

Financial Statements of

DISCOVERY ENTERPRISES INC.

Years ended March 31, 2002 and 2001

MANAGEMENT'S REPORTING RESPONSIBILITY

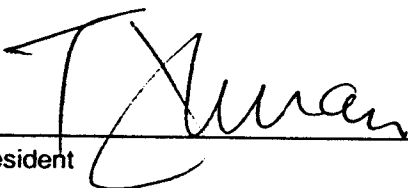
The accompanying financial statements of Discovery Enterprises Inc. ("Discovery Enterprises") for the year ended March 31, 2002 are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on management's best estimates and judgments.

Management of Discovery Enterprises, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies that govern ethical business conduct.

The audit committee, all members of which are outside directors, reviews the annual financial statements and recommends their approval to the Board of Directors of Discovery Enterprises. The shareholder's auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholder's auditors, KPMG LLP, Chartered Accountants, and their report is presented herein.



President



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AUDITORS' REPORT TO THE SHAREHOLDER AND TO THE BC INVESTMENT MANAGEMENT CORPORATION

We have audited the balance sheet of Discovery Enterprises Inc. as at March 31, 2002 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Vancouver, Canada

April 19, 2002



DISCOVERY ENTERPRISES INC.

Balance Sheets

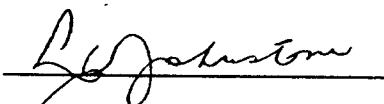
March 31, 2002 and 2001

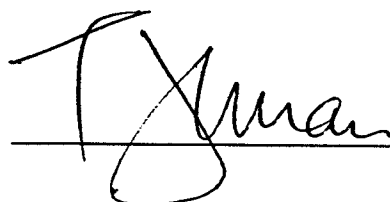
| | 2002 | 2001 |
|---|---------------------|---------------------|
| Assets | | |
| Cash | \$ 207,764 | \$ 333,711 |
| Short-term investments | 2,713,507 | 3,910,172 |
| Restricted cash | - | 31,243 |
| Accounts receivable | 50,329 | 22,504 |
| Investment in subsidiaries (note 3) | 1,000 | 1,010 |
| Venture investments (note 4) | 2,139,392 | 2,139,392 |
| | \$ 5,111,992 | \$ 6,438,032 |
| Liabilities and Shareholder's Equity | | |
| Accounts payable and accrued liabilities (note 8) | \$ 422,533 | \$ 76,340 |
| Due to shareholder | 350,000 | 350,000 |
| Deferred revenue | - | 31,243 |
| | 772,533 | 457,583 |
| Shareholder's equity: | | |
| Share capital: | | |
| Authorized: 5,000,000 common shares with no par value | | |
| Issued for cash: 100 common shares | | |
| Contributed surplus (note 5) | 100 | 100 |
| Deficit | 23,268,192 | 23,268,192 |
| Allowance for doubtful venture investments (note 4) | (10,561,177) | (2,488,943) |
| | (8,367,656) | (14,798,900) |
| | 4,339,459 | 5,980,449 |
| | \$ 5,111,992 | \$ 6,438,032 |

Commitment and contingencies (note 9)

See accompanying notes to financial statements.

Approved on behalf of the Board:

 Director

 Director

DISCOVERY ENTERPRISES INC.

Statements of Operations and Deficit

Years ended March 31, 2002 and 2001

| | 2002 | 2001 |
|--|----------------------|---------------------|
| Revenue: | | |
| Interest on short-term investments | \$ 158,095 | \$ 373,500 |
| Gain on disposition of venture investments | 124,103 | 251,550 |
| Other | 20,777 | 2,985 |
| | <u>302,975</u> | <u>628,035</u> |
| Operating expenses: | | |
| Directors' fees and expenses | 16,250 | 15,519 |
| Insurance | 2,599 | 2,363 |
| Management fees (note 8) | 100,000 | 100,000 |
| Office expenses, including rent (note 8) | 53,232 | 53,639 |
| Professional fees: | | |
| Legal | 741,325 | 140,233 |
| Other (note 8) | 966,895 | 160,188 |
| Salaries and benefits | 47,939 | 46,360 |
| Other | 9,805 | - |
| | <u>1,938,045</u> | <u>518,302</u> |
| Total expenses (note 10) | | |
| Excess (deficiency) of revenue over operating expenses | (1,635,070) | 109,733 |
| Venture investments written off | (6,437,164) | - |
| | <u>(8,072,234)</u> | <u>109,733</u> |
| Net earnings (loss) | | |
| Deficit, beginning of year | 2,488,943 | 2,598,676 |
| Deficit, end of year | <u>\$ 10,561,177</u> | <u>\$ 2,488,943</u> |

See accompanying notes to financial statements.

DISCOVERY ENTERPRISES INC.

Statements of Cash Flows

Years ended March 31, 2002 and 2001

| | 2002 | 2001 |
|--|----------------|-------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Net earnings (loss) | \$ (8,072,234) | \$ 109,733 |
| Items not involving cash: | | |
| Gain on disposition of venture investments | (124,103) | (251,550) |
| Venture investments written off | 6,437,164 | - |
| | (1,759,173) | (141,817) |
| Changes in non-cash operating working capital: | | |
| Accounts receivable | (27,825) | (1,340) |
| Accounts payable and accrued liabilities | 346,193 | (1,555) |
| | (1,440,805) | (144,712) |
| Investments: | | |
| Short-term investments | 1,196,665 | (2,857,911) |
| Proceeds on disposition of venture investments | 124,103 | 251,550 |
| Venture investment advances | (5,910) | (5,867) |
| | 1,314,858 | (2,612,228) |
| Financing: | | |
| Distribution of cash and short-term investments to British Columbia Investment Management Corporation | - | (3,500,000) |
| Decrease in cash | (125,947) | (6,256,940) |
| Cash, beginning of year | 333,711 | 6,590,651 |
| Cash, end of year | \$ 207,764 | \$ 333,711 |

See accompanying notes to financial statements.

DISCOVERY ENTERPRISES INC.

Notes to Financial Statements

Years ended March 31, 2002 and 2001

1. Nature of operations:

(a) Organization and objective:

Discovery Enterprises Inc. ("Discovery Enterprises") was incorporated under the Company Act (British Columbia) as a wholly owned subsidiary of Discovery Foundation. Discovery Enterprises commenced operations on April 1, 1986 as a separate legal entity to administer the investment portfolio initiated under the Discovery Enterprise Program, which was dissolved on March 31, 1986. Under agreement with the Province of British Columbia (the "Province"), that investment portfolio was contributed by the Province to Discovery Foundation, which in turn then transferred it to Discovery Enterprises. On April 1, 1994, the shares of Discovery Enterprises were sold by Discovery Foundation to the Province.

Discovery Enterprises was formed to apply capital and unique human resources to help build innovative enterprises, primarily in their early stages, for the economic benefit of its investors, investees and the Province.

Discovery Enterprises is confining its activities to management of existing venture investments so as to maximize the investment return as it seeks to liquidate its venture investment portfolio.

(b) Investments:

Discovery Enterprises' venture investments portfolio is comprised of minority equity or debt participation in technology companies. These investments typically range from \$50,000 to \$7 million and consist of common and convertible preferred shares and also debt participation.

2. Significant accounting policies:

(a) Short-term investments:

Short-term investments are carried at cost, which approximates market value.

(b) Valuation of venture investments:

Venture investments are evaluated on an individual basis to determine the lower of cost and estimated net realizable value. Cost includes current and capitalized interest outstanding plus dividends and royalties receivable. The determination of an investment's estimated net realizable value is dependent upon management's assessment of whether a write-off or allowance is required. For publicly traded equity investments, this determination includes consideration of the quoted market price at the balance sheet date, less a discount for illiquidity where considered appropriate.

DISCOVERY ENTERPRISES INC.

Notes to Financial Statements

Years ended March 31, 2002 and 2001

2. Significant accounting policies (continued):

(b) Valuation of venture investments (continued):

Based on management's judgment of the financial condition of each investee, a specific allowance for doubtful venture investments is established, which recognizes the high risks of venture investments in advanced technology projects. In addition, a general allowance for doubtful venture investments, being an allowance of a prudential nature that cannot be determined on an investment by investment basis, has been made. These allowances, which are deducted in determining the carrying value of venture investments, and deducted in the shareholder's equity section of the balance sheet, are not reflected in the statement of operations until the investment is ultimately disposed of or written off. Had the policy been to charge operations in the year the allowance was established, the current year's write-off would have been reflected in the prior years' statements of operations, principally in the 1993 and 1998 fiscal years. Venture investments are written off when determined by management to be either uncollectible or without value.

(c) Revenue recognition:

Dividends, royalties, debt investment interest, and interest on short-term investments are recorded on an accrual basis. Accrued but uncollected interest is reversed whenever debt investments are determined to be impaired. Discovery Enterprises classifies a debt investment as impaired when, in the opinion of management, there is significant doubt as to collectibility, either in whole or in part, of principal or interest. Debt investments where interest is contractually past due 180 days are automatically classified as impaired, unless management determines that there is no reasonable doubt as to the ultimate collectibility of principal and interest. For debt investments classified as impaired, interest income is recorded on a cash basis until the debt investment is returned to the accrual basis.

Cumulative dividends on preferred share equity investments are recorded when declared by the investee.

Gains and losses on venture investments are recorded in the statement of operations only on actual dispositions or write-offs.

(d) Contributed surplus:

Discovery Enterprises records contributed surplus for contributions in excess of amounts allocated to capital stock. Distributions of assets to the contributors are recorded as a reduction to contributed surplus to the extent available.

(e) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the valuation of venture investments. Financial results as determined by actual events could differ from those estimates.

DISCOVERY ENTERPRISES INC.

Notes to Financial Statements

Years ended March 31, 2002 and 2001

3. Investment in subsidiaries:

| | 2002 | 2001 |
|--|----------|----------|
| British Columbia Business Fund Ltd. | \$ 1,000 | \$ 1,000 |
| Williams Lake Fibreboard Company Limited | - | 10 |
| | \$ 1,000 | \$ 1,010 |

British Columbia Business Fund Ltd., a wholly-owned inactive subsidiary, is recorded at cost. Consolidation would not materially affect these financial statements.

4. Venture investments:

Venture investments include:

| | 2002 | 2001 |
|--|--------------|--------------|
| Debt | \$ 54,352 | \$ 3,754,125 |
| Equity: | | |
| Publicly traded | 80,376 | 80,376 |
| Privately held | 10,372,320 | 10,372,543 |
| Williams Lake Fibreboard project / CFL | - | 459,248 |
| Williams Lake Fibreboard Group joint venture | - | 2,272,000 |
| | 10,507,048 | 16,938,292 |
| Allowances for doubtful investments: | | |
| Specific | (6,367,656) | (12,798,900) |
| General | (2,000,000) | (2,000,000) |
| | (8,367,656) | (14,798,900) |
| | \$ 2,139,392 | \$ 2,139,392 |

(a) Venture investments in debt:

At March 31, 2002 all debt instruments are considered to be impaired. Consequently, all debt and interest receivable has been fully provided for.

(b) Venture investments in publicly-traded equity:

Equity investments in public companies include free-trading shares and shares that are held in escrow, or that are non-tradable subject to certain criteria and are therefore considered to be non-trading.

The estimated net realizable value of these shares at March 31, 2002 is nil (2001 - \$1). If these shares were valued at their quoted market value on March 31, 2002, with no allowance to write-down the cost to estimated net realizable value, their value would be \$6,399 (2001 - \$6,667).

DISCOVERY ENTERPRISES INC.

Notes to Financial Statements

Years ended March 31, 2002 and 2001

5. Contributed surplus:

| | |
|---|---------------|
| Transfer of investment portfolio from Discovery Foundation on April 1, 1986 | \$ 6,200,751 |
| Province of British Columbia loan and Discovery Foundation note payable forgiven on April 1, 1994 sale of Discovery Enterprises to the Province by Discovery Foundation | 34,955,152 |
| Recovery of accrued interest from the Province during 1996 | 277,801 |
| Contributed surplus, March 31, 1996 | 41,433,704 |
| Distribution of cash and short-term investments to the Province during 1997 | (10,100,000) |
| Distribution of venture investments to the Province during 1997 | (4,565,512) |
| Contributed surplus, March 31, 1997, 1998, 1999 and 2000 | 26,768,192 |
| Distribution of cash and short-term investments to the Province during 2001 | (3,500,000) |
| Contributed surplus, March 31, 2001 and 2002 | \$ 23,268,192 |

6. Financial instruments:

Discovery Enterprises, where appropriate, undertakes to provide fair value information in respect of its financial instruments. Actual values realized when an investment is ultimately disposed of may vary from the estimates disclosed, and the variation may be material. Discovery Enterprises' investments are subject to market and liquidity risks that are managed by monitoring the investments on an ongoing basis.

The fair values of cash, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate carrying values due to the relatively short period to maturity of these instruments.

Venture investments, recorded at a carrying value in these financial statements of \$2,139,392 (2001 - \$2,139,392), have an estimated fair value of approximately \$5,338,000 (2001 - \$5,338,000). This fair value has been determined by the Valuation Committee of Discovery Enterprises as the estimated net realizable value of venture investments based upon their orderly disposition.

7. Income taxes:

On April 1, 1994, the shares of Discovery Enterprises were sold to the Province and, as a result, Discovery Enterprises became a non-taxable entity.

DISCOVERY ENTERPRISES INC.

Notes to Financial Statements

Years ended March 31, 2002 and 2001

8. Related party transactions:

During the year, Discovery Enterprises incurred costs of \$271,900 (2001 - \$227,588) with a director and a company controlled by him for professional services and for premises. Of this amount, \$133,500 (2001 - \$89,188) was charged to other professional fees, \$100,000 (2001 - \$100,000) was charged to management fees and \$38,400 (2001 - \$38,400) was charged to office expenses.

At March 31, 2002, accounts payable includes \$30,517 (2001 - \$18,413) due to a company controlled by a director.

9. Commitment and contingencies:

(a) Management agreement:

Effective April 1, 1999, Discovery Enterprises entered into an agreement with First General Securities Inc., a company controlled by a director, to provide management services to Discovery Enterprises in consideration for a monthly fee of \$8,333. The management agreement is renewable quarterly.

(b) Litigation claim:

There is one pending claim made by Discovery Enterprises related to a specific venture investment. While it is not possible to predict the outcome or extent of any liability, management does not believe that this action will materially impact the financial position or operations of Discovery Enterprises. No provision has been made in the accounts for any costs which may result.

10. Expenditures by group account classification:

As required by the Auditor General of British Columbia, expenditures are summarized by group account classification as follows:

| | 2002 | 2001 |
|-----------------------|---------------------|-------------------|
| Salaries and benefits | \$ 47,939 | \$ 46,360 |
| Operating costs | 1,890,106 | 471,942 |
| | <u>\$ 1,938,045</u> | <u>\$ 518,302</u> |