

Financial Statements of

DISCOVERY ENTERPRISES INC.

Years ended March 31, 2003 and 2002

MANAGEMENT'S REPORTING RESPONSIBILITY

The accompanying financial statements of Discovery Enterprises Inc. ("Discovery Enterprises") for the year ended March 31, 2003 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



KPMG LLP
Chartered Accountants

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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, 2003 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, 2003 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.

Chartered Accountants

Vancouver, Canada

April 15, 2003



DISCOVERY ENTERPRISES INC.

Statements of Operations and Deficit

Years ended March 31, 2003 and 2002

	2003	2002
Revenue:		
Interest	\$ 87,680	\$ 158,095
Gain (loss) on disposition/recovery of venture investments	(920,000)	124,103
Other	5,129	20,777
	<u>(827,191)</u>	<u>302,975</u>
Operating expenses:		
Directors' fees and expenses	11,396	16,250
Insurance	1,473	2,599
Management fees (note 6)	100,000	100,000
Office expenses, including rent (note 6)	30,439	53,232
Professional fees:		
Legal	1,215,430	741,325
Other (note 6)	161,715	966,895
Salaries and benefits	41,876	47,939
Other	-	9,805
	<u>1,562,329</u>	<u>1,938,045</u>
Deficiency of revenue over operating expenses	(2,389,520)	(1,635,070)
Venture investments written off		(6,437,164)
Loss for the year	2,389,520	8,072,234
Deficit, beginning of year	10,561,177	2,488,943
Deficit, end of year	<u>\$ 12,950,697</u>	<u>\$ 10,561,177</u>

See accompanying notes to financial statements.

DISCOVERY ENTERPRISES INC.

Notes to Financial Statements

Years ended March 31, 2003 and 2002

1 Nature of operations:

(a) Organization, objective and activities:

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. There is an intention to wind-up Discovery Enterprises when liquidation of the investment portfolio has been substantially achieved.

(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, 2003 and 2002

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, when considered appropriate by management, a general allowance for doubtful venture investments, being an allowance of a prudential nature that cannot be determined on an investment by investment basis, may be made. These allowances, which are deducted in determining the carrying value of venture investments and 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 prior year's write-off would have been reflected in the previous 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, 2003 and 2002

3. Short-term investments:

Short-term investments comprise units in unitized money market funds managed by British Columbia Investment Management Corporation.

4. Investment in subsidiary:

	2003	2002
British Columbia Business Fund Ltd.	\$ 1,000	\$ 1,000

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

5. Venture investments:

Venture investments include:

	2003	2002
Debt	\$ 54,352	\$ 54,352
Equity:		
Publicly traded	80,376	80,376
Privately held	7,552,320	10,372,320
	7,687,048	10,507,048
Allowances for doubtful investments:		
Specific	(3,847,655)	(6,367,656)
General	-	(2,000,000)
	(3,847,655)	(8,367,656)
	\$ 3,839,393	\$ 2,139,392

(a) Venture investments in debt:

At March 31, 2003 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 either held in escrow or that are non-tradable subject to certain criteria and therefore considered to be non-trading.

The estimated net realizable value of these shares at March 31, 2003 is nil (2002 - nil). If these shares were valued at their quoted market value on March 31, 2003, with no allowance to write-down the cost to estimated net realizable value, their value would be \$640 (2002 - \$6,399).

DISCOVERY ENTERPRISES INC.

Notes to Financial Statements

Years ended March 31, 2003 and 2002

6. Related party transactions:

During the year, Discovery Enterprises incurred costs of \$185,025 (2002 - \$271,900) with a director and a company controlled by him for professional services and for premises. Of this amount, \$100,000 (2002 - \$100,000) was charged to management fees, \$22,400 (2002 - \$38,400) was charged to office expenses, and \$62,625 (2002 - \$133,500) was charged to other professional fees.

At March 31, 2003, accounts payable includes \$17,834 (2002 - \$30,517) due to a company controlled by a director.

7. 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
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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)
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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)
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Contributed surplus, March 31, 2001 to 2003	\$ 23,268,192

8. Commitment:

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.

DISCOVERY ENTERPRISES INC.

Notes to Financial Statements

Years ended March 31, 2003 and 2002

9. Expenditures by group account classification:

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

	2003	2002
Salaries and benefits	\$ 41,876	\$ 47,939
Operating costs	1,520,453	1,890,106
	\$ 1,562,329	\$ 1,938,045

10. 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 in these financial statements at a carrying value of \$3,839,393 (2002 - \$2,139,392), have an estimated fair value of approximately \$5,038,000 (2002 - \$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.

11. 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.