

**Consolidated Financial Statements of**

# **Pinetree Capital Corp.**

**For the years ended December 31, 2003 and 2002**

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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, 2003 and 2002 and the consolidated statements of operations, retained earnings (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, 2003 and 2002 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 20, 2004**

**Chartered Accountants**

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

	<u>2003</u>	<u>2002</u>
<b>Assets (note 7)</b>		
Investments, at fair value (note 4)	\$ 25,941,577	\$ 18,206,529
Cash and cash equivalents	48,837	236,106
Prepaid and other receivables	34,426	119,259
Capital assets, net (note 5)	286,132	355,125
	<u>\$ 26,310,972</u>	<u>\$ 18,917,019</u>
<b>Liabilities and Shareholders' Equity</b>		
Due to brokers	\$ 4,594,390	\$ 2,518,957
Accounts payable and accrued liabilities	104,663	102,367
Advances from affiliated company (note 7)	2,793,597	6,626,047
	<u>7,492,650</u>	<u>9,247,371</u>
<b>Shareholders' equity</b>		
Share capital (note 6)	18,153,080	18,444,789
Contributed surplus	14,953	-
Retained earnings (deficit)	650,289	(8,775,141)
	<u>18,818,322</u>	<u>9,669,648</u>
	<u>\$ 26,310,972</u>	<u>\$ 18,917,019</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>2003</u>	<u>2002</u>
<b>Net Investment Gains (Losses)</b>		
Gain (loss) on disposal of investments, net	\$ (2,499,530)	\$ 668,032
Reversal of previously recognized unrealized losses (gains) on disposal of investments	2,827,619	(1,349,372)
Unrealized gains (losses) on investments, net	9,399,426	(6,492,525)
	<u>9,727,515</u>	<u>(7,173,865)</u>
<b>Other Revenue</b>		
Interest and dividend income (note 8(b))	16,601	24,963
Other income (note 8(d))	231,137	214,064
	<u>9,975,253</u>	<u>(6,934,838)</u>
<b>Expenses</b>		
Operating, general and administrative (notes 6(d) and 8(a))	1,100,746	1,339,161
Foreign exchange gain	(1,031,225)	(68,570)
Amortization	79,582	88,329
Interest (note 7)	400,720	464,101
	<u>549,823</u>	<u>1,823,021</u>
<b>Income (loss) before income taxes</b>	9,425,430	(8,757,859)
<b>Income taxes (note 9)</b>	<u>-</u>	<u>-</u>
<b>Net income (loss) for the year</b>	<u>\$ 9,425,430</u>	<u>\$ (8,757,859)</u>
<b>Earnings (loss) per common share</b>		
Basic and diluted	<u>\$ 1.06</u>	<u>\$ (0.94)</u>
<b>Weighted average number of common shares outstanding</b>		
Basic and diluted	8,930,632	9,323,824

See accompanying notes to the consolidated financial statements.

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**PINETREE CAPITAL CORP.**  
**Consolidated Statements of Retained Earnings (Deficit)**  
**Years Ended December 31,**

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	<u>2003</u>	<u>2002</u>
<b>Deficit, beginning of year</b>	<b>\$ (8,775,141)</b>	\$ (17,282)
<b>Net income (loss) for the year</b>	<u><b>9,425,430</b></u>	<u>(8,757,859)</u>
<b>Retained earnings (deficit), end of year</b>	<b>\$ 650,289</b>	\$ (8,775,141)

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See accompanying notes to the consolidated financial statements.

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

	<u>2003</u>	<u>2002</u>
<b>Cash flows from operating activities</b>		
Net income (loss) for the year	\$ 9,425,430	\$ (8,757,859)
Items not affecting cash		
Loss (gain) on disposal of investments, net	2,499,530	(668,032)
Reversal of previously recognized unrealized gains (losses), on disposal of investments	(2,827,619)	1,349,372
Unrealized losses (gains) on investments, net	(9,399,426)	6,492,525
Compensation expense of issuance of stock options (note 6(d))	13,753	-
Compensation expense of repriced stock options (note 6(d))	1,200	-
Amortization	79,582	88,329
	<u>(207,550)</u>	<u>(1,495,665)</u>
Changes in non-cash working capital balances related to operations		
Advances to affiliated company	-	1,384,537
Prepaid and other receivables	84,833	(65,090)
Due to brokers	2,075,433	1,055,724
Accounts payable and accrued liabilities	2,296	(180,923)
Advances from affiliated company	(3,832,450)	669,254
Income taxes receivable	-	106,032
	<u>(1,877,438)</u>	<u>1,473,869</u>
<b>Cash flows from financing activities</b>		
Purchase of shares under issuer buyback plan (note 6(a))	(336,709)	(94,398)
Proceeds from partial repayment of promissory note (note 6(b))	45,000	-
	<u>(291,709)</u>	<u>(94,398)</u>
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(10,589)	(7,182)
Purchase of investments	(4,540,026)	(15,729,514)
Proceeds on disposal of investments	6,532,493	14,152,144
Restricted cash	-	350,000
	<u>1,981,878</u>	<u>(1,234,552)</u>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>	<b>(187,269)</b>	<b>144,919</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>236,106</b>	<b>91,187</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 48,837</b>	<b>\$ 236,106</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ 249,066	\$ 320,788

See accompanying notes to the consolidated financial statements.

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**PINETREE CAPITAL CORP.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2003 and 2002**

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**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". The Company's principal business is to fund emerging growth businesses with breakthrough proprietary products. The Company's interests are primarily in companies with application and platform software technologies, telecommunications and fibre optics technologies, and biomedical technology. Pinetree also takes advantage of special situations and merchant banking opportunities and makes investments in other public companies in a variety of sectors.

**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.) and Pinetree (Barbados) Inc. All significant inter-company accounts and transactions have been eliminated on consolidation.

(b) Investments:

At each financial reporting period, the Company's management estimates the fair value 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 sheet 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.

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**PINETREE CAPITAL CORP.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2003 and 2002**

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**2. Significant accounting policies (continued):**

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 a decline in value as indicated by the assessment of the financial condition of the investment based on third party financing, operational results, forecasts and other developments since acquisition.
2. Options and warrants of privately held securities are carried at cost unless there is 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.

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**PINETREE CAPITAL CORP.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2003 and 2002**

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**2. Significant accounting policies (continued):**

(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:

	<b>Rate</b>	<b>Basis</b>
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 and 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 period of disposition. Dividend income is recorded on the ex-dividend date. Interest income and other income are recorded on an accrual basis.

(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. All 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 income 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 (loss) in the year in which those temporary differences are expected to be recovered or settled.

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**PINETREE CAPITAL CORP.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2003 and 2002**

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**2. Significant accounting policies (continued):**

(h) Stock-based compensation plans:

The Company has stock-based compensation plans which are described in note 6(c). Any consideration received on the exercise of stock options or sale of stock is credited to share capital. The Company records compensation expense and credits contributed surplus for all stock options granted. 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 is estimated at the date of grant using the Black-Scholes option pricing model.

(i) Earnings (loss) per share:

Basic earnings (loss) per share have been determined by dividing net income (loss) 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. Diluted earnings (loss) 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.

(j) 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 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.

**3. Changes in accounting policies:**

Stock options:

Effective January 1, 2003, the Company adopted CICA 3870 Handbook Section ("CICA 3870"), "Stock-based Compensation and Other Stock-based Payments". Under this new standard, companies are required to account for all stock options granted in accordance with the fair value method of accounting for stock-based compensation after January 1, 2004 and are required to apply this new standard retroactively if they adopt the new standard after January 1, 2004. As permitted by CICA 3870 the Company has applied this change prospectively for new awards granted on or after January 1, 2003.

**PINETREE CAPITAL CORP.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2003 and 2002**

**4. Investments:**

**(I) Investments consist of the following as at December 31, 2003:**

	Security Description	Cost	Fair Value
<b>Investments with a quoted market value</b>			
Enghouse Systems Limited	600,000 common shares	\$ 1,452,773	\$ 9,720,000
Genevest Inc. (note 7)	1,870,803 common shares	1,641,659	5,612,409
Tengtu International Corp.	593,000 common shares		
	275,000 warrants expire Jun 19, 2004	419,184	1,494,674
FNX Mining Company Inc.	157,500 common shares	991,915	1,373,400
Bolivar Gold Corp.	250,000 common shares		
	125,000 warrants expire Aug 25, 2008	337,500	591,250
Other equity investments (a)		4,468,956	3,846,418
		\$ 9,311,987	\$ 22,638,151
<b>Investments with no quoted market value</b>			
Fiber Optics System Technology Inc.	428,135 common shares; 93,012 warrants expire Oct 13, 2005		
	10% Series "A" convertible debenture		
	10% Series "B" convertible debenture	\$ 2,710,540	
Primacy Corporation	3,530,373 common shares	1,881,038	
Solomon Technologies, Inc.	11% convertible debenture, due May 31, 2004		
		703,573	
Other equity investments		643,943	
Total cost		\$ 5,939,094	\$ 5,939,094
Unrealized loss			(2,635,668)
Fair value of investments with no quoted market value			\$ 3,303,426
Total investments		\$ 15,251,081	\$ 25,941,577

**(II) Investments consist of the following as at December 31, 2002:**

	Security Description	Cost	Fair Value
<b>Investments with a quoted market value</b>			
Enghouse Systems Limited	650,000 common shares	\$ 1,573,838	\$ 6,435,000
Genevest Inc. (note 7)	1,870,803 common shares	1,641,659	2,216,340
Brownstone Ventures Inc.	2,685,859 common shares	398,515	456,596
Cambior Inc.	200,000 common shares	334,141	450,000
NSI Global Inc.	3,559,500		
	493,955 warrants expire Dec 31, 2003	1,715,347	444,938
Other equity investments (a)		8,235,053	4,166,981
		\$ 13,898,553	\$ 14,169,855
<b>Investments with no quoted market value</b>			
Fiber Optics System Technology Inc.	428,135 common shares; 93,012 warrants expire Oct 13, 2005	\$ 2,117,220	
Primacy Corporation	3,530,373 common shares		
	50,000 warrants expire Jul 13, 2003	1,881,038	
Quick Link Communication	313,500 special warrants, Dec 31, 2003	498,750	
Solomon Technologies, Inc.	11% convertible debenture, due Jan 18, 2002	703,573	
Other equity investments		643,943	
Total cost		\$ 5,844,524	\$ 5,844,524
Unrealized loss			(1,807,850)
Fair value of investments with no quoted market value			\$ 4,036,674
Total investments		\$ 19,743,077	\$ 18,206,529

**PINETREE CAPITAL CORP.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2003 and 2002**

**4. Investments (continued):**

- (a) Other equity investments include all investments which are not in the top five investments, by fair value, held by Pinetree as at December 31, 2003 and 2002.

**5. Capital assets:**

Capital assets consist of the following:

	2003			2002		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 106,340	\$ 77,859	\$ 28,481	\$ 95,751	\$ 68,719	\$ 27,032
Leasehold improvements	255,706	114,448	141,258	255,706	73,104	182,602
Furniture and equipment	293,811	177,418	116,393	293,811	148,320	145,491
	<b>\$ 655,857</b>	<b>\$ 369,725</b>	<b>\$ 286,132</b>	<b>\$ 645,268</b>	<b>\$ 290,143</b>	<b>\$ 355,125</b>

**6. Share capital:**

Share capital consists of the following:

**Authorized:** Unlimited number of common shares

**Issued and outstanding:**

	2003		2002	
	# of Shares	Amount	# of Shares	Amount
Balance, beginning of year	9,400,169	\$ 18,849,789	9,579,569	\$ 18,944,187
Cancelled employee stock purchase loan (b)	(200,000)	(360,000)	—	—
Purchased for cash under issuer buyback plan (a)	(441,500)	(336,709)	(179,400)	(94,398)
Balance, end of year	<b>8,758,669</b>	<b>18,153,080</b>	9,400,169	18,849,789
Share purchase loan (b)	—	—	(225,000)	(405,000)
		<b>\$ 18,153,080</b>		<b>\$ 18,444,789</b>

- (a) Issuer buyback plan:

In fiscal 2002, the Company had planned to purchase up to 470,000 common shares through a normal course issuer bid (the "2002 NCIB"). The 2002 NCIB ran from May 16, 2002 to May 15, 2003. Purchase and payment for the common shares were made in accordance with TSX requirements. On June 27, 2003, the Company cancelled 312,000 common shares at an average acquisition price of \$0.68 per share pursuant to the 2002 NCIB.

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**PINETREE CAPITAL CORP.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2003 and 2002**

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**6. Share capital (continued):**

During the year, the Company planned to purchase up to 455,000 common shares through a new normal course issuer bid (the "2003 NCIB"). The 2003 NCIB runs from May 26, 2003 to May 25, 2004. Purchase and payment for the common shares will be made in accordance with TSX requirements. As at December 31, 2003, pursuant to the 2003 NCIB, the Company had purchased 201,500 common shares of the Company at an average price of \$0.78 per share.

(b) Employee stock purchase plan ("ESPP"):

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. At December 31, 2002, an officer and director of the Company was indebted to the Company for \$405,000 in connection with the Company's ESPP agreement dated November 16, 1994. During the year, \$45,000 related to the ESPP agreement was repaid. In accordance with the terms of the ESPP, on June 11, 2003, the ESPP amount outstanding of \$360,000 was cancelled without interest or penalty and the related shares issued pursuant to the ESPP were also cancelled.

(c) 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 plan.

(d) Stock option exercise price reduction and grants:

On June 11, 2003, the Company announced that subject to shareholder (in respect of options held by insiders) and regulatory approval it has reduced the exercise price of 893,168 options to \$1.00 per share and extended the option expiry dates to June 10, 2008. The options previously

**PINETREE CAPITAL CORP.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2003 and 2002**

**6. Share capital (continued):**

had expiry dates ranging from March 23, 2004 to December 3, 2006 and had exercise prices ranging from \$1.20 to \$3.62 per share. The options are held by directors, officers, consultants and employees of the Company. Of the 893,168 options, 885,668 options are held by insiders and, as such, the exercise price reduction and change of expiry date will not take effect until shareholder approval is received, which is expected to occur at the next annual shareholders' meeting in May 2004.

During the year ended December 31, 2003, 5,000 options exercisable at \$2.00 expiring November 26, 2005 and 2,500 options exercisable at \$3.50 expiring May 29, 2005 were approved for an exercise price reduction to \$1.00 expiring June 10, 2008. These stock options were issued to employees and in accordance with CICA 3870, accounted for using the fair value method and expensed in the consolidated statements of operations. The expense was the incremental value calculated as the difference between the fair value of the modified option and the value of the option immediately before its terms were modified. The fair value of these options was estimated at the date of modification using the Black-Scholes option pricing model with the following assumptions for the year ended December 31, 2003: expected volatility of 85.6%; a 3% risk-free discount rate; expected life of 3.5 years; no annual dividends and no vesting periods.

The fair value of stock options at the reduced price was \$0.44 per option and the fair value of the original stock options was \$0.28 per option. During the year ended December 31, 2003, included in the operating, general and administrative expenses was \$1,200.

On June 11, 2003, the Company granted 112,500 new options exercisable at \$1.00 per share, expiring June 10, 2008. The new options were granted to directors and employees of the Company. As at December 31, 2003, the number of options available to be granted under the 2000 plan was 567,500 (2002 - 680,000). The fair value of stock options granted during the year with the above assumptions with a vesting period of 24 months was \$0.44 per option. During the year ended December 31, 2003, included in the operating, general and administrative expenses was \$13,753 relating to stock options granted during the year.

(e) A summary of the status of the Company's stock option plans as at December 31, 2003 and 2002 and changes during the years ended on those dates is presented below:

<b>Stock Options</b>	<b>2003</b>		<b>2002</b>	
	<b># of Shares</b>	<b>Weighted average exercise price</b>	<b># of Shares</b>	<b>Weighted average exercise price</b>
Outstanding, at beginning of year	<b>1,055,668</b>	<b>\$ 2.53</b>	1,155,668	\$ 2.51
Granted	<b>112,500</b>	<b>1.00</b>	—	—
Forfeited	<b>(152,500)</b>	<b>(2.32)</b>	(100,000)	2.33
Outstanding, at end of year	<b>1,015,668</b>	<b>\$ 2.38</b>	1,055,668	\$ 2.53
Exercisable, at end of year	<b>933,170</b>	<b>\$ 2.50</b>	1,037,545	\$ 2.54

**PINETREE CAPITAL CORP.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2003 and 2002**

**6. Share capital (continued):**

The following table summarizes information about stock options outstanding as at December 31, 2003:

Range of exercise prices	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 (years)
\$1.00 - \$1.99	230,000	\$ 1.09	2.53	147,502	\$ 2.53	1.46
\$2.00 - \$3.62	785,668	\$ 2.76	1.30	785,668	\$ 2.76	1.30
	<b>1,015,668</b>	<b>\$ 2.38</b>	<b>1.58</b>	<b>933,170</b>	<b>\$ 2.50</b>	<b>1.33</b>

**7. Advances from affiliated company:**

The Company's advances of \$2,793,597 (2002 - \$6,626,047) from an affiliated company, Genevest Inc. (a shareholder and reporting issuer trading on the TSX Venture Exchange under the symbol "GNV") is denominated in U.S. dollars (note 11), bears interest at Royal Bank Prime plus 1% per annum and are collateralized by a general security agreement on all present and future tangible and intangible personal property of the Company. Included in the consolidated statements of operations is approximately \$249,000 (2002 - \$321,000) of interest expense charged to the Company by Genevest Inc. In addition, the Company holds an investment in Genevest Inc. of \$5,612,409 (2002 - \$2,216,340) (note 4).

On October 1, 2003, in connection with the the Company's normal operations, the Company signed a priority agreement with CIBC World Markets Inc. ("CIBC") and Genevest Inc. whereby CIBC has priority over Genevest Inc. in the assets of the Company.

**8. Related party transactions:**

(a) During the year, Pinetree had consulting agreements with officers and directors representing approximately \$30,000 (2002 - \$30,000) per month. Included in operating, general and administrative expenses in 2003 is approximately \$357,000 (2002 - \$357,000) paid under these contracts. Included in the consulting agreement for the Chairman and Chief Executive Officer of the Company, is an annual bonus equal to 10% of the realized pre-tax profit of the Company. For the years ended December 31, 2003 and 2002, the Company had net realized pre-tax losses and accordingly, no bonus has been accrued.

(b) Included in the consolidated statements of operations is approximately \$30 (2002 - \$8,000) of interest income relating to interest charged to an affiliated company, Maple Minerals Corp. (a reporting issuer trading on the TSX Venture Exchange under the symbol "MPM" with similar officers and director).

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**8. Related party transactions (continued):**

- (c) During the year, the Company sold 510,000 common shares of an affiliated company, Brownstone Ventures Inc. (a reporting issuer trading on the TSX Venture Exchange under the symbol "BWN" with similar officers and director) for proceeds of \$126,863. The sale resulted in a net gain of \$51,191. In addition, the Company holds an investment in Brownstone Ventures Inc. of \$543,965 (2002 - \$456,596).
- (d) Other income includes consulting income of \$178,675 (2002 - \$197,881) from companies in which Pinetree has an investment interest.
- (e) The Company has a cost sharing arrangement with certain of its affiliated companies covering specific operating, general and administrative expenses including lease commitments and salaries.

**9. Income taxes:**

- (a) Income tax expense attributable to income (loss) before income taxes differs from the amounts computed by applying the combined federal and provincial tax rate of 36.77% (2002 – 38.62%) of pre-tax income as a result of the following:

	2003	2002
Income (loss) before income taxes	\$ 9,425,430	\$ (8,757,859)
Computed "expected" income tax expense (recovery)	3,465,731	(3,382,285)
Net future income tax asset not recognized	(2,368,722)	2,423,166
Non-taxable portion of capital losses (gains)	569,959	(605,272)
Non-taxable portion of reversal of unrealized losses (gains)	(557,196)	353,090
Non-taxable portion of unrealized losses (gains)	(1,116,066)	1,182,246
Permanent and other differences	6,294	29,055
Recovery of income taxes	\$ —	\$ —

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

	2003	2002
<b>Future tax assets</b>		
Capital assets – differences in amortization and unamortized capital cost	\$ 90,011	\$ 64,557
Investments – differences in accounting cost and tax cost	—	1,005,754
Non-capital losses carried forward	3,027,162	2,899,762
Capital losses carried forward	682,832	115,449
Net future tax assets	\$ 3,800,005	\$ 4,085,522

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**9. Income taxes (continued):**

<b>Future tax liabilities</b>			
Investments – differences in accounting cost and tax cost	\$	(1,753,462)	—
Net future tax liabilities	\$	(1,753,462)	\$ —
Total future tax assets and liabilities		2,046,543	4,085,522
Less: valuation allowance		(2,046,543)	(4,085,522)
<b>Net future tax assets</b>	\$	—	\$ —

(c) As at December 31, 2003, the Company had capital losses of approximately \$3,780,000 (2002 - \$680,000) which have no expiry date.

(d) As at December 31, 2003, the Company has non-capital losses of approximately \$8,381,000 expiring as follows:

2008	\$	5,835,000
2009		2,546,000
	\$	8,381,000

**10. Lease commitments:**

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

2004	\$	250,300
2005		250,300
2006		250,300
2007		107,000
	\$	857,900

**11. Financial instruments:**

(a) Fair value:

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

- (i) The carrying values of cash and cash equivalents, prepaid and other receivables, advances from affiliated company, 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.

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**11. Financial instruments (continued):**

(ii) Investments are carried at amounts in accordance with the Company's accounting policy set out in note 2(b).

(b) Currency risk:

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

As at December 31, 2003, cash and cash equivalents included \$10,453 (2002 - \$18,147), investments included \$4,861,527 (2002 - \$3,995,544), advances from affiliated company included \$2,793,597 (2002 - \$6,069,699), due to brokers included \$154,715 (2002 - \$542,044) and accounts payable and accrued liabilities included \$1,145 (2002 - nil) 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 counterparty 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.

**12. Comparative consolidated financial statements:**

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2003 consolidated financial statements.