, 2021.

BRITISH COLUMBIA DISCOVERY FUND (VCC) INC.

Additional information about the Fund can be found in its management reports of fund performance and financial statements.

You can get a copy of these documents at no cost by calling the Fund at 604-683-3000, or from your investment dealer or financial advisor, or by email at info@discoverycapital.com. You can also find these documents at www.bcdiscoveryfund.com.

These documents and other information about British Columbia Discovery Fund (VCC) Inc., such as information circulars and material contracts, are also available at www.sedar.com.



DISCOVERY CAPITAL MANAGEMENT CORP.

Discovery Capital Management Corp. is the Manager of the Fund. Contact information for the Manager is:

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