

Consolidated Financial Statements of

Pinetree Capital Corp.

For the years ended December 31, 2002 and 2001

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AUDITORS' REPORT

To the Shareholders of

Pinetree Capital Corp.

We have audited the consolidated balance sheets of **Pinetree Capital Corp.** as at December 31, 2002 and 2001 and the consolidated statements of operations, deficit and cash flows for the years 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 audits.

We conducted our audits 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

**Toronto, Canada
February 26, 2003, except for note 7 (c)
which is as at March 7, 2003**

Chartered Accountants

PINETREE CAPITAL CORP.
Consolidated Balance Sheets
As at December 31,

	<u>2002</u>	<u>2001</u>
Assets (note 8(c))		
Current		
Cash and cash equivalents	\$ 236,106	\$ 91,187
Restricted cash (note 4)	-	350,000
Advances to affiliated company (note 8)	-	1,384,537
Prepaid and other receivables	119,259	54,169
Income taxes receivable	-	106,032
	<u>355,365</u>	<u>1,985,925</u>
Investments, at fair value (cost - \$19,822,000; 2001 - \$17,563,000) (note 5)	18,206,529	23,803,024
Capital assets, net (note 6)	355,125	436,272
	<u>\$ 18,917,019</u>	<u>\$ 26,225,221</u>

Liabilities and Shareholders' Equity

Current		
Due to brokers	\$ 2,518,957	\$ 1,463,233
Accounts payable and accrued liabilities	102,367	283,290
Advances from affiliated company (note 8)	6,626,047	5,956,793
	<u>9,247,371</u>	<u>7,703,316</u>
Shareholders' equity		
Share capital (note 7)	18,444,789	18,539,187
Deficit	(8,775,141)	(17,282)
	<u>9,669,648</u>	<u>18,521,905</u>
	<u>\$ 18,917,019</u>	<u>\$ 26,225,221</u>

See accompanying notes to the consolidated financial statements

On behalf of the Board:

"Sheldon Inwentash" Director

"Steve Saviuk" Director

PINETREE CAPITAL CORP.
Consolidated Statements of Operations
Years Ended December 31,

	<u>2002</u>	<u>2001</u>
Net Investment Losses		
Gain (loss) on disposal of investments, net	\$ 668,032	\$ (5,910,933)
Reversal of previously recognized unrealized losses (gains) on disposal of investments	(1,349,372)	2,453,116
Unrealized losses on investments, net	(6,492,525)	(25,276,199)
	<u>(7,173,865)</u>	<u>(28,734,016)</u>
Other Revenue		
Interest and dividend income (note 9(b))	24,963	212,712
Other income	214,064	328,121
	<u>(6,934,838)</u>	<u>(28,193,183)</u>
Expenses		
Operating, general and administrative (note 9(a))	1,339,161	2,122,001
Foreign exchange loss (gain)	(68,570)	258,833
Amortization	88,329	72,637
Interest (note 9(b))	464,101	447,817
	<u>1,823,021</u>	<u>2,901,288</u>
Loss before income taxes	(8,757,859)	(31,094,471)
Recovery of income taxes (note 10)	-	(4,473,004)
Net loss for the year	<u>\$ (8,757,859)</u>	<u>\$ (26,621,467)</u>
Loss per common share		
Basic and diluted	<u>\$ (0.94)</u>	<u>\$ (2.81)</u>
Weighted average number of common shares outstanding		
Basic	9,323,824	9,476,136
Diluted	9,323,824	9,495,467

See accompanying notes to the consolidated financial statements

PINETREE CAPITAL CORP.
Consolidated Statements of Deficit
Years Ended December 31,

	<u>2002</u>	<u>2001</u>
Retained earnings (deficit), beginning of year	\$ (17,282)	\$ 26,604,185
Net loss for the year	<u>(8,757,859)</u>	<u>(26,621,467)</u>
Deficit, end of year	\$ (8,775,141)	\$ (17,282)

See accompanying notes to the consolidated financial statements

PINETREE CAPITAL CORP.
Consolidated Statements of Cash Flows
Years Ended December 31,

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities		
Net loss for the year	\$ (8,757,859)	\$ (26,621,467)
Items not affecting cash		
Loss (gain) on disposal of investments	(668,032)	5,910,933
Reversal of previously recognized unrealized gains (losses), on disposal of investments	1,349,372	(2,453,116)
Unrealized losses on investments, net	6,492,525	25,276,199
Amortization	88,329	72,637
Future income taxes	-	(4,487,004)
	<u>(1,495,665)</u>	<u>(2,301,818)</u>
Changes in non-cash working capital balances related to operations		
Advances to affiliated company	1,384,537	(379,637)
Prepaid and other receivables	(65,090)	588,389
Due to brokers	1,055,724	(3,110,301)
Accounts payable and accrued liabilities	(180,923)	133,630
Advances from affiliated company	669,254	4,824,203
Income taxes receivable	106,032	262,330
	<u>1,473,869</u>	<u>16,796</u>
Cash flows from financing activities		
Purchase of shares under buyback plan (note 7(b))	(94,398)	(132,900)
Proceeds from partial repayment of promissory note	-	22,500
Proceeds from issue of share capital	-	20,250
	<u>(94,398)</u>	<u>(90,150)</u>
Cash flows from investing activities		
Purchase of capital assets	(7,182)	(303,469)
Purchase of investments	(15,729,514)	(8,556,155)
Proceeds on disposal of investments	14,152,144	8,684,546
Restricted cash	350,000	50,000
	<u>(1,234,552)</u>	<u>(125,078)</u>
Net increase (decrease) in cash and cash equivalents during the year	144,919	(198,432)
Cash and cash equivalents, beginning of year	91,187	289,619
Cash and cash equivalents, end of year	\$ 236,106	\$ 91,187
Supplemental cash flow information		
Income taxes paid	\$ -	\$ 44,000
Interest paid	\$ 320,788	\$ 371,930

PINETREE CAPITAL CORP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2002 and 2001

1. Nature of business:

Pinetree Capital Corp. ["Pinetree" or the "Company"] was incorporated under the laws of the Province of Ontario and is publicly traded on the Toronto Stock Exchange ["TSX"] under the symbol "PNP". Pinetree's principal business is to fund emerging growth businesses with breakthrough proprietary products. Pinetree's interests are in companies with information and internet infrastructure technologies, telecommunications and wireless technologies, and biomedical technologies.

2. Significant accounting policies:

Management has prepared the consolidated financial statements of the Company in accordance with Canadian generally accepted accounting principles. The most significant accounting policies are as follows:

(a) Basis of preparation:

These consolidated financial statements include the accounts of Pinetree and its wholly-owned subsidiaries: Emerald Capital Corp. (600229 Alberta Inc.), 474048 B.C. Ltd., 1177344 Ontario Inc., 1065614 Ontario Inc., and Pinetree (Barbados) Inc. All significant inter-company accounts and transactions are eliminated on consolidation.

(b) Investments:

At each financial reporting period, the Company's management determines the valuation of investments based on the criteria below and reflects such valuations in the consolidated financial statements.

(i) Publicly-traded investments:

1. Securities which are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at fair values based on quoted market prices at the consolidated balance sheets dates or the closing price on the last day the security traded if there were no trades at the consolidated balance sheet dates.
2. Securities which are traded on a recognized securities exchange but which are escrowed or otherwise restricted as to sale or transfer are recorded at amounts discounted from market value. In determining the discount for such investments, the Company considers the nature and length of the restriction, business risk of the investee company, its stage of development, market potential, relative trading volume and price volatility and any other factors that may be relevant to the ongoing and realizable value of the investments.
3. Options and warrants of publicly-traded securities are carried at the difference between the exercise price and the quoted market price of the underlying securities, if the exercise price is lower than the quoted market price. Otherwise, options and warrants are carried at nil.

(ii) Privately-held investments:

1. Securities in privately-held companies are recorded at cost unless an upward adjustment is considered appropriate and supported by pervasive and objective evidence such as significant subsequent equity financing by an unrelated, professional investor at a transaction price higher than the Company's carrying value. Downward adjustments to carrying value are made when there is evidence of an other than a temporary decline in value as indicated by the assessment of the financial condition of the investment based on operational results, forecasts and other developments since acquisition.

PINETREE CAPITAL CORP.
Notes to Consolidated Financial Statements
For the years ended December 31, 2002 and 2001

2. Significant accounting policies (continued):

2. Options and warrants of privately held securities are carried at cost unless there's an upward or downward adjustment supported by pervasive and objective evidence such as significant subsequent equity financing by an unrelated, professional investor at a transaction price higher or lower than the Company's carrying value.

(iii) Other investment instruments:

Included in Pinetree's investments are certain instruments that are accounted for as follows:

1. Convertible debentures and convertible notes are carried as though converted to common shares.
2. Debt instruments are fair valued at the lesser of their discounted cash flow or the fair value of the underlying security.
3. Cumulative dividends expected to be received are included in the fair value of each investment.

The resulting values may differ from values that would be realized had a ready market existed. The amounts at which Pinetree's publicly-traded investments could be disposed of currently may differ from carrying value based on market quotes as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity. The amounts at which Pinetree's privately-held investments could be disposed of currently may differ from the carrying value assigned as a substantial period of time may have elapsed since the latest third party equity financing.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash and short-term investments with original maturities of less than three months.

(d) Capital assets:

Capital assets are recorded at cost, less accumulated amortization. Amortization is provided at rates designed to amortize the cost of capital assets over their estimated useful lives as follows:

	Rate	Basis
Computer equipment	30%	Declining balance
Leasehold improvements	6 years	Over the term of the lease
Furniture and equipment	20%	Declining balance

(e) Revenue recognition:

Realized gains and losses on disposition of investments and unrealized gains or losses in the value of investments are reflected in the consolidated statements of operations and are calculated on an average cost basis. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed, so as to recognize the full realized gain or loss in the year of disposition. Dividend income is recorded on the ex-dividend date. Interest income and other income are recorded on an accrual basis.

PINETREE CAPITAL CORP.
Notes to Consolidated Financial Statements
For the years ended December 31, 2002 and 2001

2. Significant accounting policies (continued):

(f) Foreign currency translation:

The Company's subsidiaries are considered to be integrated operations. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year-end. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. Revenue and expenses denominated in foreign currencies are translated at rates of exchange prevailing at the transaction dates. Gains or losses resulting from translation are included in the determination of net loss for the year.

(g) Income taxes:

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. Under The Canadian Institute of Chartered Accountants' Handbook Section 3465, "Accounting for Income Taxes", the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(h) Stock-based compensation plans:

The Company has stock-based compensation plans, which are described in note 7(d). Any consideration received on the exercise of stock options or sale of stock is credited to share capital. The Company does not record any compensation expense for stock options granted to employees or directors. Stock options granted to employees and directors are disclosed in pro forma net income and earnings per share. Stock options granted to non-employees and consultants have been expensed and credited to contributed surplus. Stock options granted during the year are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value for these options are estimated at the date of granting using a Black-Scholes Option Pricing Model.

(i) Use of estimates:

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, investments, and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(j) Earnings per share:

Basic earnings per share have been determined by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year, excluding shares securing employee share purchase loans and shares in escrow. Fully diluted earnings per share are in accordance with the treasury stock method and are based on the weighted average number of common shares and dilutive common share equivalents outstanding.

PINETREE CAPITAL CORP.
Notes to Consolidated Financial Statements
For the years ended December 31, 2002 and 2001

3. Changes in accounting policies:

Stock options:

Effective January 1, 2002, the Company adopted CICA 3870 Stock-based Compensation and Other Stock-based payments. As permitted by CICA 3870 the Company has applied this change prospectively for new awards granted on or after January 1, 2002. Under this new standard, companies that do not follow the fair value method of accounting for stock-based awards granted to employees are required to provide pro forma disclosure in each quarterly and annual report of net income and earnings per share under the fair value method. However, stock options granted to non-employees and consultants are accounted for in accordance with the fair value method of accounting for stock-based compensation. There were no stock options granted during the year ended December 31, 2002. Accordingly, there was no impact on the consolidated financial statements and notes thereto as a result of the application of the new standard.

4. Restricted Cash:

During fiscal 2001, the Company pledged \$350,000 of cash held in a Guaranteed Investment Certificate as collateral for a letter of credit issued for one of the Company's investee companies. The Guaranteed Investment Certificate earned interest at a rate of 1.75% per annum. It matured and became unrestricted on January 31, 2002.

PINETREE CAPITAL CORP.
Notes to Consolidated Financial Statements
For the years ended December 31, 2002 and 2001

5. Investments:

Investments consist of the following as at December 31, 2002:

	Security Description	Fair Value
Investments with a quoted market value		
Angoss Software Corporation	600,000 common shares	\$ 78,000
Blackrock Ventures Inc.	100,000 common shares	236,000
Brownstone Resources Inc.	2,685,859 common shares	456,596
Cambior Inc.	200,000 common shares	450,000
Canadian Royalties Inc.	110,000 common shares	
	100,000 warrants expire Dec 5, 2004	214,500
Enghouse Systems Limited	650,000 common shares	6,435,000
European Goldfields Ltd.	50,000 common shares	
	50,000 warrants expire May 30, 2003	122,500
FNX Mining Company Inc.	62,900 common shares	415,140
GeneVest Inc.	1,870,803 common shares	2,216,340
Iamgold Corp.	35,000 common shares	269,150
iJoin Systems, Inc.	300,000 common shares	—
Lumenon Innovative Lightwave Technology Inc.	591,200 common shares	121,402
Manitex Capital Inc.	2,099,906 common shares	83,996
Miramar Mining Corp.	130,000 common shares	
	30,000 warrants expire Jun 19, 2003	262,600
NSI Global Inc.	3,559,500 common shares	
	493,955 warrants expire Dec 31, 2003	444,938
Pretium Industries Inc.	200,000 common shares	86,000
Procyon Biopharma Inc.	662,600 common shares	
	75,000 warrants expire Nov 9, 2003	331,300
Red-tail Info Tech Inc.	834,000 common shares	25,020
Tengtu International Corp.	541,000 common shares	
	250,000 warrants expire Jun 20, 2003	333,280
Treat Systems Inc. (a)	305,779 common shares	—
Triant Technologies Inc.	220,300 common shares	81,511
Wheaton River Mineral Ltd.	212,500 common shares	
	70,000 warrants expire May 30, 2007	312,375
Other equity investments (b)		1,194,207
		\$ 14,169,855
Investments with no quoted market value		
Fiber Optics System Technology Inc.	428,135 common shares;	
	93,012 warrants expire Oct 13, 2005	\$ 2,211,442
iTravel2000.com (b), (d)		290,274
Primacy Corporation	3,530,373 common shares;	
	50,000 warrants expire Jul 13, 2003	988,169
Quick Link Communication	313,500 special warrants, Dec 31, 2003	
	498,750	
Solomon Technologies, Inc. (c)	11% convertible debenture, due Jan 18, 2002	—
Other equity investments (b)		48,039
		\$ 4,036,674

PINETREE CAPITAL CORP.
Notes to Consolidated Financial Statements
For the years ended December 31, 2002 and 2001

Total investments **\$ 18,206,529**

5. Investments (continued):

- (a) On October 17, 2002, the TSX Venture Exchange ("TSXV") halted trading in Treat Systems Inc.'s common shares for failure to meet their tier maintenance requirements in accordance with Policy 2.5 and being designated as an Inactive Issuer for a period greater than 18 months.
- (b) Other equity investments and Other debt investments include investments in which Pinetree owns less than 5% of the company, or Pinetree has invested less than \$200,000 in the company, or the investment's fair value is less than \$200,000 as at December 31, 2002.
- (c) The 11% convertible debenture was due on January 18, 2002 and is currently in default. The Company formally requested immediate payment of the principal and accrued interest to date and is currently in legal proceedings with Solomon Technologies, Inc regarding the disposition of the debt. At December 31, 2002, the Company wrote down its investment in Solomon Technologies, Inc to nil.
- (d) As at December 31, 2002, total debt investments outstanding from iTravel2000.com, at cost, bear interest at an average annual rate of 6% and are scheduled for repayment on April 25, 2005.

Investments consist of the following as at December 31, 2001:

	Security Description	Fair Value
Investments with a quoted market value		
Brownstone Resources Inc.	2,685,859 common shares	\$ 349,162
Enghouse Systems Limited	700,000 common shares	6,146,000
GeneVest Inc.	1,870,803 common shares	3,223,858
iJoin Systems, Inc.	300,000 series B preferred shares	205,832
Lumenon Innovative Lightwave Technology Inc.	815,500 common shares	754,703
Manitex Capital Inc.	2,099,906 common shares	104,995
NSI Global Inc.	3,131,770 common shares	2,254,874
Red-tail Info Tech Inc.	834,000 common shares	83,400
SoftQuad Software Inc.	2,571,218 common shares	3,200,055
Treat Systems Inc.	305,779 common shares	15,289
Other equity investments (e)		1,391,875
		\$ 17,730,043
Investments with no quoted market value		
Fiber Optics System Technology Inc.	428,135 common shares;	
	93,012 warrants expire Oct 13, 2005	\$ 2,233,842
Primacy Corporation	3,530,373 common shares;	
	50,000 warrants expire Jul 13, 2003	1,996,076
Solomon Technologies, Inc.	11% convertible debenture, due Jan 18, 2002	703,573
Other equity investments (e)		864,216
Other debt investments (f), (e)		275,274
		\$ 6,072,981

PINETREE CAPITAL CORP.
Notes to Consolidated Financial Statements
For the years ended December 31, 2002 and 2001

Total investments \$ 23,803,024

5. Investments (continued):

- (e) Other equity investments and Other debt investments include investments in which Pinetree owns less than 5% of the company, or Pinetree has invested less than \$500,000 in the company, or the investment's fair value is less than \$500,000 as at December 31, 2001.
- (f) As at December 31, 2001, total debt investments outstanding, at cost, bear interest at an average annual rate of 6% and are scheduled for repayment on April 25, 2005.

6. Capital assets:

Capital assets consist of the following:

	2002			2001		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 95,751	\$ 68,719	\$ 27,032	\$ 95,751	\$ 57,134	\$ 38,617
Leasehold improvements	255,706	73,104	182,602	255,706	31,760	223,946
Furniture and equipment	293,811	148,320	145,491	286,629	112,920	173,709
	\$ 645,268	\$ 290,143	\$ 355,125	\$ 638,086		\$ 201,814
	\$ 436,272					

7. Share Capital:

Share capital consist of the following:

Authorized: Unlimited number of common shares

Issued and outstanding:

	2002		2001	
	#	Amount	#	Amount
Balance, beginning of year	9,579,569	\$ 18,944,187	9,698,369	\$ 19,056,837
Issued for cash pursuant to exercise warrants (a)	—	—	15,000	20,250
Issued for cash under stock option agreements	—	—	—	—
Issued for cash pursuant to private placement offerings net of share issuance costs	—	—	—	—
Purchase for cash under issuer buyback plan (b)	(179,400)	(94,398)	(133,800)	(132,900)
Balance, end of year	9,400,169	18,849,789	9,579,569	18,944,187
Share purchase loan (c)	(225,000)	(405,000)	(225,000)	(405,000)
		\$ 18,444,789		\$ 18,539,187

PINETREE CAPITAL CORP.
Notes to Consolidated Financial Statements
For the years ended December 31, 2002 and 2001

7. Share Capital (continued):

(a) Warrants:

Attached to the 1999 private placement offerings were warrants to purchase 415,000 common shares ranging from \$1.25 to \$1.35 per share expiring from September 2000 to August 2001, the value of which was not material. In 2002, nil (2001 – 15,000) warrants were exercised during the year. As at December 31, 2002, there were no warrants outstanding.

(b) Issuer buyback plan:

In fiscal 2001, the Company had planned to purchase up to 485,000 common shares through a normal course issuer bid (the “2001 NCIB”). The 2001 NCIB ran from April 10, 2001 to April 9, 2002. Purchase and payment for the common shares were made by the Company in accordance with TSXV requirements and, subsequent to September 10, 2001, TSX requirements.

On April 26, 2002, pursuant to the 2001 NCIB the Company cancelled 241,200 common shares which were previously purchased at prices ranging from \$0.50 to \$1.60 per share. In May 2002, a new normal course issuer bid (the “2002 NCIB”) was established. The 2002 NCIB commenced on May 16, 2002 and will end no later than May 15, 2003. The Company plans to purchase up to 470,000 of its common shares for cancellation, and purchase and payment for the common shares will be made in accordance with the TSX requirements. As at December 31, 2002, the Company had purchased 72,000 common shares at prices ranging from \$0.45 to \$0.50 per share for a total cost of \$34,884.

(c) Employee stock purchase plan:

Under this plan, the Company may loan money to employees to purchase not greater than 10% of outstanding common shares of the Company. A trustee holds the shares until the loan is repaid. Any amount loaned by the Company to an employee pursuant to the plan shall be non-interest bearing and payable within a period not exceeding 10 years. In the event that the employment of the employee is terminated, the employee loan is payable 60 days from termination. Also, upon termination, the trustee may without notice sell the common shares held. During the year, no shares were cancelled and no common shares were surrendered under the plan.

Under this plan, an officer and director of the Company is indebted to the Company for \$405,000 (2001 - \$405,000) in connection with the Company's employee stock purchase plan agreement dated November 16, 1994. As at December 31, 2002, 225,000 (2001 – 225,000) common shares of the Company have been pledged as collateral for this loan, the market value of which was \$112,500 (2001 - \$135,000). This loan is non-interest bearing and has the following terms of repayment:

- (i) 5% in each of the sixth and seventh year from date of issue of the shares;
- (ii) 10% in each of the eighth and ninth year from the date issued; and
- (iii) remaining balance to be paid in the tenth year from the date issued.

As at December 31, 2002, the installment payment due in the eighth year was outstanding, but was paid on March 7, 2003.

PINETREE CAPITAL CORP.
Notes to Consolidated Financial Statements
For the years ended December 31, 2002 and 2001

7. Share Capital (continued):

(d) Stock option plans:

The Company has 1997 and 2000 stock option plans for directors, officers, key employees and consultants to enable them to purchase common shares of the Company, as administered by the Board of Directors.

The number of shares which were authorized to be issued was 750,000 for the 1997 plan and 2,000,000 for the 2000 plan. An individual can receive grants of no more than 5% of the outstanding shares of the Company on a yearly basis and options are exercisable over a period not exceeding five years. The 2000 options have a vesting period of eight quarters (no vesting period prior to the 2000 plan).

Under the 1997 plan, the exercise prices for purchasing these shares cannot be less than the market price of the common shares on the last day on which the common shares traded prior to the date of the granted option. For the 2000 plan, the exercise prices for purchasing these shares cannot be less than the minimum exercise price as provided by stock exchange rules.

No further shares are being issued under the 1997 stock option plan. As at December 31, 2002, the number of options available to be granted under the 2000 plan was 680,000.

(e) A summary of the status of the Company's two stock option plans as at December 31, 2002 and 2001 and changes during the years ended on those dates is presented below:

Stock Options	2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, at beginning of year	1,155,668	\$ 2.51	1,312,500	\$ 2.54
Granted	—	—	357,500	1.97
Exercised	—	—	—	—
Forfeited	(100,000)	2.33	(514,332)	2.20
Outstanding, at end of year	1,055,668	\$ 2.53	1,155,668	\$ 2.51
Exercisable, at end of year	1,037,545	\$ 2.54	970,045	\$ 2.60

The following table summarizes information about stock options outstanding as at December 31, 2002:

Range of exercise prices (years)	Options outstanding			Options exercisable		
	Number of options	Weighted average exercise price	Weighted average remaining life (years)	Number of options	Weighted average exercise price	Weighted average remaining life
\$1.00 to \$2.50	382,500	\$ 1.76	2.63	364,689	\$ 1.76	2.60
\$2.51 to \$3.62	673,168	2.97	2.01	672,856	2.97	2.01
	1,055,668	\$ 2.53	2.23	1,037,545	\$ 2.54	2.21

PINETREE CAPITAL CORP.
Notes to Consolidated Financial Statements
For the years ended December 31, 2002 and 2001

8. Advances to and from affiliated companies:

Advances to and from affiliated companies consist of the following:

	2002	2001
Advances to affiliated company		
Brownstone Resources Inc. (a), (b)	\$ —	\$ 1,384,537
	\$ —	\$ 1,384,537
Advances from affiliated company		
GeneVest Inc. (b), (c)	\$ 6,626,047	\$ 5,956,793
	\$ 6,626,047	\$ 5,956,793

- (a) The Company does not exercise significant influence and has an 18% interest in Brownstone Resources Inc.
- (b) These advances bear interest at Royal Bank prime plus 1% per annum and are due on demand. As at December 31, 2002, the effective interest rate was 5.5% (2001 – 5%).
- (c) These advances are from GeneVest Inc. (TSX Venture Exchange: “GNV.u”) which are collateralized by a general security agreement on all present and future tangible and intangible personal property of the Company. The Company is able to exercise significant influence over GeneVest Inc.

9. Related party transactions:

- (a) During the year, Pinetree had consulting agreements with officers and directors representing approximately \$30,000 (2001 - \$30,000) per month. Included in operating, general and administrative expenses in 2002 is approximately \$357,000 (2001 - \$357,000) paid under these contracts.
- (b) Included in the consolidated statements of operations is approximately \$8,000 (2001 - \$98,000) of interest income relating to interest charged to an affiliated company throughout the year and approximately \$321,000 (2001 - \$270,000) of interest expense charged by an affiliated company throughout the year.

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10. Income taxes:

- (a) Income tax expense attributable to income before income taxes differs from the amounts computed by applying the combined federal and provincial tax rate of 38.62% (2000 – 41.74%) of pre-tax income as a result of the following:

	2002	2001
Loss before income taxes	\$ (8,757,859)	\$ (31,094,471)
Computed "expected" income tax recovery	(3,382,285)	(12,978,832)
Future income tax benefit resulting from rate change	—	381,049
Net future income tax asset not recognized	2,423,166	2,374,245
Non-taxable portion of capital losses (gains)	(605,272)	939,299
Non-taxable portion of reversal of unrealized losses (gains)	353,090	(199,847)
Non-taxable portion of unrealized losses	1,182,246	4,960,513
Permanent and other differences	29,055	50,569
Recovery of income taxes	\$ —	\$ (4,473,004)

- (b) Significant components of the recovery of income taxes for the year ended December 31 are as follows:

	2002	2001
Current tax expense	\$ —	\$ —
Future income tax recoverable relating to origination and reversal of temporary differences	—	(4,473,004)
Recovery of income taxes	\$ —	\$ (4,473,004)

- (c) The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2002	2001
Future tax assets		
Capital assets – differences in amortization and unamortized capital cost	\$ 64,557	\$ 44,097
Long-term investments – differences in accounting cost and tax cost	1,005,754	—
Non-capital losses carried forward	2,899,762	2,061,448
Capital losses carried forward	115,449	342,792
Net future tax assets	\$ 4,085,522	\$ 2,448,337

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10. Income taxes (continued):

Future tax liabilities

Long-term investments – differences in accounting cost and tax cost	\$	—	\$ (74,092)
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Net future tax liabilities	\$	—	\$ (74,092)
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Total future tax assets and liabilities		4,085,522	2,374,245
Less: valuation allowance		(4,085,522)	(2,374,245)
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Net future tax assets (liabilities)	\$	—	\$ —

(d) As at December 31, 2002, the Company has non-capital losses of approximately \$8,256,000 expiring as follows:

2007	\$	391,000
2008		5,965,000
2009		1,900,000
		<hr/>
		\$ 8,256,000

11. Lease commitments:

Future minimum annual lease payments under operating leases for equipment and premises are approximately as follows:

2003	\$	250,300
2004		250,300
2005		250,300
2006		250,300
2007		177,800
		<hr/>
		\$ 1,179,000

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12. Financial Instruments:

(a) Fair value:

The Company has determined the fair value of its financial instruments as follows:

- (i) The carrying amounts of cash and cash equivalents, prepaid and other receivables, advances to and from affiliated companies, due to brokers and accounts payable and accrued liabilities in the consolidated balance sheets approximate their fair values due to the short-term nature of these instruments.
- (ii) Investments are carried at amounts in accordance with the Company's accounting policy set out in note 2(b) above.

(b) Currency risk:

The Company's activities which resulted in exposure to fluctuations in foreign currency exchange rates consisted of the purchase of investments in foreign currencies. The Company does not use derivative financial instruments to reduce its currency risk.

As at December 31, 2002, cash and cash equivalents included \$18,147 (2001 - \$8,085), advances to affiliated companies included Nil (2001 - \$310,853), investments included \$6,249,709 (2001 - \$13,011,163), advances from affiliated companies included \$6,069,699 (2001 - \$4,982,500) and due to brokers included \$542,044 (2001 - \$182,880) denominated in U.S. dollars.

(c) Credit risk:

Certain of the Company's financial assets, including cash and cash equivalents, are exposed to the risk of a financial loss occurring as a result of default of a counter party on its obligation to the Company. The Company may, from time to time, invest in debt obligations.

The Company is also exposed, in the normal course of business, to credit risk from the sale of its investments and advances to potential investee companies.