

# 2013

ANNUAL REPORT

B.E.S.T. DISCOVERIES FUND INC.





# MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended September 30, 2013

## INTRODUCTORY NOTE

This annual management report of fund performance (“MRFP”) contains financial highlights but does not contain the complete annual financial statements of the Fund. Those annual financial statements are included in the Fund’s 2013 Annual Report, of which this MRFP forms a part. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-800-795-2378, by writing to us at 15 Toronto Street, Suite 400, Toronto, Ontario, M5C 2E3, by visiting our website at [www.bestfunds.ca](http://www.bestfunds.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

Shareholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, or annual financial statements.

## FORWARD LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund actions. The words “anticipate”, “could”, “should”, “may”, “expect”, “believe”, “plan”, “intends”, “estimate”, “forecast”, “objective”, “would”; and similar expressions are intended to identify forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors. It is not possible to guarantee that future performance, predictions, forecasts, projections or other forward looking statements will be achieved. Factors such as economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings or catastrophic events could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made by the Fund.

The above list of important factors that may affect future results is not exhaustive. Please consider these and other pertinent factors before making any investment decisions and do not place undue reliance on forward-looking statements. All opinions contained in forward-looking statements are subject to change without notice.

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### INVESTMENT OBJECTIVES AND STRATEGIES

The Fund invests in small and medium-sized eligible businesses with the objective of achieving long-term capital appreciation. The Fund’s investments are selected on the basis of various criteria including a review of industry economics, managerial capability, product or service competitiveness, growth potential and past performance. The Fund primarily focuses on niche businesses and companies with a broader market focus, which are capitalizing on innovative uses of engineering, science and technology. The Fund diversifies its portfolio by investing in eligible companies that are at different stages of development in a variety of high potential industries, which from time to time, may include telecommunications, information technology, computers and life sciences.

The Fund is subject to the investment restrictions contained in the *Community Small Business Investment Funds Act* (Ontario) (the “Ontario Act”) as further described in the Fund’s Annual Information Form.

### RISK

There were no changes to the Fund over the period of this report that affected the overall level of risk associated with an investment in the Fund. Shareholders should refer to the annual information form (“AIF”) for the Fund for the year ended September 30, 2013 which contains a detailed discussion of risks and other considerations relating to an investment in the Fund. The AIF is available free of charge from us (contact information above), on our website at [www.bestfunds.ca](http://www.bestfunds.ca) and on SEDAR at [www.sedar.com](http://www.sedar.com).

### GENERAL

The business of the Fund is making investments in small to medium-sized eligible businesses, many of which have limited operating history. These investments may require a number of years in order to mature and generate the returns expected by the Fund and investors. The Fund requires a greater commitment to the initial analysis, post investment monitoring and support relative to the amount of capital invested, than the investments of other mutual funds. The cost to determine the value of the Fund's investments for which no published market exists is greater than the valuation costs for mutual funds invested primarily in public companies and consequently the operating expenses of the Fund are higher than those of other mutual funds. Class A Shares of the Fund are not currently offered for sale. This inability to raise capital may impair the Fund's ability to fulfill its investment objectives and support its existing portfolio investments.

### VALUATION

The Fund estimates the fair value of its assets for which there is no published market. The valuation process is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. To the extent that these valuations are too high, a new shareholder investment will provide a benefit to existing investors; similarly, to the extent these valuations are too low, existing investors will suffer a dilution in the value of their shares. Venture capital investing carries the risk of having illiquid investments in the portfolio along with the risk of finding suitable investments meeting the Fund's investment criteria. This is the valuation risk as described in the Fund's financial statements. Other risks associated with the Fund are market risk, which includes currency risk and interest rate risk, liquidity risk, and credit risk.

### REDEMPTIONS

The Class A Shares of the Fund became eligible for redemption in July 2012 after the expiry of the three year moratorium on redemptions which was approved by shareholders as part of a plan of arrangement at a special meeting in June 2009. An increase in the rate of redemption activity may result in a tightening of the Fund's cash resources available to fund redemptions and follow-on investment activity. To the extent a substantial portion of the Class A Shares are redeemed, it could have a negative impact on the Fund and the remaining Class A Shareholders and Class L Shareholders. The Fund may limit the aggregate redemptions of Class A Shares in any financial year to 20% of the aggregate Net Asset Value of the Class A Shares of the Fund as of the last day of the preceding financial year. Accordingly investors may not be able to redeem their Class A Shares on demand. The Fund is entitled to suspend the right of Class A Shareholders to redeem Class A Shares and/or delay the date for payment of the redemption amounts. The majority of the Fund's investments are in private companies which are illiquid assets and as such, the Fund may not be able to exit such investments on favourable terms to satisfy redemption requests.

### LIQUIDITY

The Fund is primarily invested in a portfolio of private small and medium sized businesses. Investments of this kind, by their nature, involve a longer investment time horizon than that of many other investments. Management expects the economy and financial markets will continue to provide challenges for these small private companies and may result in the Fund not being able to exit these investments at valuations and over time horizons which would normally be expected in better economic times.

### RECENT DEVELOPMENTS

On June 24, 2013, the Fund halted redemptions of its Class A Shares. The Fund may limit the aggregate redemptions of Class A Shares in any financial year to 20% of the aggregate Net Asset Value of the Class A Shares of the Fund as of the last day of the

preceding financial year. On October 1, 2013, the Fund was re-opened for redemptions of Class A Shares. Redemption requests received by the Fund between June 24, 2013 and September 30, 2013, were processed with a trade date of October 4, 2013.

On March 21, 2013, the federal government announced that the 15% federal tax credit currently available for investments in Labour Sponsored Venture Capital Corporation will be phased out in stages to 0% for years after 2016. Subscribers of Labour Sponsored Venture Capital Corporations will receive a federal tax credit of 15% up to 2014, 10% for 2015 and 5% for 2016. This decision is not expected to have a significant impact as the Fund is not open for subscriptions.

In September 2010, the Canadian Accounting Standards Board (the "AcSB") approved a one year deferral on adoption of International Financial Reporting Standards (IFRS) by investment companies applying Accounting Guideline 18 to January 1, 2012. At its December 12, 2011 meeting the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurances Enterprises to January 1, 2014. The decision is in response to the possibility that the International Accounting Standards Board may not complete its Investment Company project before January 1, 2013. Since the Fund is an Investment Company, it will defer the Fund's first set of financial statements prepared in accordance with IFRS to the year ended September 30, 2015, with corresponding comparative financial information for fiscal 2014, including an opening statement of net assets as at October 1, 2013.

The Canadian Securities Administrators (the "CSA") has issued CSA Staff Notice 52-320, which requires the Manager to provide progress updates on the changeover plan to the new reporting standards at each interim and annual reporting period up until the changeover date. The Fund has developed a changeover plan to meet the timeline published by the CICA. The key elements of the plan include: identification of the differences between the current

accounting policies of the Fund which reflect current GAAP, and those expected to apply under IFRS, analyzing the impact on business arrangements, including business and reporting processes, disclosure of the qualitative and quantitative impact, if any, in the management report of fund performance for the Fund for fiscal 2014 and preparation of the financial statements for the Fund for fiscal 2015 in accordance with IFRS. The Manager anticipates there will be changes to the financial statements but the impact, if any, cannot be reasonably estimated at this time. The Manager does anticipate an increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and changes needed to gather and process the required information.

#### **RELATED PARTY TRANSACTIONS**

B.E.S.T. Investment Counsel Limited (the "Manager" and the "Advisor") and The International Federation of Professional and Technical Engineers – Local 164 (the "Sponsor"), are deemed to be related parties. Please refer to the section titled "Management Fees" which outlines the fees paid to these related parties during the year.

John Richardson, the Chief Executive Officer of the Fund, is a director, officer and indirectly controls all of the voting securities of the Manager.

John Richardson is a director, officer and controls all of the voting securities of B.E.S.T. Capital Administration Inc., which provides storage and facilities to the Fund.

#### **RESULTS OF OPERATIONS**

##### *FINANCIAL RESULTS*

The net assets of the Fund as at September 30, 2013 were \$33,052,511 compared to the year ended September 30, 2012 when net assets were \$38,141,492. This represents a decrease of 13.34% in the net assets of the Fund from the prior year-end. This decrease is due to redemptions of the Fund's Class A Shares, realized losses on investments and unrealized depreciation on investments. On a per share basis, the net assets of the Fund declined on average by approximately 4.30% from the previous year.

The Fund reported interest and other income of \$2,478,060 for the year compared to \$3,313,547 last year. The decrease in interest income is due to the lower balance of interest bearing venture investments in the portfolio during the year.

Total expenses of the Fund before the incentive participation amount were \$2,402,184 for the year ended September 30, 2013 compared to \$2,754,853 reported last year. The decrease in expenses is due to lower management fees, advisory fees, selling costs and sponsor fees resulting from the lower average net asset value of the Fund during the year. Legal expenses were higher during the year due to higher costs for the annual filings, compliance and expenses related to the Fund's investments and other related matters. During the year, the Fund reported an incentive participation amount of \$303,881 of which \$437,877 was paid or payable on realized gains and income and \$133,996 represented the change in the contingent incentive participation amount for unrealized gains and income. The contingent incentive participation amount is the amount that might become payable at a future date on the realized income and gains and unrealized appreciation in the investment portfolio, based on the assumption that all the investments are liquidated at the estimated fair value as at September 30, 2013.

During the year ended September 30, 2013, the Fund reported net redemptions of \$3,511,327. The Fund was open for redemptions from July 24, 2012 until June 24, 2013 at which time the Fund closed to further redemptions. The Fund may limit the aggregate redemptions of Class A Shares in any financial year to 20% of the aggregate Net Asset Value of the Class A Shares of the Fund as of the last day of the preceding financial year. Redemption requests received by the Fund from June 24, 2013 to October 4, 2013 were processed with a trade date of October 4, 2013. At September 30, 2013, redemptions in the amount of \$284,834 were waiting to be processed on the October 4, 2013 trade date. The Fund remains closed to new subscriptions.

During the year, the Fund made new and follow-on venture investments in the amount of \$8,982,000 including: AcuityAds Inc. for \$607,000, Couch Commerce Inc. for \$970,000, Echoworx Corporation for \$2,350,000, ERMS Corporation for \$990,000, Intelligent Mechatronic Systems Inc. for \$1,360,000, PowerBand Global Inc. for \$405,000, Questrade Inc. for \$720,000 and Skura Corp. for \$570,000.

**FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years shown for each of the Class A Shares, Series I, II, III and IV and the Class L Shares. This information is derived from the Fund's audited annual financial statements.

**THE FUND'S NET ASSETS PER CLASS A SHARE, SERIES I <sup>(1)</sup>**

	2013	2012	2011	2010	2009
<b>Net Assets, beginning of the year</b>	<b>\$ 10.28</b>	<b>\$ 11.57</b>	<b>\$ 10.12</b>	<b>\$ 7.90</b>	<b>\$ 8.54</b>
<b>Increase (decrease) from operations:</b>					
Total revenues	\$ 0.71	\$ 0.79	\$ 1.01	\$ 0.35	\$ 0.19
Total expenses	\$ (0.82)	\$ (0.85)	\$ (1.13)	\$ (1.91)	\$ (0.60)
Realized gains (losses) for the year	\$ (0.36)	\$ 0.01	\$ 5.96	\$ 0.21	\$ (0.15)
Unrealized gains (losses) for the year	\$ (0.03)	\$ (1.42)	\$ (4.39)	\$ 3.58	\$ (1.45)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$ (0.50)</b>	<b>\$ (1.47)</b>	<b>\$ 1.45</b>	<b>\$ 2.22</b>	<b>\$ (2.01)</b>
<b>Total Distributions</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Net Assets, end of the year</b>	<b>\$ 9.80</b>	<b>\$ 10.28</b>	<b>\$ 11.57</b>	<b>\$ 10.12</b>	<b>\$ 7.90</b>

**THE FUND'S NET ASSETS PER CLASS A SHARE, SERIES II <sup>(1)</sup>**

	2013	2012	2011	2010	2009
<b>Net Assets, beginning of the year</b>	<b>\$ 10.19</b>	<b>\$ 11.47</b>	<b>\$ 10.02</b>	<b>\$ 7.80</b>	<b>\$ 8.48</b>
<b>Increase (decrease) from operations:</b>					
Total revenues	\$ 0.72	\$ 0.80	\$ 1.01	\$ 0.35	\$ 0.19
Total expenses	\$ (0.83)	\$ (0.85)	\$ (1.13)	\$ (1.93)	\$ (0.63)
Realized gains (losses) for the year	\$ (0.37)	\$ 0.01	\$ 5.96	\$ 0.21	\$ (0.37)
Unrealized gains (losses) for the year	\$ (0.03)	\$ (1.42)	\$ (4.38)	\$ 3.60	\$ (0.84)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$ (0.51)</b>	<b>\$ (1.46)</b>	<b>\$ 1.46</b>	<b>\$ 2.22</b>	<b>\$ (1.65)</b>
<b>Total Distributions</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Net Assets, end of the year</b>	<b>\$ 9.70</b>	<b>\$ 10.19</b>	<b>\$ 11.47</b>	<b>\$ 10.02</b>	<b>\$ 7.80</b>

**FINANCIAL HIGHLIGHTS (Cont'd.)**

**THE FUND'S NET ASSETS PER CLASS A SHARE, SERIES III <sup>(1)</sup>**

	2013	2012	2011	2010	2009
<b>Net Assets, beginning of the year</b>	<b>\$ 10.25</b>	<b>\$ 11.52</b>	<b>\$ 10.12</b>	<b>\$ 7.90</b>	<b>\$ 8.80</b>
<b>Increase (decrease) from operations:</b>					
Total revenues	\$ 0.71	\$ 0.80	\$ 1.00	\$ 0.35	\$ 0.20
Total expenses	\$ (0.81)	\$ (0.86)	\$ (1.13)	\$ (1.91)	\$ (0.64)
Realized gains (losses) for the year	\$ (0.36)	\$ 0.01	\$ 5.97	\$ 0.21	\$ (0.38)
Unrealized gains (losses) for the year	\$ (0.03)	\$ (1.27)	\$ (4.44)	\$ 3.58	\$ (0.82)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$ (0.49)</b>	<b>\$ (1.32)</b>	<b>\$ 1.40</b>	<b>\$ 2.22</b>	<b>\$ (1.64)</b>
<b>Total Distributions</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Net Assets, end of the year</b>	<b>\$ 9.76</b>	<b>\$ 10.25</b>	<b>\$ 11.52</b>	<b>\$ 10.12</b>	<b>\$ 7.90</b>

**THE FUND'S NET ASSETS PER CLASS A SHARE, SERIES IV <sup>(1)</sup>**

(Start date July 24, 2009)

	2013	2012	2011	2010	2009
<b>Net Assets, beginning of the year</b>	<b>\$ 10.33</b>	<b>\$ 11.58</b>	<b>\$ 10.12</b>	<b>\$ 7.90</b>	<b>\$ 8.00</b>
<b>Increase (decrease) from operations:</b>					
Total revenues	\$ 0.71	\$ 0.80	\$ 1.01	\$ 0.35	\$ 0.03
Total expenses	\$ (0.81)	\$ (0.86)	\$ (1.13)	\$ (1.92)	\$ (0.14)
Realized gains (losses) for the year	\$ (0.36)	\$ 0.01	\$ 5.96	\$ 0.20	\$ (0.39)
Unrealized gains (losses) for the year	\$ (0.03)	\$ (1.29)	\$ (4.38)	\$ 3.62	\$ 0.40
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$ (0.49)</b>	<b>\$ (1.34)</b>	<b>\$ 1.46</b>	<b>\$ 2.25</b>	<b>\$ (0.10)</b>
<b>Total Distributions</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Net Assets, end of the year</b>	<b>\$ 9.86</b>	<b>\$ 10.33</b>	<b>\$ 11.58</b>	<b>\$ 10.12</b>	<b>\$ 7.90</b>

**FINANCIAL HIGHLIGHTS (Cont'd.)**

**THE FUND'S NET ASSETS PER CLASS L SHARE, SERIES I <sup>(1)</sup>**

(Start date July 24, 2009)

	2013	2012	2011	2010	2009
<b>Net Assets, beginning of the year</b>	<b>\$ 10.33</b>	<b>\$ 11.59</b>	<b>\$ 10.12</b>	<b>\$ 7.90</b>	<b>\$ 8.00</b>
<b>Increase (decrease) from operations:</b>					
Total revenues	\$ 0.71	\$ 0.80	\$ 1.01	\$ 0.35	\$ 0.03
Total expenses	\$ (0.75)	\$ (0.84)	\$ (1.13)	\$ (1.91)	\$ (0.13)
Realized gains (losses) for the year	\$ (0.36)	\$ 0.01	\$ 5.96	\$ 0.21	\$ (0.37)
Unrealized gains (losses) for the year	\$ (0.03)	\$ (1.23)	\$ (4.38)	\$ 3.57	\$ 0.35
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$ (0.43)</b>	<b>\$ (1.26)</b>	<b>\$ 1.46</b>	<b>\$ 2.21</b>	<b>\$ (0.12)</b>
<b>Total Distributions</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Net Assets, end of the year</b>	<b>\$ 9.90</b>	<b>\$ 10.33</b>	<b>\$ 11.59</b>	<b>\$ 10.12</b>	<b>\$ 7.90</b>

Notes:

- (1) This information is provided as at and for the years ended September 30 for the years shown.
- (2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/(decrease) from operations is based on the weighted average number of shares outstanding over the financial year. As a result the table is not intended to and will not necessarily reconcile opening and closing net assets.
- (3) The Class A Shares, Series IV and the Class L Shares, Series I were issued following a re-organization by Plan of Arrangement which became effective on July 24, 2009. The beginning net assets per share for these shares was set at \$8.00.

**FINANCIAL HIGHLIGHTS (Cont'd.)**

**RATIOS AND SUPPLEMENTAL DATA**

**CLASS A SHARES, SERIES I**

	2013	2012	2011	2010	2009
Net Asset Value <sup>(1)</sup>	\$5,267,855	\$7,362,116	\$11,481,064	\$10,068,433	\$7,882,264
Number of shares outstanding <sup>(1)</sup>	537,680	715,881	992,622	994,744	997,937
Management expense ratio <sup>(2)</sup>	8.18%	7.79%	10.25%	20.63%	8.44%
Management expense ratio before waivers	8.18%	7.79%	10.25%	20.63%	8.44%
Management expense ratio before performance fees	7.25%	6.20%	6.15%	6.27%	8.44%
Portfolio turnover <sup>(3)</sup>	33.69%	46.33%	54.29%	12.77%	5.51%
Trading expense ratio <sup>(4)</sup>	0.01%	0.00%	0.00%	0.01%	0.06%
Net Asset Value per share	\$9.80	\$10.28	\$11.57	\$10.12	\$7.90

**CLASS A SHARES, SERIES II**

	2013	2012	2011	2010	2009
Net Asset Value <sup>(1)</sup>	\$3,404,433	\$5,062,540	\$7,991,501	\$6,984,628	\$5,491,076
Number of shares outstanding <sup>(1)</sup>	350,894	496,640	696,435	697,066	697,066
Management expense ratio <sup>(2)</sup>	8.34%	7.87%	10.33%	21.00%	8.56%
Management expense ratio before waivers	8.34%	7.87%	10.33%	21.00%	8.56%
Management expense ratio before performance fees	7.38%	6.26%	6.20%	6.52%	8.56%
Portfolio turnover <sup>(3)</sup>	33.69%	46.33%	54.29%	12.77%	5.51%
Trading expense ratio <sup>(4)</sup>	0.01%	0.00%	0.00%	0.01%	0.05%
Net Asset Value per share	\$9.70	\$10.19	\$11.47	\$10.02	\$7.90

**CLASS A SHARES, SERIES III**

	2013	2012	2011	2010	2009
Net Asset Value <sup>(1)</sup>	\$490,683	\$605,128	\$724,997	\$640,234	\$499,616
Number of shares outstanding <sup>(1)</sup>	50,283	59,064	62,913	63,254	63,254
Management expense ratio <sup>(2)</sup>	8.17%	7.93%	10.25%	20.63%	8.53%
Management expense ratio before waivers	8.17%	7.93%	10.25%	20.63%	8.53%
Management expense ratio before performance fees	7.28%	6.23%	6.15%	6.27%	8.53%
Portfolio turnover <sup>(3)</sup>	33.69%	46.33%	54.29%	12.77%	5.51%
Trading expense ratio <sup>(4)</sup>	0.01%	0.00%	0.00%	0.01%	0.05%
Net Asset Value per share	\$9.76	\$10.25	\$11.52	\$10.12	\$7.90

**FINANCIAL HIGHLIGHTS (Cont'd.)****RATIOS AND SUPPLEMENTAL DATA****CLASS A SHARES, SERIES IV**

	2013	2012	2011	2010	2009
Net Asset Value <sup>(1)</sup>	\$3,083,707	\$3,412,363	\$4,224,193	\$3,698,932	\$2,806,404
Number of shares outstanding <sup>(1)</sup>	312,661	330,305	364,841	365,422	355,299
Management expense ratio <sup>(2)</sup>	8.12%	7.91%	10.25%	20.65%	9.15%
Management expense ratio before waivers	8.12%	7.91%	10.25%	20.65%	9.15%
Management expense ratio before performance fees	7.26%	6.22%	6.15%	6.28%	9.15%
Portfolio turnover <sup>(3)</sup>	33.69%	46.33%	54.29%	12.77%	5.51%
Trading expense ratio <sup>(4)</sup>	0.01%	0.00%	0.00%	0.01%	0.00%
Net Asset Value per share	\$9.86	\$10.33	\$11.58	\$10.12	\$7.90

**CLASS L SHARES, SERIES I**

	2013	2012	2011	2010	2009
Net Asset Value <sup>(1)</sup>	\$20,805,832	\$21,699,344	\$24,342,241	\$21,264,504	\$16,692,113
Number of shares outstanding <sup>(1)</sup>	2,100,911	2,100,911	2,100,911	2,100,911	2,113,317
Management expense ratio <sup>(2)</sup>	7.47%	7.71%	10.25%	20.62%	8.62%
Management expense ratio before waivers	7.47%	7.71%	10.25%	20.62%	8.62%
Management expense ratio before performance fees	6.63%	5.98%	6.15%	6.26%	8.62%
Portfolio turnover <sup>(3)</sup>	33.69%	46.33%	54.29%	12.77%	5.51%
Trading expense ratio <sup>(4)</sup>	0.01%	0.00%	0.00%	0.01%	0.00%
Net Asset Value per share	\$9.90	\$10.33	\$11.59	\$10.12	\$7.90
Trading Price per share <sup>(5)</sup>	\$2.35	\$2.28	\$2.38	\$1.30	\$1.00

## Notes:

- (1) This information is provided as at and for the year ended September 30 for the years shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the year and is expressed as an annualized percentage of daily average net asset value during the period.
- (3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the chance of an investor receiving taxable capital gains. There is not necessarily a relationship between a high turnover rate and the performance of a fund. The portfolio turnover rate is calculated by dividing the lesser of purchases or sales of securities, excluding securities having maturity dates at acquisition of one year or less, by the average market value of the portfolio, excluding short-term investments.
- (4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.
- (5) The Class L Shares, Series I are listed and posted for trading on the Canadian National Stock Exchange under the symbol "VC".

## FINANCIAL HIGHLIGHTS (Cont'd.)

Similar to closed-end investment funds, the Class L Shares, Series I of the Fund trade at a discount to the net asset value per share (NAV). As a result, the return experienced by a shareholder (market return) can often differ from the underlying performance of the Fund (portfolio performance). The Class L Shares, Series I are traded on the Canadian National Stock Exchange and the share price is established by the market, which reflects the buying demand and the selling supply of the shares. Factors which are thought to influence share price, and, therefore, discounts and premiums, include a fund's relative performance, the liquidity of a fund's shares, dividend yield, the use of a managed distribution policy, confidence in the fund strategy and portfolio manager as well as investors' perceptions and expectations regarding the outlook for the portfolio companies, sectors and industries where a fund invests.

### MANAGEMENT FEES

#### MANAGEMENT FEE

The Fund pays the Manager an annual fee of 1.50% of the net asset value of the Fund for its performance of administrative services. The fee is calculated and paid monthly in arrears. The Manager is also entitled to be reimbursed for certain costs and expenses incurred on behalf of the Fund.

#### ADVISOR FEE

The Fund pays the Advisor an annual fee of 1.75% of the net asset value of the Fund for its performance of investment advisory services. The fee is calculated and paid monthly in arrears.

#### SPONSOR FEES

The International Federation of Professional and Technical Engineers – Local 164 is the sponsor for the Fund. The Sponsor receives an annual fee of 0.15% of the net asset value of the Fund. The fee is calculated and paid monthly in arrears.

## SALES, MARKETING AND ADMINISTRATION FEES

The Fund has retained the Advisor to provide sales and marketing services to the Fund. The Fund pays the Advisor an annual sales and marketing fee as follows: (1) the aggregate of 0.425% on the first \$50 million of net asset value of the Fund, 0.4% on the next \$50 million, 0.375% on the next \$50 million and 0.35% on any amount above \$150 million, (2) less \$96,000.

The Fund and the Manager have also retained the Advisor to provide accounting and administrative services to the Fund and to supervise the services to be provided by the Registrar pursuant to the terms of an accounting and administrative services agreement. The Fund pays the Advisor an annual accounting and administrative fee of \$96,000.

## INCENTIVE PARTICIPATION AMOUNT

The Manager and the Advisor are also entitled to an incentive participation amount ("IPA") based on the gains and income earned from each eligible investment. The method of calculating the IPA is fully described in Note 4 to the financial statements.

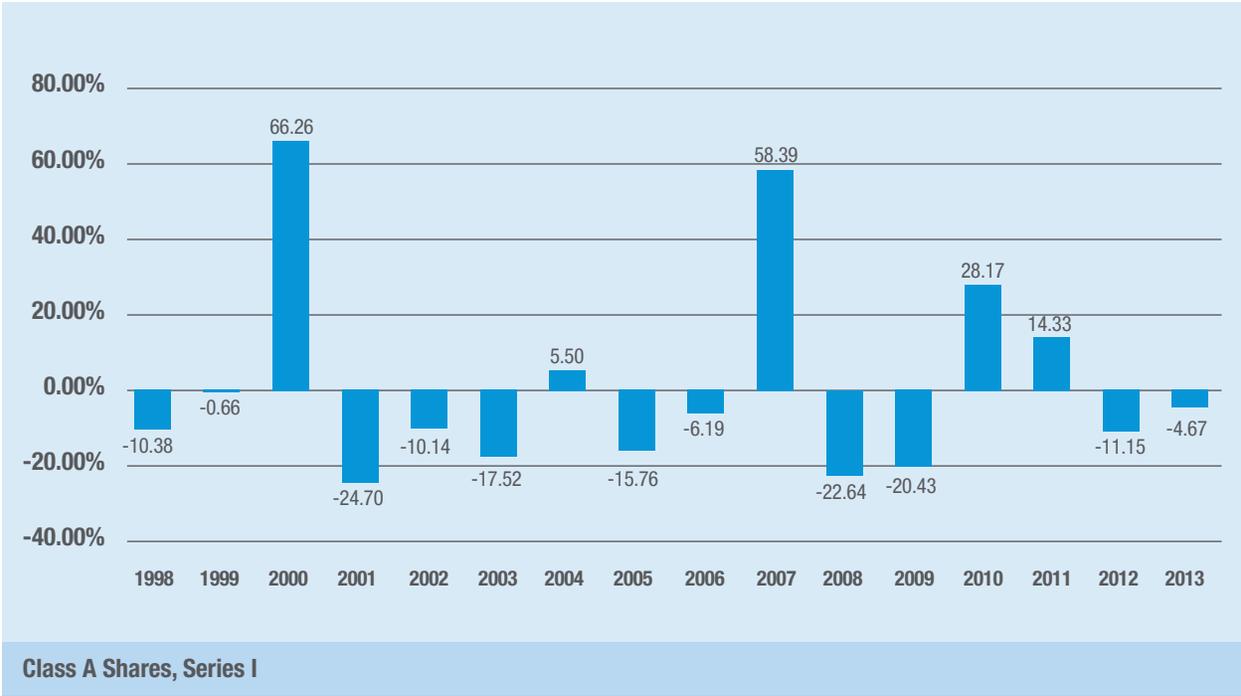
## PAST PERFORMANCE

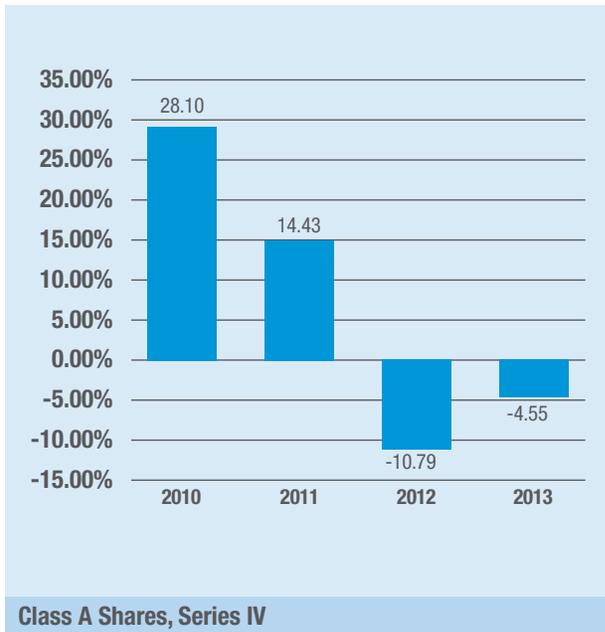
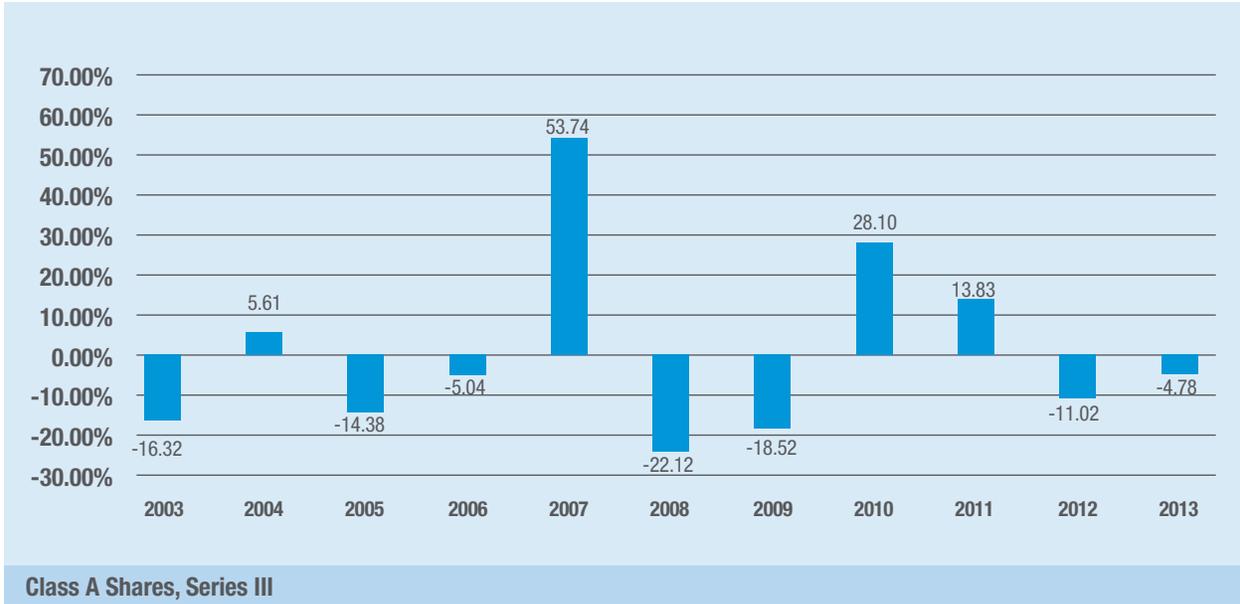
### GENERAL

The performance information shown does not take into account sales, redemptions, income taxes or other charges that would have reduced returns or performance. Mutual funds are not guaranteed, their values change frequently and past performance is not indicative of future performance.

### YEAR-BY-YEAR RETURNS

The following chart shows the Fund's performance for each year shown and illustrates how the Fund's performance has changed from year to year. The following charts indicate in percentage terms how much an investment in the Fund made on the first day of the financial year would have increased or decreased by the last day of each financial year and the year ended September 30, 2013.





1) Market return is the percentage change in the market price on the Canadian National Stock Exchange Class L, Series I shares at the close of business on September 30, 2009 to the close of business on September 30, 2010, September 30, 2010 to the close of business on September 30, 2011, September 30, 2011 to the close of business on September 30, 2012, and September 30, 2012 to the close of business on September 30, 2013.

## ANNUAL COMPOUND RETURN

The Thomson Reuters Retail Venture Capital Fund Peer Index (formerly known as the Globefund Retail Venture Capital Peer Index) is an equally weighted average of mutual funds within the Retail Venture Capital Investment Fund asset class.

Annual Compound Return	Class A Shares, Series I	Thomson Reuters Retail Venture Capital Peer Index
1 Year	(4.67%)	(17.63%)
3 Year	(1.06%)	(10.73%)
5 Year	2.79%	(9.98%)
10 Year	1.60%	(6.52%)
From inception	(0.12%)	(3.50%)

Annual Compound Return	Class A Shares, Series II	Thomson Reuters Retail Venture Capital Peer Index
1 Year	(4.81%)	(17.63%)
3 Year	(1.08%)	(10.73%)
5 Year	2.32%	(9.98%)
10 Year	1.45%	(6.52%)
From inception	(1.23%)	(6.62%)

Annual Compound Return	Class A Shares, Series III	Thomson Reuters Retail Venture Capital Peer Index
1 Year	(4.78%)	(17.63%)
3 Year	(1.20%)	(10.73%)
5 Year	2.09%	(9.98%)
10 Year	1.32%	(6.52%)
From inception	(1.16%)	(6.62%)

Annual Compound Return	Class A Shares, Series IV	Thomson Reuters Retail Venture Capital Peer Index
1 Year	(4.55%)	(17.63%)
3 Year	(0.86%)	(10.73%)
From inception	5.43%	(9.05%)

Annual Compound Return	Class L Shares, Series I NAV Return	Class L Shares, Series I Market Return	Thomson Reuters Retail Venture Capital Peer Index
1 Year	(4.16%)	3.07%	(17.63%)
3 Year	(0.73%)	21.80%	(10.73%)
From inception	5.65%	23.13%	(9.05%)

## SUMMARY OF INVESTMENT PORTFOLIO

### SUMMARY OF INVESTMENT PORTFOLIO

As at September 30, 2013, the Portfolio of the Fund consisted of the following investments:

Description	Maturity
<b>Cash (0.79%)</b>	
<b>Short-Term Investment (12.09%)</b>	
<i>HSBC Bank Canada</i>	
Discount Note, 1.13%	October 18, 2013
<b>Public Companies Investments (0.20%)</b>	
<i>Cymat Technologies Ltd.</i>	
Common Shares	
<i>TransGaming Inc.</i>	
Common Shares	
<b>Venture Investments (89.05%)</b>	
<b>Industrial and Financial (38.54% of total venture investments)</b>	
<i>Brompton Corporation</i>	
Common Shares	
<i>CNSX Markets Inc.</i>	
Common Shares	

<i>Compower Systems Inc.</i>		
Common Shares		
Senior Secured Debenture, 2.00%		December 31, 2013
<i>Couch Commerce Inc.</i>		
Promissory Note, 14.50%		August 22, 2015
<i>ERMS Corporation</i>		
Preferred Shares		
Common Shares		
<i>logen Corporation</i>		
Common Shares		
<i>Questrade Inc.</i>		
Debenture, 16.00%		August 31, 2014
Common Share Purchase Warrant		August 31, 2014
<b>Technology (61.46% of total venture investments)</b>		
<i>AcuityAds Inc.</i>		
Promissory Note, 16.50%		January 9, 2016
<i>ArcticAx Inc.</i>		
Promissory Note, 21.00%		September 1, 2014
<i>Axentra Corporation</i>		
Promissory Note, 18.00%		August 15, 2013
Common Shares		
<i>Echoworx Corporation</i>		
Promissory Note, 20.00%		August 31, 2014
<i>Geminare Inc.</i>		
Common Shares		
Preferred Shares		
Common Shares Class B		
<i>FileTrek Inc.</i>		
Class A Preferred Shares		
Class A1 Preferred Shares		
Common Shares		

<i>Health Care Services International Inc.</i>		
Common Shares		
<i>Intelligent Mechatronic Systems Inc.</i>		
Promissory Note, 15.00%		September 15, 2015
<i>Infonaut Inc.</i>		
Common Share Purchase Warrant		September 16, 2013
<i>Skura Corp.</i>		
Promissory Note, 14.00%		September 13, 2016
Common Share Purchase Warrant		September 13, 2018
<i>Spinco (4515218 Canada Inc.)</i>		
Special Voting Shares		
Series A, Exchangeable Preferred Shares		
Series B, Exchangeable Preferred Shares		
Series C, Exchangeable Preferred Shares		
<i>Shareholderco (7182171 Canada Inc.)</i>		
Special Voting Shares		
Non-voting Common Shares		
<i>PowerBand Global Inc.</i>		
Common Share Purchase Warrant		October 2, 2015
Common Share Purchase Warrant		October 2, 2015
<i>TransGaming Inc.</i>		
Promissory Note, 10.00%		July 5, 2016
Common Share Purchase Warrant		July 6, 2016
Common Share Purchase Warrant		July 5, 2018
<i>DisclosureNet Inc.</i>		
Class A Common Share Purchase Warrants		April 29, 2014
Class A Preferred Purchase Warrant		April 29, 2014
Class B Common Shares		
Preferred Shares		

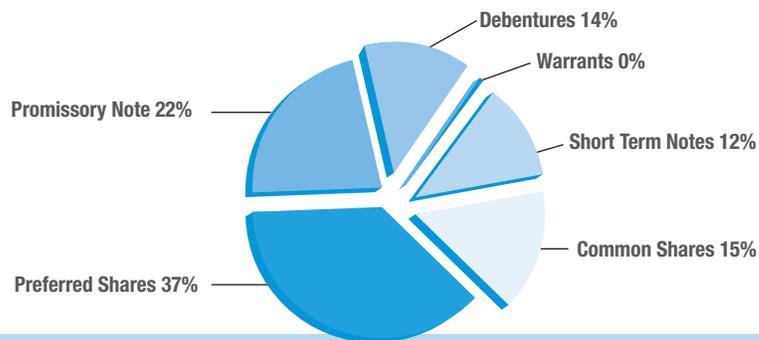
**TOP 25 PORTFOLIO INVESTMENTS (102.29% OF TOTAL NET ASSETS)**

<b>Investee Company</b>	<b>Asset Class</b>	<b>Description</b>	<b>Maturity Date</b>
DisclosureNet Inc.	Technology	Preferred Shares	
Questrade Inc.	Industrial & Financial	Debenture, 16.00%	August 31, 2014
HSBC Bank Canada	Short-Term Investment	Discounted Note, 1.13%	October 18, 2013
Geminare Inc.	Technology	Preferred Shares	
Iogen Corporation	Industrial & Financial	Common Shares	
ERMS Corporation	Industrial & Financial	Preferred Shares	
Echoworx Corporation	Technology	Promissory Note, 20.00%	August 31, 2014
Intelligent Mechatronic Systems Inc.	Technology	Promissory Note, 15.00%	September 15, 2015
Geminare Inc.	Technology	Class B Common Shares	
Couch Commerce Inc.	Industrial & Financial	Promissory Note, 14.50%	August 22, 2015
TransGaming Inc.	Technology	Promissory Note, 10.00%	July 5, 2016
CNSX Markets Inc.	Industrial & Financial	Common Shares	
AcuityAds Inc.	Technology	Promissory Note, 16.50%	January 9, 2016
ArcticAx Inc.	Technology	Promissory Note, 21.00%	September 1, 2014
Skura Corp.	Technology	Promissory Note, 14.00%	September 13, 2016
DisclosureNet Inc.	Technology	CL B Common Shares	
Cash	Cash		
TransGaming Inc.	Technology	Common Share Purchase Warrant	July 5, 2018
Compower Systems Inc.	Industrial & Financial	Debenture	December 31, 2013
TransGaming Inc.	Technology	Common Shares	
Axentra Corp.	Technology	Promissory Note, 18.00%	August 15, 2013
Geminare Inc.	Technology	Common Shares	
Health Care Services International Inc.	Technology	Common Shares	
Cymat Technologies Ltd.	Technology	Common Shares	
Brompton Corporation	Industrial & Financial	Common Shares	

This summary of the portfolio investments of the Fund will change due to the on-going transactions in the Fund. The summary will be updated on a semi-annual basis.

### INVESTMENTS BY SECURITY TYPE

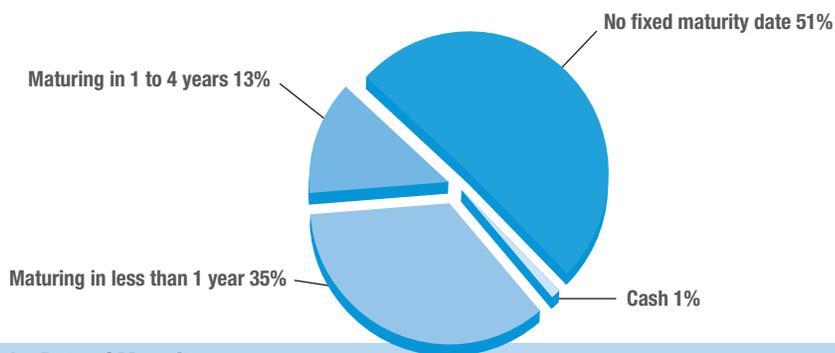
The graph below shows the proportion of the Fund's investment portfolio by security type based on their fair value. Interest revenue is normally generated from debt securities only.



Investments by Security Type

### INVESTMENTS BY DATE OF MATURITY

The graph below shows the proportion of the Funds investment portfolio plus the cash held by the Fund classified based on the date that the security is expected to mature. The graph shows the relative liquidity of the Fund's portfolio.



Investments by Date of Maturity

### OTHER INFORMATION

The Fund's most recent Annual Information Form contains full disclosure of the Fund's securities, objectives and strategies, tax credits, valuation policies and risk factors among other detailed disclosure.



## FINANCIAL STATEMENTS

# FINANCIAL STATEMENTS

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of **The Business, Engineering, Science & Technology Discoveries Fund Inc.** and other financial information contained in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles using management's best estimates and judgments, where appropriate.

Management has established a system of internal accounting and administrative controls to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and financial records are properly maintained for the preparation of reliable financial statements.

The Board of Directors discharges its responsibility for the financial statements directly and through its Audit Committee. The Board of Directors has the responsibility for determining the value of the Fund's investments and the net asset value of the Fund on a consistent basis. The Board of Directors obtains, from its auditors, a report on the reasonableness of the valuation of the Fund's investments. The Audit Committee meets with management and with the external auditors to discuss the results of the audit examination with respect to the adequacy of internal accounting controls and to review the financial statements of the Fund. The external auditors have unrestricted access to the Audit Committee. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

The accompanying financial statements have been approved by the Board of Directors and have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards, on behalf of the shareholders. The auditor's report outlines the scope of their audit and their opinion on the financial statements.



John M.A. Richardson  
Chief Executive Officer



Thomas W.R. Lunan  
Chief Financial Officer

# AUDITOR'S REPORT

## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of  
The Business, Engineering, Science & Technology Discoveries Fund Inc.**  
(the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at September 30, 2013, the statements of net assets as at September 30, 2013 and 2012 and the statements of operations, changes in net assets and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at September 30, 2013 and 2012 and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Toronto, Ontario  
December 11, 2013

# STATEMENTS OF NET ASSETS

As at September 30, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
Investments - at fair value (cost- \$48,259,691; 2012 - \$50,519,156)	<b>\$ 33,495,771</b>	\$ 35,858,854
Cash	<b>261,248</b>	1,484,387
Receivable on the sale of investments	<b>568,454</b>	2,380,814
Accrued interest and other receivables	<b>177,539</b>	178,938
	<b>34,503,012</b>	39,902,993
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	<b>310,153</b>	300,906
Deferred income on venture investments	<b>312,280</b>	469,575
Incentive participation amount payable on Class P shares (note 4)	<b>343,751</b>	207,750
Contingent incentive participation amount (note 4)	<b>484,315</b>	618,311
Redemption payable	-	164,957
Class P shares (note 3)	<b>2</b>	2
	<b>1,450,501</b>	1,761,501
<b>NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY</b>	<b>33,052,511</b>	38,141,492
<b>Net assets per class/series</b>		
Class A, Series I shares	<b>5,267,855</b>	7,362,116
Class A, Series II shares	<b>3,404,433</b>	5,062,540
Class A, Series III shares	<b>490,683</b>	605,128
Class A, Series IV shares	<b>3,083,707</b>	3,412,363
Class L, Series I shares	<b>20,805,832</b>	21,699,344
Class B shares	<b>1</b>	1
	<b>33,052,511</b>	38,141,492
<b>Number of shares outstanding (note 3)</b>		
Class A, Series I shares	<b>537,680</b>	715,881
Class A, Series II shares	<b>350,894</b>	496,640
Class A, Series III shares	<b>50,283</b>	59,064
Class A, Series IV shares	<b>312,661</b>	330,305
Class L, Series I shares	<b>2,100,911</b>	2,100,911
Class B shares	<b>1</b>	1
Class P shares	<b>2</b>	2
<b>Net assets per share (note 3)</b>		
Class A, Series I shares	<b>9.80</b>	10.28
Class A, Series II shares	<b>9.70</b>	10.19
Class A, Series III shares	<b>9.76</b>	10.25
Class A, Series IV shares	<b>9.86</b>	10.33
Class L, Series I shares	<b>9.90</b>	10.33

Approved by the Board of Directors



David A. Copeland  
Director



George R. Paterson  
Director

The accompanying notes are an integral part of these financial statements.

# STATEMENTS OF OPERATIONS

For the years ended September 30, 2013 and 2012

	2013	2012
<b>INCOME</b>		
Interest and other income	\$ 2,478,060	\$ 3,313,547
	<b>2,478,060</b>	<b>3,313,547</b>
<b>EXPENSES</b>		
Advisory fees (note 4)	677,999	893,672
Management fees (note 4)	587,765	766,004
Transfer agent, registrar and administrative (note 4)	481,144	502,387
Legal fees	155,524	50,009
Audit fees	138,072	137,525
Directors' fees and expenses	124,610	122,575
Selling costs (note 4)	75,405	114,195
Shareholders' reporting costs	61,026	61,075
Sponsor's fees (note 4)	52,256	67,788
Custodian fees (note 4)	34,954	29,095
Independent Review Committee expenses	11,587	10,528
Transaction fees	1,842	-
	<b>2,402,184</b>	<b>2,754,853</b>
<b>Net investment income for the year</b>	<b>75,876</b>	<b>558,694</b>
<b>Realized (loss) gain and unrealized depreciation on investments</b>		
Realized (loss) gain on sale of investments	(1,246,031)	54,518
Change in unrealized depreciation on investments	(103,618)	(5,436,547)
<b>Net realized and unrealized loss on investments</b>	<b>(1,349,649)</b>	<b>(5,382,029)</b>
Incentive participation amount (note 4)	437,877	1,168,869
Change in contingent incentive participation amount (note 4)	(133,996)	(414,438)
<b>Decrease in net assets from operations for the year</b>	<b>(1,577,654)</b>	<b>(5,577,766)</b>
<b>Decrease in net assets from operations</b>		
Class A, Series I shares	(298,390)	(1,394,797)
Class A, Series II shares	(204,499)	(977,368)
Class A, Series III shares	(25,932)	(82,121)
Class A, Series IV shares	(155,321)	(480,583)
Class L, Series I shares	(893,512)	(2,642,897)
	<b>(1,577,654)</b>	<b>(5,577,766)</b>
<b>Decrease in net assets from operations per share</b>		
Class A, Series I share	(0.50)	(1.47)
Class A, Series II share	(0.51)	(1.46)
Class A, Series III share	(0.49)	(1.32)
Class A, Series IV share	(0.49)	(1.34)
Class L, Series I shares	(0.43)	(1.26)

The accompanying notes are an integral part of these financial statements.

# STATEMENTS OF CHANGES IN NET ASSETS

For the years ended September 30, 2013 and 2012

	2013	2012
<b>Net assets - Beginning of year</b>		
Class A, Series I shares	\$ 7,362,116	\$ 11,481,064
Class A, Series II shares	5,062,540	7,991,501
Class A, Series III shares	605,128	724,997
Class A, Series IV shares	3,412,363	4,224,193
Class L, Series I shares	21,699,344	24,342,241
Class B shares	1	1
	<b>38,141,492</b>	<b>48,763,997</b>
<b>Decrease in net assets from operations</b>		
Class A, Series I shares	(298,390)	(1,394,797)
Class A, Series II shares	(204,499)	(977,368)
Class A, Series III shares	(25,932)	(82,121)
Class A, Series IV shares	(155,321)	(480,583)
Class L, Series I shares	(893,512)	(2,642,897)
	<b>(1,577,654)</b>	<b>(5,577,766)</b>
<b>Capital transactions</b>		
<b>Payments on redemption</b>		
Class A, Series I shares	(1,797,079)	(2,724,657)
Class A, Series II shares	(1,454,645)	(1,952,350)
Class A, Series III shares	(88,513)	(37,748)
Class A, Series IV shares	(179,945)	(343,748)
<b>Redemption fee charged</b>		
Class A, Series I shares	1,208	506
Class A, Series II shares	1,037	757
Class A, Series IV shares	6,610	12,501
	<b>(3,511,327)</b>	<b>(5,044,739)</b>
<b>Decrease in net assets</b>		
Class A, Series I shares	(2,094,261)	(4,118,948)
Class A, Series II shares	(1,658,107)	(2,928,961)
Class A, Series III shares	(114,445)	(119,869)
Class A, Series IV shares	(328,656)	(811,830)
Class L, Series I shares	(893,512)	(2,642,897)
	<b>(5,088,981)</b>	<b>(10,622,505)</b>
<b>Net assets - End of year</b>		
Class A, Series I shares	5,267,855	7,362,116
Class A, Series II shares	3,404,433	5,062,540
Class A, Series III shares	490,683	605,128
Class A, Series IV shares	3,083,707	3,412,363
Class L, Series I shares	20,805,832	21,699,344
Class B shares	1	1
	<b>\$ 33,052,511</b>	<b>\$ 38,141,492</b>

The accompanying notes are an integral part of these financial statements.

# STATEMENTS OF CASH FLOWS

For the years ended September 30, 2013 and 2012

	2013	2012
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Decrease in net assets from operations	\$ (1,577,654)	\$ (5,577,766)
Change in unrealized depreciation on investments	103,618	5,436,547
Realized loss (gain) on sale of investments	1,246,031	(54,518)
Non-cash interest and other income	(111,776)	(140,709)
Net change in non-cash balances related to operations	1,667,716	(287,804)
Proceeds from maturities of short-term investments	25,476,945	109,444,349
Proceeds from disposal of venture investments	7,926,653	15,519,108
Proceeds from disposal of public company investments	182,237	-
Purchase of short-term investments	(23,478,625)	(102,339,589)
Purchase of venture investments	(8,982,000)	(15,676,764)
	<b>2,453,145</b>	<b>6,322,854</b>
<b>Financing activities</b>		
Amounts paid for Class A, Series I shares redeemed	(1,846,950)	(2,674,786)
Amounts paid for Class A, Series II shares redeemed	(1,552,470)	(1,854,525)
Amounts paid for Class A, Series III shares redeemed	(91,239)	(35,022)
Amounts paid for Class A, Series IV shares redeemed	(194,480)	(329,213)
Redemption fees charged for Class A, Series I shares early redemption	1,208	506
Redemption fees charged for Class A, Series II shares early redemption	1,037	757
Redemption fees charged for Class A, Series IV shares early redemption	6,610	12,501
	<b>(3,676,284)</b>	<b>(4,879,782)</b>
<b>(Decrease) increase in cash during the year</b>	<b>(1,223,139)</b>	<b>1,443,072</b>
<b>Cash - Beginning of year</b>	<b>1,484,387</b>	<b>41,315</b>
<b>Cash - End of year</b>	<b>\$ 261,248</b>	<b>\$ 1,484,387</b>

The accompanying notes are an integral part of these financial statements.

# STATEMENT OF INVESTMENT PORTFOLIO

As at September 30, 2013

Par value/ number of shares	Issuer	Maturity date/ expiration date	Cost	Fair value
<b>SHORT-TERM INVESTMENTS (12.09%)*</b>				
<b>Commercial paper</b>				
4,000,000	<i>HSBC Bank Canada</i> , Discount note, 1.13%	October 18, 2013	\$ 3,996,520	\$ 3,996,520
<b>Total short-term investments</b>			<b>\$ 3,996,520</b>	<b>\$ 3,996,520</b>
<b>PUBLIC COMPANY INVESTMENTS (0.20%)*</b>				
310,000	<i>Cymat Technologies Ltd.</i> , Common shares		55,800	3,100
544,500	<i>TransGaming Inc.</i> , Common shares		100,733	62,618
<b>Total public company investments</b>			<b>\$ 156,533</b>	<b>\$ 65,718</b>
Par value/ number of shares	Investee companies	Maturity date/ expiration date	Cost	Fair value
<b>VENTURE INVESTMENTS (89.05%)*</b>				
<b>Industrial and financial (38.54% of total venture investments)</b>				
42,291	<i>Brompton Corporation</i> Common shares		-	
1,455,087	<i>CNSX Markets Inc.</i> Common shares		5,844,694	
1,333	<i>Compower Systems Inc.</i> Common shares			
1,960,000	Senior secured debenture, 2.00%	December 31, 2013	1,960,000	
970,000	<i>Couch Commerce Inc.</i> Promissory note, 14.50%	August 22, 2015	970,000	
2,824	<i>ERMS Corporation</i> Preferred shares		3,558,437	
264,464,964	Common shares		376,902	
1,927,914	<i>logen Corporation</i> Class A Common shares		3,274,203	
4,650,000	<i>Questrade Inc.</i> Debenture, 16.00%	August 31, 2014	4,650,000	
1	Common shares purchase warrant	August 31, 2014	-	
<b>Total industrial and financial investments</b>			<b>\$20,634,236</b>	<b>\$11,344,759</b>

## STATEMENT OF INVESTMENT PORTFOLIO ( Cont'd.)

Par value/ number of shares	Investee companies	Maturity date/ expiration date	Cost	Fair value
<b>Technology (61.46% of total venture investments)</b>				
	<i>AcuityAds Inc.</i>			
607,000	Promissory note, 16.50%	January 9, 2016	607,000	
	<i>ArcticAx Inc.</i>			
600,000	Promissory note, 21.00%	September 1, 2014	600,000	
	<i>Axentra Corp.</i>			
60,929	Promissory note, 18.00%	August 15, 2013	60,929	
1,048	Common shares		-	
	<i>DisclosureNet Inc.</i>			
6,090	Preferred shares		5,440,796	
317,180	Class B Common Shares		649,204	
14.40	Class A Preferred Shares purchase warrant	April 29, 2014	-	
7,980	Class A Common Shares purchase warrant	April 29, 2014	-	
	<i>Echoworx Inc.</i>			
2,350,000	Promissory note, 20.00%	August 31, 2014	2,350,000	
	<i>Geminare Inc.</i>			
75,313	Common shares		-	
3,603,604	Preferred shares		4,000,000	
3,348,520	Common shares, Class B		-	
	<i>FileTrek (GridIron Software) Inc.</i>			
60,795	Common shares		1,000,000	
2,144,005	Preferred shares, Class A		2,189,904	
1,317,650	Preferred shares, Class A1		332,947	
	<i>Health Care Services International Inc.</i>			
4,250	Common shares		-	
	<i>Infonaut Inc.</i>			
508	Common shares		-	
	<i>Intelligent Mechatronic System Inc.</i>			
1,360,000	Promissory note, 15.00%	September 15, 2015	1,360,000	
	<i>PowerBand Global Inc.</i>			
1	Common shares purchase warrant	October 2, 2015	-	
1	Common shares purchase warrant	October 2, 2015	-	
	<i>Shareholderco (7182171 Canada Inc.)</i>			
5,843,131	Non-Voting common shares		-	
5,843,131	Special voting shares		3	

## STATEMENT OF INVESTMENT PORTFOLIO (Cont'd.)

Par value/ number of shares	Investee companies	Maturity date/ expiration date	Cost	Fair value
	<i>Skura Corp.</i>			
570,000	Promissory note, 14.00%	September 13, 2016	\$ 570,000	
1	Common shares purchase warrant	September 13, 2018	-	
	<i>Spinco (4515218 Canada Inc.)</i>			
1,000,000	Series A exchangeable preferred shares		1,522,796	
1,463,195	Series B exchangeable preferred shares		977,471	
3,379,936	Series C exchangeable preferred shares		790,305	
5,843,131	Special voting shares		5	
	<i>TransGaming Inc.</i>			
1,812,500	Common shares purchase warrant	July 5, 2018	137,524	
1,270,000	Common shares purchase warrant	July 6, 2016	-	
1,010,000	Promissory note, 10.00%	July 5, 2016	883,518	
	<b>Total technology</b>		<b>\$23,472,402</b>	<b>\$18,088,774</b>
	<b>Total venture investments (89.05%)*</b>		<b>\$44,106,638</b>	<b>\$29,433,533</b>
	<b>Total investments (101.34%)*</b>		<b>\$48,259,691</b>	<b>\$33,495,771</b>
	<b>Other net assets (1.34%)*</b>			<b>\$ (443,260)</b>
	<b>Total net assets (100.00%)*</b>			<b>\$33,052,511</b>

\* Percentages shown relate to investments at fair value to total net assets.

The accompanying notes are an integral part of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

As at September 30, 2013 and 2012

## 1. FUND STATUS AND OPERATIONS

The Business, Engineering, Science & Technology (B.E.S.T.) Discoveries Fund Inc. (the “Fund”) was incorporated under the laws of Canada by articles of incorporation dated November 21, 1996, amended December 31, 1996, January 30, 1998, January 4, 2002, January 22, 2008, March 12, 2008, and further amended July 24, 2009. The Fund is registered as a Labour Sponsored Investment Fund Corporation under the Community Small Business Investment Funds Act (Ontario) (the “CSBIF Act”). The Fund is taxable as a mutual fund corporation and is a prescribed Labour Sponsored Venture Capital Corporation under the Income Tax Act (Canada).

The Fund makes investments in eligible Canadian businesses as defined in the CSBIF Act with the objective of achieving maximum long-term capital appreciation.

The sponsor of the Fund is the International Federation of Professional and Technical Engineers - Local 164 (the “Sponsor”).

The Fund is managed by B.E.S.T. Investment Counsel Limited (the “Manager”) pursuant to an agreement dated December 18, 2008 (the “Management Agreement”). The Manager is responsible for all aspects of the management, operations and administration of the Fund, all subject to the direction and control of the board of directors of the Fund.

The Manager also provides portfolio management services in connection with the Fund. The Fund and the Manager entered into a management advisor agreement with B.E.S.T. Investment Counsel Limited (the “Management Advisor”) dated December 18, 2008 (the “Management Advisor Agreement”) pursuant to which the Management Advisor has been retained to identify, screen and analyse investment opportunities and monitor and manage the Fund’s investments. Certain of the investments held by the fund are also held by other funds managed by the manager.

At the Annual and Special meeting of the Fund held on June 24, 2009, the shareholders approved a Plan of Arrangement (the “Plan of Arrangement”) for the Fund as detailed in the Management Information Circular dated May 25, 2009. The Ontario Superior Court of Justice issued a final order on June 26, 2009 which became effective on July 24, 2009 (the “Effective Date”).

As a result of the Plan of Arrangement, each holder of the Fund’s existing Class A shares received in accordance with each holder’s election or deemed election, either (a) new Class A Shares of the Fund and/or (b) new Class L Shares of the Fund. As part of the Plan of Arrangement, the Class A Shareholders were subject to a three year moratorium on redemptions from the Effective Date. Since the Effective Date, the Fund has been closed to new subscriptions for Class A Shares.

The Class L Shares, Series I of the Fund are traded on the Canadian National Stock Exchange under the symbol “VC”.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”).

A net asset value is calculated on every valuation date for each series of Class A shares and Class L shares. The net asset value of a particular series or class of shares is computed by calculating the value of the series’ or classes’ proportionate share of the assets and liabilities of the Fund common to all series and classes less the liabilities of the Fund attributable only to that series or class.

Expenses directly attributable to a series or class are charged to that series or class. Other expenses are allocated proportionately to each series or class based upon the relative net assets of each series.

### **MANAGEMENT'S ESTIMATES**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Significant estimates include the fair value of venture investments. The valuation of venture investments determines the amount of expenses such as the management fees and the incentive participation amount further described in Note 4. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

### **VALUATION POLICIES**

#### **MARKETABLE SECURITIES**

Short-term investments, which have a maturity of less than one year, are valued at amortized cost, which approximates fair value.

Publicly traded investments are valued based on the closing bid prices. The difference between the fair value and average cost of the investments is recorded as unrealized appreciation (depreciation) of investments.

Purchases and sales of marketable securities are recorded on a trade date basis.

#### **VENTURE INVESTMENTS**

Venture investments, having quoted market values and being publicly traded on a recognized stock exchange, and not otherwise restricted, are recorded at values based on the closing bid prices.

Investments in securities not having quoted market values or in restricted securities are recorded at estimated fair value determined on a going concern basis, or if appropriate, assuming an orderly disposition over a reasonable period of time. Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties

who are under no compulsion to act. Fair value is determined using an appropriate valuation methodology after considering the history and nature of the business, operating results and financial conditions, the general economic and market conditions, capital market and transaction market conditions, independent valuations of businesses, contractual rights relating to the investment, public market comparable transactions and other pertinent considerations.

For warrants which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique such as the Black-Scholes model is used; if no such market inputs are available, the warrants are valued at intrinsic value, which is equal to the higher of the closing bid price of the underlying security less the exercise price of the warrant, or \$NIL.

The process of valuing venture investments is inevitably based on inherent uncertainties and the resulting values will differ, perhaps materially, from the amounts ultimately realized. Also, because these venture investments have been valued on a going concern basis, the values may differ materially from those realized on forced sale or liquidation.

#### **INCENTIVE PARTICIPATION AMOUNT**

As described in Note 4, an incentive participation amount becomes payable to B.E.S.T. Investment Counsel Limited upon realization of gains on venture investments beyond a cumulative threshold. Any amount payable at the financial statement date is recorded as a liability and expense of the Fund in the year. The Fund also recognizes a contingent incentive participation amount, that might become payable at a future date on the realized income and gains and unrealized appreciation in the investment portfolio, based on the assumption that all the investments are liquidated at the estimated fair value as at the date of the financial statements.

#### COMMISSIONS TO AGENTS ON DISTRIBUTION OF SHARES

Sales commission on Class A, Series I shares is 6.25% of the amount invested. Sales commission on Class A, Series II shares is 10.00% of the amount invested, consisting of a 6.25% sales commission plus an additional 3.75% sales commission in lieu of any service fees being payable before the eighth anniversary of the date of issue of the Series II shares. No sales commission is payable on the sale of Class A, Series III shares.

Sales commissions related to the sale of Class A, Series I and Class A, Series II shares are charged to share capital as a share issuance cost.

Fees for early redemption of Class A shares by shareholders are netted against the amounts paid on redemption of shares. The fees for early redemption are calculated as follows:

Series I Shares: one eighth of 6.25% of the redemption price of such Series I Shares for each year or part year remaining before the eighth anniversary of the date of issue.

Series II Shares: 1.25% of the redemption price of such Series II Shares for each year or part year remaining before the eighth anniversary of the date of issue.

Series III Shares: No early redemption fee is payable upon redemption.

Series IV Shares: one eighth of 6.25% of the redemption price of such Series IV Shares for each year or part year remaining before the eighth anniversary of the date of issue.

No sales commissions are paid on the issuance of Class A Shares, Series IV or Class L Shares, Series I.

#### INCOME RECOGNITION

Interest and other income are recorded on an accrual basis.

#### DEFERRED INCOME ON VENTURE INVESTMENTS

Fees received by the Fund on the initiation of venture investments are deferred and amortized over the term of the investment. The amortization of the deferred balance is included in interest and other income.

#### INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER SHARE

Increase (decrease) in net assets from operations per share is disclosed in the Statements of Operations and is determined by dividing the increase or decrease in net assets from operations for the year attributable to each class and series of shares divided by the weighted average number of shares of the class and series of shares outstanding during the year.

#### TRANSACTION COSTS

Transaction costs, if incurred, are expensed in the Statements of Operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

#### COST OF INVESTMENTS

The cost of investments for each security is determined based on average cost.

### 3. SHARE CAPITAL

The following is a description of the authorized and issued share capital:

#### AUTHORIZED

Unlimited number of Class A shares, issuable in series, with voting rights, discretionary dividend entitlement, restrictions on transfer and redemption, redeemable at the net asset value less applicable early redemption fee. As approved by the shareholders on December 21, 2001, three series of Class A shares have been designated, the Series I shares, the Series II shares and the Series III shares (collectively the "Class A shares"). Each of the three series of Class A shares

had a different sales commission, redemption fee and service fee structure. The rights of the Class A shares are the same in all material respects for each series. The offering of Class A, Series II shares and Class A, Series III shares commenced on January 4, 2002.

Pursuant to the Plan of Arrangement, the Class A Series I shareholders had the right to convert their Class A shares into Class A Shares, Series IV or Class L Shares, Series I. On the second anniversary following the Effective Date, the Class A Shares were given the right to convert to Class L Shares, Series I.

The Class A Shares, Series IV have in all material respects the same rights as the other Class A shares.

25,000 Class B shares, issuable only to the Sponsor or permissible employee organizations, with voting rights, no dividend entitlement.

Unlimited number of Class C shares, issuable in series, without voting rights, with discretionary dividend entitlement and with such other terms as the Board of Directors may determine in respect of a particular series. The issuance of Class C shares is subject to prior approval of the Ministry of Finance (Ontario).

Unlimited number of Class L Shares, Series I issuable in series, with voting rights, discretionary dividend entitlement with redemption and other rights at the discretion of the Board of Directors.

Unlimited number of Class P shares, issuable in series, to the Manager and the Management Advisor, without voting rights, dividend entitlement determined in accordance with the Management Agreement and the Management Advisor Agreement incentive participation amount (see Note 4) with the rights, privileges, restrictions and conditions as determined and approved by the Board of Directors of the Fund and the Ministry of Finance (Ontario). As a result of the dividend entitlement provisions, the Class P shares are classified as a financial liability for financial reporting purposes, with the related incentive participation amount recorded as an expense in the relevant period.

	Sept. 30, 2013	Sept. 30, 2012
<b>Issued</b>		
<b>Class A shares, series I</b>		
Balance - Beginning of year	715,881	992,625
Issued during the year	-	-
Redeemed during the year	(178,201)	(276,744)
<b>Balance - End of year</b>	<b>537,680</b>	<b>715,881</b>
<b>Class A shares, series II</b>		
Balance - Beginning of year	496,640	696,435
Issued during the year	-	-
Redeemed during the year	(145,746)	(199,795)
<b>Balance - End of year</b>	<b>350,894</b>	<b>496,640</b>
<b>Class A shares, series III</b>		
Balance - Beginning of year	59,064	62,913
Issued during the year	-	-
Redeemed during the year	(8,781)	(3,849)
<b>Balance - End of year</b>	<b>50,283</b>	<b>59,064</b>
<b>Class A shares, series IV</b>		
Balance - Beginning of year	330,305	364,841
Conversion adjustments (note 1)	-	-
Redeemed during the year	(17,644)	(34,536)
<b>Balance - End of year</b>	<b>312,661</b>	<b>330,305</b>
<b>Class B shares</b>		
Balance - Beginning of year	1	1
Issued during the year	-	-
Redeemed during the year	-	-
<b>Balance - End of year</b>	<b>1</b>	<b>1</b>
<b>Class L Shares, Series I</b>		
Balance - Beginning of year	2,100,911	2,100,911
Conversion adjustments (note 1)	-	-
Redeemed during the year	-	-
<b>Balance - End of year</b>	<b>2,100,911</b>	<b>2,100,911</b>
<b>Class P shares</b>		
Balance - Beginning of year	2	2
Issued during the year	-	-
Redeemed during the year	-	-
<b>Balance - End of year</b>	<b>2</b>	<b>2</b>

The Fund is a mutual fund corporation which derives its capital from subscriptions from investors in Class A Shares of the Fund. The Class A Shares are redeemable and are entitled to distributions, if any, and to payment of a proportionate share based on the Class A net asset value per share upon redemption. As part of the Plan of Arrangement, the Class A Shareholders were subject to a three year moratorium on redemptions from the Effective Date.

The Fund's capital also consists of Class L Shares, Series I which are generally not redeemable but which are tradable on the Canadian National Stock Exchange under the symbol "VC". The Class L Shares, Series I are entitled to distributions, if any, at the discretion of the Board of Directors.

The Fund makes investments in eligible Canadian businesses as defined in the CSBIF Act with the objective of achieving maximum long-term capital appreciation. The Manager's objective is to invest the Fund's capital in order to provide a return to shareholders in accordance with the objective and strategy of the Fund. The Fund is not subject to any externally imposed capital requirements.

#### 4. OPERATING ARRANGEMENTS

The Fund pays an annual management fee to the Manager of 1.50% per annum of the net asset value of the Fund and subject to meeting certain conditions, an Incentive Participation Amount ("IPA"). The Fund also pays the Management Advisor an annual advisor fee of 1.75% of the net asset value of the Fund and, subject to certain conditions, an IPA. The Manager and the Management Advisor will not be entitled to receive the IPA unless: (1) the compound annual internal rate of return, including realized and unrealized gains and income, from an eligible investment since its acquisition equals or exceeds 12.00% per year; (2) the total net realized and unrealized gains and income from the portfolio of eligible investments since January 1, 1997 exceeds the annualized average rate of return on five-year GICs offered by a Schedule 1 Canadian chartered bank plus 2.00%;

and (3) the Fund has recouped an amount equal to all principal invested in the particular eligible investment.

Upon satisfying the above conditions, the IPA will be determined on the following basis:

The proceeds from the disposition of each particular eligible investment in each calendar quarter of the Fund after deducting the cost of such investment shall be allocated and paid as follows:

- a) The Fund shall receive an amount equal to all gains and income earned from each particular eligible investment which provides a cumulative investment return at an annual average rate equal to 12.00% since investment.
- b) The Management Advisor shall receive all gains and income earned from each particular eligible investment in excess of the 12.00% annual average rate of return up to and including 15.00% of the annual average rate of return earned from the particular eligible investment.
- c) All gains and income earned on each particular investment after deducting the amounts calculated in accordance with (a) and (b) above shall be allocated as 80.00% to the Fund; 16.00% to the Management Advisor; and 4.00% to the Manager.

The IPA is paid as a dividend on the Class P shares held by the Manager and the Management Advisor. For the year ended September 30, 2013 the Fund reported a net IPA of \$303,881 (2012: \$754,431). The net IPA is a result of the paid and payable IPA of \$437,877 (2012: \$1,168,869) and the change in the contingent incentive participation amount on unrealized gains and income on the investment portfolio during the period of \$133,996 (2012: \$414,438). As at September 30, 2013 an IPA in the amount of \$343,751 (year ended September 30, 2012: \$207,750) was payable based on the realized gains and income earned by the Fund. As at September 30, 2013, the Fund had a contingent incentive participation amount of \$484,315 (September 30, 2012: \$618,311) that would have become payable at a future date on the realized income and gains and unrealized appreciation in the investment portfolio, based on the assumption

that all the investments are liquidated at the estimated fair value as at the date of the financial statements.

The Fund has retained Convexus Managed Services Inc. (“Convexus”) to provide fund accounting, shareholder recordkeeping and administration services, including registrar and transfer agent services. The Fund pays Convexus a fund accounting fee at a fixed amount and shareholder recordkeeping and administration fees at a fixed amount per account. The fees paid to Convexus for these services are included in Transfer agent, registrar and administrative costs.

The Fund and the Manager have retained TMX Equity Transfer Services to provide registrar and transfer agent services to the Fund for the Class L Shares, Series I. The fees paid to TMX Equity Transfer Services are included in Transfer agent, registrar and administrative costs.

The Fund and the Manager have retained the Management Advisor to provide sales and marketing services to the Fund pursuant to the terms of a sales and marketing services agreement dated July 10, 2003 effective August 1, 2003. The Fund pays the Management Advisor an annual sales and marketing fee (calculated daily and paid monthly in arrears) as follows: (i) the aggregate of 0.425% on the first \$50 million of the net asset value of the Fund, 0.40% on the next \$50 million, 0.375% on the next \$50 million and 0.35% on any amount of the net asset value of the Fund above \$150 million, (ii) less \$96,000. The fees paid to the Management Advisor for sales and marketing services are included in Selling costs.

The Fund and the Manager have also retained the Management Advisor to provide accounting and administrative services to the Fund and to supervise the services to be provided by the registrar pursuant to the terms of an accounting and administrative services agreement dated as of September 1, 2003. The Fund pays the Management Advisor an annual accounting and administrative fee (payable monthly in arrears) equal to \$96,000. The fees paid to the Management Advisor for accounting and administrative services are included in Transfer agent, registrar and administrative costs.

The Fund and the Manager have retained CIBC Mellon Global Security Services Company to provide custody services to the Fund. The fees paid to CIBC Mellon Global Security Services Company are included in Transfer agent registrar and administrative costs.

The Fund pays all direct costs and expenses incurred in the operation of the Fund, including directors’ fees, custodian fees, insurance, legal, audit, valuation and marketing expenses.

The Sponsor receives an annual fee of 0.15% of the net asset value of the Fund.

## 5. INCOME TAXES

Under the Income Tax Act (Canada), generally no income taxes are payable by the Fund on dividends received from Canadian corporations, and income taxes payable on capital gains are fully refundable on a formula basis when shares of the Fund are redeemed or capital gains dividends are paid or deemed to be paid by the Fund to its shareholders.

The Fund intends to recover all of its refundable income taxes annually through the deemed payment of a dividend by capitalizing the appropriate amount of its income as paid-up capital pro rata on its Class A shares and Class L Shares.

If and to the extent that the Fund increases the paid-up capital of the Class A shares, the holders of the shares will be deemed to have received a dividend and the adjusted cost base of that holder’s shares will be increased by the amount of the deemed dividend.

The CSBIF Act sets minimum levels of venture investments for the Fund. If the minimum level of qualifying venture investments is not met, the Fund will be subject to defined income taxes and penalties.

As at September 30, 2013, the Fund had non-capital losses available for carry-forward of \$15,138,664 of which approximately \$1,527,864, \$2,987,144,

\$5,433,730, \$2,498,231, \$1,930,351, \$619,587 and \$141,757 will expire in 2015, 2026, 2027, 2028, 2029, 2030 and 2033 respectively.

The Fund has not recognized the future tax impact of deferred income on venture investments, cumulative eligible capital, share issue costs and non-capital losses because of the uncertainty that these amounts will be deductible from future taxable income of the Fund. If the Fund had recognized the future tax impact of these items, the Fund would have reported a deferred income tax asset in the amount of \$6,179,756 (2012: \$6,202,958).

The Fund also had net capital losses available for carry-forward of \$567,128 as at September 30, 2013 (September 30, 2012: \$NIL) for which no expiry time exists.

## 6. FINANCIAL INSTRUMENTS

The Fund's objective is to achieve long-term capital appreciation. The Fund primarily maintains an investment focus on niche businesses and other companies with a broader market focus, which are capitalizing on innovative uses of engineering, science and technology.

The Fund's financial instruments consist primarily of marketable securities and venture investments. Venture investments in private companies consist of convertible debt, equity, or equity equivalents. These investments in private companies are typically illiquid. The Fund seeks to reduce the risks typically associated with such investments by diversifying the investment portfolio, by investing in eligible companies that are in differing stages of development in a variety of high growth potential industries, by using a disciplined investment decision process and by working with investee companies through, among other things, providing business advice and other services, aiding in the recruitment process, and helping in the process of raising additional capital.

## FINANCIAL INSTRUMENTS

ASSETS	SEPT. 30, 2013	SEPT. 30, 2012
Investments held for trading	\$33,495,771	\$35,858,854
Cash	\$261,248	\$1,484,387
Receivable on sale of investment held for trading	\$568,454	\$2,380,814
Accrued interest and other receivables at amortized cost	\$177,539	\$178,938
Total Financial Assets	\$34,503,012	\$39,902,993
LIABILITIES		
Financial liabilities held for trading	\$NIL	\$NIL
Financial liabilities at amortized cost	\$1,138,221	\$1,291,926
Total Financial Liabilities	\$1,138,221	\$1,291,926

Accrued interest and other receivables are designated as loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities, redemptions payable, contingent incentive participation amount and Class P Shares are designated as other financial liabilities recorded at cost which approximates fair value.

The Fund's activities expose it to a variety of financial risks: market risk (comprising currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional experience, daily monitoring of the Fund's positions and market events, by diversifying the investment portfolio within the constraints of the investment objectives and by structuring investments to provide the Fund with the maximum protection in the event of problems with the issuer of the security. The investment portfolio is primarily comprised of small and medium-sized private Canadian companies, many of which are at an early stage of development. Investments of this type, by their nature, involve a longer investment time horizon than that which is typical for

other types of investments. There is no assurance that the portfolio companies will be successful in developing and bringing their products to market in commercially viable quantities at reasonable costs and consequently, there is no assurance that the Fund's holdings in these portfolio companies will achieve desired returns.

Sensitivity analyses are provided for information purposes only. In practice, the actual results may differ from the sensitivity analysis and the differences may be material.

#### MARKET RISK

Market risk is the risk that the fair value of the financial instrument will fluctuate due to changes in market factors. Market risk includes currency risk, interest rate risk and other price risk. The Fund is exposed to these risks directly through its financial instruments.

#### CURRENCY RISK

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional currency. The Fund is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in the exchange rates. As at September 30, 2013 and September 30, 2012 all of the Fund's securities were denominated in Canadian dollars.

#### INTEREST RATE RISK

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and debentures. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets and liabilities, categorized by the earlier of contractual re-pricing or maturity dates.

#### September 30, 2013

	Less than 1 year	1 to 5 years	Non- interest bearing	Total
Investments	\$11,720,449	\$4,390,518	\$17,384,804	\$33,495,771
Cash			\$261,248	\$261,248
Other assets		\$539,658	\$206,335	\$745,993
Liabilities			\$1,138,221	\$1,138,221

#### September 30, 2012

	Less than 1 year	1 to 5 years	Non- interest bearing	Total
Investments	\$9,498,851	\$8,826,263	\$17,533,740	\$35,858,854
Cash			\$1,484,387	\$1,484,387
Other assets		\$539,659	\$2,020,093	\$2,559,752
Liabilities			\$1,291,926	\$1,291,926

As at September 30, 2013 had prevailing interest rates raised or lowered by 1.00%, with all other variables held constant, net assets would have decreased or increased, respectively, by \$161,110 or 0.49% of the total net assets (2012: \$188,648 or 0.49%).

The interest bearing securities with a maturity of less than one year are comprised of short-term commercial paper investments of \$3,996,520 (September 30, 2012: \$5,994,840) and venture investment in debt securities of \$7,723,929 (September 30, 2012: \$3,504,011) which mature in less than one year.

#### OTHER PRICE RISK

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital.

The Manager moderates this risk through careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value. The Fund's equity and debt instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

The Statement of Investment Portfolio groups securities by asset type and market segment.

As at September 30, 2013, if equity prices on the Toronto Stock Exchange had increased or decreased by 5%, all other variables held constant, the net assets of the Fund attributed to public portfolio companies would have increased or decreased, respectively, by approximately \$3,286 or approximately 0.01% of total net assets (September 30, 2012: \$6,462 or 0.02% of total net assets).

The Fund's venture investments (unlisted) are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Manager and the Management Advisor provides the Fund with investment advice and its portfolio companies with business advice to limit and manage market risk.

As at September 30, 2013, if the value of the Fund's equity venture investments had increased or decreased by 5%, all other variables held constant, the net assets of the Fund attributed to venture investments would have increased or decreased respectively by approximately \$865,954 or approximately 2.62% of the total net assets (September 30, 2012: \$870,225 or approximately 2.28% of the total net assets).

#### **CREDIT RISK**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of the debt investments as presented in the Statement of Investments Portfolio represents the maximum credit risk exposure as at September 30, 2013. This also applies to other assets, as they have a short term to settlement.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trades will fail if the other party fails to meet its obligations. All transactions in private issuers are settled/paid for upon delivery using a third party agent such as a law firm as an intermediary. The risk of default is considered minimal as delivery of the securities sold is only made once the agent or legal counsel acting as the intermediary has received payment.

The Fund's financial assets exposed to credit risk were concentrated as follows:

### September 30, 2013

ASSET	SECURITY	COUNTERPARTY	AMOUNT
Cash		CIBC Mellon	\$261,248
Financial	Commercial Paper rated R1	HSBC Bank Canada	\$3,996,520
Technology	Debt Securities Secured by General Security Agreement	AcuityAds Inc., ArticAX Inc., Axentra Corporation, Echoworx Corporation, Intelligent Mechatronic Systems Inc., Skura Inc., TransGaming Inc.	\$6,431,447
Financial and Industrial	Debt Securities Secured by General Security Agreement	Questrade Inc., Compower Systems Inc., Couch Commerce Inc.	\$5,683,000
Total cash, short-term investments and debt securities			\$16,372,215

### September 30, 2012

ASSET	SECURITY	COUNTERPARTY	AMOUNT
Cash		CIBC Mellon	\$1,484,387
Financial	Commercial Paper rated R1	Royal Bank of Canada	\$5,994,840
Technology	Debt Securities Secured by General Security Agreement	ArcticAX Inc., Axentra Corporation, Delego Software Inc., Echoworx Corporation, Geminare Inc., FileTrek Inc., Health Care Services International Inc., Infonaut Inc., Kneebone Corporation and TransGaming Inc.	\$6,548,958
Financial and Industrial	Debt Securities Secured by General Security Agreement	Questrade Inc., Compower Systems Inc., ERMS Corporation	\$5,781,316
Total cash, short-term investments and debt securities			\$19,809,501

Credit risk arising on debt instruments is partially mitigated by investing primarily in rated instruments of R1 for commercial paper instruments or by investing in debt securities which are secured by a general security agreement on the assets of the issuing portfolio company. Investments in the debt securities in the venture portfolio are non-investment grade and therefore subject to higher credit risk.

Other than outlined above, there were no significant concentrations of credit risk to counterparties as at September 30, 2013 and 2012.

The business of the Fund is to make investments in small and medium-sized eligible businesses in order to generate interest and dividend income and long-term capital appreciation. In order to achieve this objective the Fund invests in two broad industry sectors: i) industrial and financial and ii) technology related businesses. The Fund's Investment Advisor and Manager seek out eligible investments which will meet the investment objectives of the Fund while maintaining risk at acceptable levels. The Fund attempts to limit the risk to any one venture investment by limiting the amount invested in any one company. As at September 30, 2013, 61.46% of the Fund's venture investments were concentrated in the Technology Sector and spread between thirteen venture companies (September 30, 2012: 62.80% Technology Sector, fourteen venture companies).

**LIQUIDITY RISK**

The Fund is exposed to daily cash redemptions on redeemable shares. The Fund invests a portion of its assets in investments that are traded in an active market and can be readily disposed of and the Fund retains sufficient cash and cash equivalent positions to maintain liquidity. In any financial year, the Fund is not required to redeem Class A shares having an aggregate redemption price exceeding 20% of the net asset value of the Class A shares of the Fund calculated on the last day of the preceding financial year end and may suspend redemptions for substantial periods of time in such circumstances. Shareholders that redeem their Class A shares before the eighth anniversary of their original purchase are usually required to repay the tax credit they received upon the purchase of the shares. Rules directed

at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply to the Fund.

All the financial liabilities of the Fund as at September 30, 2013 and 2012 fall due within twelve months with the exception of the contingent incentive participation amount. The maturity of the contingent incentive participation amount is uncertain and is dependent on the realization of venture investments.

**FAIR VALUE MEASUREMENT**

The Fund classifies its investments within a fair value hierarchy, based on the inputs used in their fair value measurement. The hierarchy of inputs is summarized as follows:

- Level 1: Unadjusted quoted prices at the measurement date in active markets for identical assets.
- Level 2: Directly or indirectly observable inputs other than quoted prices as in Level 1 such as quoted prices for identical or similar assets in markets that are not active.
- Level 3: Inputs for the assets that are not based on observable market data.

The following tables indicate the fair value hierarchy of the inputs used in valuing the Funds investments.

**September 30, 2013**

	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed Term	-	\$3,996,520	\$12,114,447	\$16,110,967
Equities	\$65,718	-	\$17,319,086	\$17,384,804
<b>Total</b>	<b>\$65,718</b>	<b>\$3,996,520</b>	<b>\$29,433,533</b>	<b>\$33,495,771</b>

**September 30, 2012**

	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed Term	-	\$5,994,840	\$12,330,274	\$18,325,114
Equities	\$129,240	-	\$17,404,500	\$17,533,740
Total	\$129,240	\$5,994,840	\$29,734,774	\$35,858,854

The carrying value of all other financial instruments of the Fund, which may include receivables on the sale of investments, accrued interest and other receivables, accounts payable and accrued liabilities approximates their fair value. During the years ended September 30, 2013 and 2012 there were no investments transferred between Level 1, Level 2, or Level 3.

Level 3	Sept. 30, 2013	Sept. 30, 2012
Balance - beginning of year	\$29,734,774	\$34,800,513
Purchases	\$8,993,042	\$15,817,473
Sales	(\$7,926,653)	(\$15,519,108)
Net Transfers in (out)	-	-
Realized Gains (Losses)	(\$1,320,794)	\$54,518
Unrealized Gains (Losses)	(\$46,836)	(\$5,418,622)
Balance – end of period	\$29,433,533	\$29,734,774
Unrealized Gains (Losses) during the year attributed to investments held at end of year	(\$1,343,407)	(\$5,418,622)

The equity investments are valued with reference to the last round of equity financing, comparable public companies, transactions involving similar companies and reference to third party valuations among other

things. If the equity investment includes a put right the investment may be valued by applying a discount for the expected time to exercise the Fund's put right to realize on this investment.

The fixed term securities are valued at fair value. Adjustments to fair value are made in cases where the operating results and financial condition of the investee company suggest that the Fund may not be able to realize the full amount of the investment. The Fund reviews the investee company's compliance with financial covenants, ability to make interest and principal payments, changes in the market interest rates for similar investments, operating performance relative to budget and the need for further financing among other factors in determining the fair value of the investment.

**7. RECEIVABLE ON SALE OF INVESTMENTS**

Included in the receivable on sale of investments is a portion of the proceeds from the sale of a venture investment which is being held in escrow in accordance with an escrow agreement between the purchaser and the investors of the venture company. The escrow was established to protect the purchaser of the venture company against unforeseen claims at the time of the purchase. The proceeds held in escrow will be received over a period of time and in amounts which are to be determined based on the escrow agreement release provisions and any legitimate claims against these funds. Management has recorded a receivable of \$539,658 for the escrow amount based its best estimate of its carrying value on September 30, 2013 (2012: \$539,658). This estimate is based on inherent uncertainties and the resulting values may differ from the amounts ultimately realized.

**8. BROKERAGE COMMISSIONS**

Brokerage commissions paid on securities transactions during the year ended September 30, 2013 are \$1,842 (2012 - \$NIL). The Fund has not paid soft dollar commissions indirectly to third parties through a broker or dealer other than for trade execution costs.

## 9. RELATED PARTIES

B.E.S.T. Investment Counsel Limited is the Manager and Management Advisor for the Fund. Included in the accrued liabilities as at September 30, 2013 are accrued Management Fees of \$49,695 (2012: \$53,431) and accrued Advisory Fees of \$65,354 (2012: \$62,336).

The Fund has retained the Management Advisor to provide sales and marketing services. During the year ended September 30, 2013, the Fund incurred sales and marketing expenses of \$58,843 (2012: \$108,577) for services provided by the Advisor. As at September 30, 2013 \$4,184 (2012: \$6,100) was included in accrued liabilities for sales and marketing services.

The Fund pays the Management Advisor an annual accounting and administrative fee of \$96,000 plus taxes. During the year ended September 30, 2013, the Fund incurred accounting and administrative fees inclusive of taxes equal to \$108,480 (2012: \$108,480). As at September 30, 2013 \$9,040 (2012: \$9,040) was included in accrued liabilities for accounting and administration fees.

During the year ended September 30, 2013, the Fund paid B.E.S.T. Capital Administration Inc. \$33,900 (2012: \$33,900) for storage and facilities costs. B.E.S.T. Capital Administration Inc. is wholly owned by the Chief Executive Officer of the Fund. As at September 30, 2013 \$2,825 (2012: \$2,825) was included in accrued liabilities for storage and facilities costs.

All related party transactions are in the normal course of operations and have been recorded at the exchange amount on the date that they occur.

## 10. INTERNATIONAL FINANCIAL REPORTING STANDARDS

At its December 12, 2011 meeting the Canadian Accounting Standards Board (AcSB) decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises to January 1, 2014. Since the Fund is an investment company it will defer the

preparation of the first set of financial statements prepared in accordance with IFRS to the year ending September 30, 2015, with corresponding comparative financial information for fiscal 2014, including an opening statement of net assets as at October 1, 2013.

The Manager is currently reviewing differences between the current accounting policies of the Fund and IFRS. The Manager does not expect there to be any impact on Net Asset Value for trade pricing purposes as a result of the transition to IFRS. One difference between current Canadian GAAP and IFRS is IAS 32, "Financial Instruments: Presentation". Under this standard, shareholders' equity may be classified as a liability unless certain conditions are met. The Manager is currently assessing the Fund's share structure to determine proper accounting and related disclosure requirements. The Manager is also reviewing other disclosure requirements under IFRS and expects the implementation of IFRS to result in additional disclosures in the notes to the financial statements and potentially different presentation of certain financial statement items. Finally, the Manager is assessing which operations of the Fund will be affected by the adoption of IFRS including current reporting and back office systems.

The progress of Management's changeover plan will be reported in subsequent interim and annual financial statements until the adoption of IFRS is complete.

## 11. SUBSEQUENT EVENTS

The Fund may limit the aggregate redemptions of Class A Shares in any financial year to 20% of the aggregate Net Asset Value of the Class A Shares of the Fund as of the last day of the preceding financial year. On June 24, 2013, the Fund was closed to redemptions. Redemption requests received by the Fund from June 24, 2013 to October 4, 2013 were processed with a trade date of October 4, 2013. As at September 30, 2013, redemption requests in the amount of \$284,834 were waiting to be processed on the October 4, 2013 trade date.



# B.E.S.T. DISCOVERIES FUND INC.

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