MANAGEMENT'S REPORTING RESPONSIBILITY

The accompanying financial statements of Discovery Enterprises Inc. ("Discovery Enterprises") for the year ended March 31, 2000 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, a majority of whom 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

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, 2000 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, 2000 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.

DISCOVERY ENTERPRISES INC.

Balance Sheet

March 31, 2000, with comparative figures for 1999

		2000		1999
Assets				
Cash	$	6,590,651	$	390,228
Short-term investments		1,052,261		1,481,207
Restricted cash (note 9(b))		43,676		639,372
Accounts receivable		21,164		19,634
Investment in subsidiaries (note 3)		1,010		1,010
Venture investments (note 4)		2,154,391		1,550,824
	$	9,863,153	$	4,082,275
Liabilities and Shareholder's Equity				
Accounts payable and accrued liabilities	$	77,895	$	152,463
Due to shareholder		350,000		350,000
Deferred revenue (note 9(b))		43,676		639,372
		471,571		1,141,835
Shareholder's equity:				
Capital stock:				
Authorized: 5,000,000 common shares with no par value				
Issued for cash: 100 common shares		100		100
Contributed surplus (note 5)		26,768,192		26,768,192
Deficit		(2,598,676)		(7,251,988)
Allowance for doubtful venture investments (note 4)		(14,778,034)		(16,575,864)
		9,391,582		2,940,440
Commitment and contingencies (note 9)				
	$	9,863,153	$	4,082,275

DISCOVERY ENTERPRISES INC.

Statement of Operations and Deficit

Year ended March 31, 2000, with comparative figures for 1999

	2000	1999
Revenue:		
Debt investment interest, net of allowance	$ 11,695	$ 19,267
Interest on short-term investments	117,740	130,958
Gain on disposition of venture investments	5,030,594	716,766
Other	38,005	23,013
	5,198,034	890,004
Operating expenses:		
Directors' fees and expenses	23,097	16,941
Goods and Services Tax	–	5,986
Insurance	2,363	2,758
Management fees (note 8)	141,548	389,293
Office expenses, including rent	51,210	76,164
Professional fees:		
Legal	127,633	270,754
Other (note 8)	152,275	121,938
Salaries and benefits	43,700	43,894
	541,826	927,728
Financing charges	2,896	3,889
Total expenses (note 10)	544,722	931,617
Net income (loss)	4,653,312	(41,613)
Deficit, beginning of year	7,251,988	7,210,375
Deficit, end of year	$ 2,598,676	$ 7,251,988

See accompanying notes to financial statements.

DISCOVERY ENTERPRISES INC.

Statement of Cash Flows

Year ended March 31, 2000, with comparative figures for 1999

	2000	1999
Cash provided by (used in):		
Operations:		
Net income (loss)	$ 4,653,312	$ (41,613)
Gain on disposition of venture investments, an item not involving cash	(5,030,594)	(716,766)
	(377,282)	(758,379)
Changes in non-cash operating working capital:		
Accounts receivable	(1,530)	(5,465)
Accounts payable and accrued liabilities	(74,568)	455,960
	(453,380)	(307,884)
Investments:		
Short-term investments	428,946	1,908,202
Acquisition of venture investments	(1,846,476)	(4,030,851)
Proceeds on disposition of venture investments	7,247,934	716,766
Debt investment principal repayments received	823,399	44,069
	6,653,803	(1,361,814)
Increase (decrease) in cash	6,200,423	(1,669,698)
Cash, beginning of year	390,228	2,059,926
Cash, end of year	$ 6,590,651	$ 390,228

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, which is often secured by means of a debenture with an option to either purchase, or convert, to equity.

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 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.

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 presented separately 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. Venture investments are written off when determined by management to be either uncollectible or without value.

(c) Revenue recognition:

Debt investment interest, dividends and royalties, and interest on short-term investments are recognized 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 recognized on a cash basis until the debt investment is returned to the accrual basis.

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

Gains and losses on venture investments are recognized 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. Note 5 details the continuity of contributed surplus.

2. Significant accounting policies (continued):

(e) Measurement uncertainty:

The preparation of financial statements in conformity with 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.

3. Investment in subsidiaries:

	2000	1999
British Columbia Business Fund Ltd.	$ 1,000	$ 1,000
Williams Lake Fibreboard Company Limited	10	10
	$ 1,010	$ 1,010

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

Williams Lake Fibreboard Company Limited ("WLFCL"), a wholly-owned subsidiary, is recorded at cost as the subsidiary had no operations prior to March 31, 2000. Consolidation would not materially affect these financial statements.

Discovery Enterprises has obtained a controlling interest in an investee company, Cariboo Fibreboard Limited ("CFL"), under The Companies' Creditors Arrangement Act proceedings approved by the Supreme Court of British Columbia. Certain of CFL's intangible assets have been conveyed to WLFCL. The venture investment in CFL (note 4) is recorded at cost as the subsidiary is effectively inactive and consolidation would not materially affect these financial statements.

4. Venture investments:

Venture investments include:

		2000		1999
Debt	$	3,753,059	$	4,581,104
Equity:				
Publicly traded		80,376		80,376
Privately held		10,372,543		10,743,407
Williams Lake Fibreboard project / CFL		454,447		449,801
Williams Lake Fibreboard Group joint venture		2,272,000		2,272,000
		16,932,425		18,126,688
Less allowances for doubtful investments:				
Specific		(12,778,034)		(14,575,864)
General		(2,000,000)		(2,000,000)
		(14,778,034)		(16,575,864)
	$	2,154,391	$	1,550,824

(a) Venture investments in debt:

At March 31, 2000 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 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, 2000 is $15,000 (1999 - $30,000). If these shares were valued at their trading value on March 31, 2000 with no allowance to write-down the cost to net realizable value, their value would be $42,000 (1999 - $26,000).

(c) Investment in Williams Lake Fibreboard Group joint venture:

Discovery Enterprises and its subsidiary, WLFCL, entered into agreements with other organizations to establish the Williams Lake Fibreboard Group joint venture. The project governed by the joint venture agreement is for the development of a medium density fibreboard mill at Williams Lake, B.C. Through prior funding, a previous co-venturer retains participation rights and interests in the WLFCL project.

At March 31, 2000 no co-venturers were continuing to share in the joint venture costs. The investment in the joint venture is recorded at net cost as consolidation would not materially affect these financial statements.

DISCOVERY ENTERPRISES INC.

5. **Contributed surplus:**

The continuity of contributed surplus is as follows:

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 sale to the Province on April 1, 1994 of Discovery Enterprises 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

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 is 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 $2,154,391 (1999 - $1,550,824) have an estimated fair value of approximately $5,354,000 (1999 - $4,747,000). This fair value has been estimated by the Valuation Committee of Discovery Enterprises as the 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.

8. Related party transactions:

During the year, Discovery Enterprises incurred costs of $221,650 (1999 - $142,102) with a director and a company controlled by him, for professional services and for premises. Of this amount, $83,250 (1999 - $98,501) was charged to professional fees, $100,000 was charged to management fees (1999 - $nil) and $38,400 (1999 - $36,960) was charged to office expenses.

At March 31, 2000, accounts payable includes $17,410 (1999 - $32,229) 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. ("FGS"), 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) Indemnity and restricted cash:

During the 2000 fiscal year, Discovery Enterprises sold its interest in a venture investment. Pursuant to the sale agreement, the selling shareholders, including Discovery Enterprises, agreed to indemnify the purchaser for a period of eighteen months after the closing date for any loss directly or indirectly connected with any inaccuracy in or breach of any representation or obligation as set out in the sale agreement. Discovery Enterprises' proportionate and several share of this indemnity is limited to a maximum of $43,676. Restricted cash represents the amount held in escrow which is scheduled to be released on June 30, 2001 to the extent that it is not subject to an indemnification claim. As at May 19, 2000, no indemnification claim has been made by the purchaser.

(c) Arbitration Notice:

Subsequent to March 31, 2000, management received an Arbitration Notice, also filed with the British Columbia International Commercial Arbitration Centre, as notification of a dispute with the Company. The arbitrators have been asked to determine the amount, if any, owing by the Company in respect of this dispute. As of May 19, 2000, no statement of claim has been received and, therefore, it is not possible at this time to make an estimate of the amount owing, if any. Accordingly, no provision in respect of this contingency has been recorded in these financial statements.

DISCOVERY ENTERPRISES INC.

10. Expenditures by group account classification:

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

	2000	1999
Salaries and benefits	$ 43,700	$ 43,894
Operating costs	501,022	887,723
	$ 544,722	$ 931,617