



## **Pinetree Capital Ltd. Management's Discussion and Analysis**

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**For the Period Ended: September 30, 2004**

**Date of Report: November 5, 2004**

**Outstanding Number of Shares: 13,733,421**

### **Nature of the Business**

Pinetree Capital Ltd. ("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 primarily in companies with application and platform software technologies, telecommunications and fibre optics technologies, and biomedical technology. Pinetree also takes advantage of special situations, merchant banking opportunities, and makes investments in a variety of sectors, primarily in gold and other mineral resources.

### **Significant accounting policies**

Management has prepared the consolidated financial statements and this Management's Discussion and Analysis ("MD&A") for the period ended September 30, 2004, after giving effect to the combination of Pinetree and Genevest Inc. ("Genevest") and the related transactions on the basis described under the Business Combination section below. The consolidated financial statements of Pinetree have been derived from the following:

- the unaudited consolidated financial statements of Pinetree as at and for the four months ended September 30, 2004; and
- the unaudited consolidated financial statements of Genevest as at and for the nine months ended September 30, 2004.

The following adjustments were made with respect to the consolidated financial statements:

- The elimination of the inter-company advances as at September 30, 2004.
- The elimination of the inter-company interest, management fee and dividends between Pinetree and Genevest for the four months ended September 30, 2004.
- The reversal of Pinetree's amortization of capital assets after the business combination.
- The allocation of the aggregate purchase price to Pinetree's net assets, in accordance with the reverse take-over method of accounting as described in Note 3 of the Notes to the Consolidated Financial Statements.

The combination has been reflected as an acquisition of Pinetree by Genevest in the consolidated financial statements. The consolidated financial statements have been prepared

using accounting policies that are consistent with the policies used in preparing Genevest's audited consolidated financial statements as at and for the year ended December 31, 2003.

This MD&A of the financial condition and results of operations should be read in conjunction with:

- the description of the business combination transaction in the Joint Management Information Circular ("Circular") of Pinetree and Genevest dated April 20, 2004 and in the Business Combination section below;
- the interim unaudited consolidated financial statements as at and for the nine months ended September 30, 2004;
- the MD&A and interim unaudited consolidated financial statements as at and for the six months ended June 30, 2004;
- the MD&A and interim unaudited consolidated financial statements as at and for the three months ended March 31, 2004 for both Pinetree and Genevest;
- the MD&A and consolidated financial statements and notes thereto included in Pinetree's and Genevest's annual consolidated financial statements as at and for the year ended December 31, 2003 which are also included in the Circular;

Accounting policies followed in the preparation of the annual consolidated financial statements are consistent with those used in the preparation of the September 30, 2004 interim consolidated financial statements.

### **Caution Regarding Forward-Looking Statements**

This Management's Discussion and Analysis contains forward-looking statements which are subject to risks and uncertainties and other factors that may cause Pinetree's results to differ materially from expectations. When reviewing the Company's forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. These include risks relating to market fluctuations, investee performance, strength of the Canadian and US economy, foreign exchange fluctuations and other risks. These forward-looking statements speak only as of the date hereof. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update these forward-looking statements.

### **Business combination**

#### Acquisition of Genevest

On June 1, 2004, Pinetree had acquired Genevest by amalgamating Genevest with Pinetree's wholly owned subsidiary, 981268 Alberta Ltd. Existing common shares of Genevest were exchanged for common shares of Pinetree on the basis of 2.2 pre-consolidation common shares of Pinetree for each common share of Genevest. The 1,874,803 common shares of Genevest that were held by Pinetree were sold to 981268 Alberta Ltd. prior to the amalgamation for proceeds of \$4,620,883 and subsequently cancelled after amalgamation.

Effective June 2, 2004, Pinetree consolidated its issued and outstanding common shares on a one new for 1.75 old basis and changed its name from "Pinetree Capital Corp." to "Pinetree

Capital Ltd.” After giving effect to the consolidation and name change, shareholders of Genevest received approximately 1.26 post-consolidation common shares of Pinetree for each Genevest common share.

Pinetree also issued stock options to replace the existing Genevest stock options. Each Genevest stock option will allow the holder to purchase 1.26 post-consolidation Pinetree common shares for an exercise price equal to the exercise price of the Genevest stock options previously held divided by 1.26, and with an expiry date and vesting provisions similar to those of the previously outstanding Genevest stock options.

Pinetree acquired all of the remaining issued and outstanding shares of Genevest for a deemed aggregate consideration of \$15,030,212 by issuing 16,826,860 pre-consolidation common shares of Pinetree.

The transaction was accounted for as a reverse takeover of Pinetree by Genevest in accordance with the accounting requirements of Emerging Issues Committee Abstract #10 of the Canadian Institute of Chartered Accountants’ Handbook, since the former shareholders of Genevest will hold 70.4% of the post amalgamation common shares of Pinetree immediately after the completion of the transaction.

Application of reverse takeover accounting results in the following:

- (a) The consolidated financial statements of the combined entity are issued under the name of the legal parent (Pinetree) but are considered a continuation of the financial statements of the legal subsidiary (Genevest).
- (b) As Genevest is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements of the continuing entity at their carrying values. Any comparative figure of prior periods will reflect the results of operations of Genevest exclusively.
- (c) Genevest is deemed to acquire control of the net assets and operations of Pinetree effective June 1, 2004. For purposes of this transaction, the deemed consideration is \$15,201,410, being 82.5% of the net assets of Pinetree immediately prior to the business combination, plus transaction costs of \$171,198.

Prior to the business combination Genevest had an ownership interest in Pinetree of 17.5% and, upon completion of the transaction, purchased an additional 82.5% of Pinetree’s net assets.

The total purchase price will be allocated to the fair value of Pinetree’s net assets as follows:

	<b>As at June 1, 2004</b>	
<b>Purchase price</b>		
Original investment in Pinetree common shares at fair value	\$	1,995,000
82.5% of the fair value of Pinetree’s net assets acquired		15,030,212
Transaction costs		171,198
	<u>\$</u>	<u>17,196,410</u>

<b>Fair value of Pinetree's net assets acquired</b>	
Current assets	\$ 5,056,786
Investments	20,253,719
Capital assets, net	<u>267,117</u>
	25,577,622
Less: current liabilities	(7,198,792)
½ Transaction costs	(171,198)
½ Share issuance costs	<u>10,807</u>
<b>Fair value of net assets assumed</b>	<u>\$ 18,218,439</u>
<b>Excess of fair value of net assets assumed over purchase price</b>	<u>\$ 1,022,029</u>
<b>Allocation of the excess fair value:</b>	
Capital assets	267,117
Extraordinary gain	<u>754,912</u>
	<u>\$ 1,022,029</u>

The excess of fair value of net assets assumed over purchase price represents negative goodwill which is recorded as a reduction of Pinetree's net capital assets balance with the excess recorded as an extraordinary gain in accordance with Canadian generally accepted accounting principles. This extraordinary gain is not taxable.

The following is a summary of the Share Capital after the business combination:

	Number of shares	Amount (\$)
<b>Common Shares:</b>		
<b>Balance as at December 31, 2003</b>	8,758,669	\$ 8,750,570
Issued for cash pursuant to exercise of stock options	3,439	-
Issued for cash pursuant to exercise of stock options	-	15,675
Purchased for cash under issuer buyback plan	(215,000)	-
Purchased for cash under issuer buyback plan	-	(504,279)
Cancellation of Genevest shares held by Pinetree	-	(4,620,883)
Cancellation of Pinetree shares held by Genevest	(1,500,000)	-
Shares issued to Genevest shareholders	16,826,860	15,201,410
Share issuance costs		<u>(10,807)</u>
<b>Common shares before reverse split, June 1, 2004</b>	<u>23,873,968</u>	<u>18,831,686</u>
Reverse split (1.75:1) on June 2, 2004	13,642,267	-
Purchased for cash under issuer buyback plan	(165,500)	(309,330)
Issued for cash pursuant to exercise of stock options	<u>282,855</u>	<u>336,597</u>
<b>Balance as at September 30, 2004</b>	<u>13,759,622</u>	<u>\$ 18,858,953</u>

In accordance with Emerging Issues Committee Abstract #10 of the Canadian Institute of Chartered Accountants' Handbook, the number of common shares disclosed reflects that of the legal parent, Pinetree.

## Results of Operations

### Financial Highlights for the nine months ending September 30, 2004 with comparatives:

Operating Results (Unaudited)	Nine months ended September 30,	
	2004	2003
Gains on disposal of investments, net	\$ 12,717,429	\$ 5,691,326
Unrealized gains (losses) on investments, net	(26,861,926)	3,966,922
Net investment gains (losses)	(14,144,497)	9,658,248
Income (loss) before extraordinary gain	(11,197,396)	6,113,735
Net income (loss) for the period	(10,442,484)	6,113,735
<b>Basic and diluted earnings (loss) per common share before extraordinary gain</b>	(0.99)	0.65
<b>Basic and diluted earnings (loss) per common share</b>	(0.92)	0.65

For the nine months ended September 30, 2004, the Company generated a realized net gain on disposal of investments of \$12,717,429 compared to a net gain on disposal of investments for the same period in 2003 of \$5,691,326. During the current period, 84.4% of the realized net gain was attributable to the sale of marketable securities as compared to 39.5% in the same period last year.

The Company also had net unrealized losses on investments of \$26,861,926 in the nine months ended September 30, 2004, compared to net unrealized gains of \$3,966,922 for the same period in 2003. Of the unrealized net losses for the current quarter, 61.3% was from the reversal of unrealized net gains on the disposal of investments and 38.7% was due to the write down to market on the Company's investments.

The Company had a net investment loss of \$14,144,497 in the current period compared to net investment gain of \$9,658,248 in the same period of 2003. The net investment loss in the current period was due primarily to the unrealized losses on investments.

Other revenue totalled \$175,232 in the nine months ended September 30, 2004 compared to \$409,111 in the same period last year. Other revenue is comprised of \$97,424 (nine months ended September 30, 2003 - \$318,556) of interest from the Company's advances to affiliated companies and \$22,472 (nine months ended September 30, 2003 - \$90,555) of dividend income distributed from certain of the Company's investments. Interest income decreased due to the significant repayment of amounts due to from affiliated companies. Other revenue also includes also comprised of \$77,808 (nine months ended September 30, 2003 - nil) from consulting fees.

Operating, general and administrative expenses in the nine months ended September 30, 2004 increased from \$1,452,159 in the nine months ended September 30, 2003 to \$3,160,869 in the current period. The increase in the current period resulted from an annual bonus accrual of \$1,044,544 (nine months ended September 30, 2003 - \$404,608) to the Company's Chairman

and Chief Executive Officer, equal to 10% of the realized pre-tax profit of the Company. The Company also paid \$700,000 plus GST upon the termination of the consulting agreement for the Chairman and Chief Executive Officer of Genevest effective May 31, 2004.

The Company experienced an unrealized foreign exchange gain of \$131,655 on its US dollar denominated net liabilities versus a foreign exchange loss of \$430,816 in the nine months ended September 30, 2003. The gain arose due to the increase through the period in the value of the Canadian versus the U.S. dollar, decreasing the Canadian dollar value of U.S. dollar advances from an affiliated company and amounts due to brokers.

The Company recorded a recovery of income taxes in the nine months ended September 30, 2004 of \$6,319,223 as compared to a provision for income taxes of \$1,489,659 in the same period last year. The recovery of income taxes in the current period was primarily a result of the decrease in the excess of fair value over tax cost on long term assets and marketable securities held at the end of the period which decreases future tax liabilities.

In the current period, the Company reported a loss of \$11,197,396 (\$0.99 per share) before extraordinary gain from acquisition compared to income before extraordinary gain of \$6,113,735 (\$0.65 per share) in the same period last year. As a result of the business combination in the prior quarter, the Company had an extraordinary gain from acquisition of \$754,912.

Net loss for the nine months ended September 30, 2004 was \$10,442,484 (\$0.92 per share), arising primarily from net unrealized losses on investments. In the nine months ended September 30, 2003, net income for the period was \$6,113,735 (\$0.65 per share), primarily from net investment gains.

### Summary of Quarterly Results:

	Quarter ended (unaudited)			
	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003
Net investment gains (losses)	1,428,900	(15,352,667)	(220,730)	17,938,559
Net income (loss)	191,161	(9,750,774)	(882,871)	10,473,530
Earnings (loss) per share - basic	0.01	(1.54)	(0.09)	1.16
Earnings (loss) per share - diluted	0.01	(1.54)	(0.09)	1.16

	September 30, 2003	June 30, 2003	March 31, 2003	December 30, 2002
Net investment gains (losses)	12,923,478	3,633,097	(6,898,327)	6,190,838
Net income (loss)	8,991,225	3,833,894	(6,711,384)	(706,715)
Earnings (loss) per share - basic	0.98	0.41	(0.70)	(0.07)
Earnings (loss) per share - diluted	0.98	0.41	(0.70)	(0.07)

For the three months ended September 30, 2004, the Company generated realized net gains on disposal of investments of \$81,507 compared to realized net gains for the three months ended September 30, 2003 of \$3,075,583. During the three months ended September 30, 2004, the

Company recorded unrealized net gains on investments of \$1,347,393 versus unrealized net gains of \$9,847,895 in the same period last year. Of the unrealized net losses for the current quarter, 2.1% was from the reversal of unrealized net gains on the disposal of investments and 97.9% was due to the write down to market on the Company's investments.

The Company had net investment gains of \$1,428,900 in Q3 compared to net investment gains of \$12,923,478 in Q3 of 2003. The net investment gains in the current quarter was due primarily to the unrealized gains on investments.

Operating, general and administrative expenses in the three months ended September 30, 2004 decreased from \$714,039 for the three months ended September 30, 2003 to \$551,255 in the current period. During the current quarter, the Company recognized \$171,198 of professional fee expenses that were previously recorded as Prepaids for amounts paid to complete the business combination with Genevest. Operating, general and administrative expenses decreased primarily due to consulting contracts which were terminated effective May 31, 2004, as a result of the business combination.

Net income for the three months ended September 30, 2004 was \$191,161 (\$0.01 per share), arising primarily from net unrealized gains on investments. In the three months ended September 30, 2003, net income for the period was \$8,991,225 (\$0.98 per share), primarily from unrealized gains on investments.

### **Cash flows**

The Company generated \$3,299,823 in cash from operating activities in the three months ended September 30, 2004, as compared to net cash generated from operations of \$3,215,054 in Q3 of 2003. During the current quarter, the Company received additional amounts from brokers of \$3,923,027 and received repayments of \$708,315 of advances to affiliated companies which positively impacted the cash flows from operating activities.

For the three months ended September 30, 2004, cash generated from financing activities was \$107,319, versus cash used of \$346,488 in the three months ended September 30, 2003. The increase was primarily a result of proceeds of \$336,597 for the issuance of Pinetree common shares from the exercise of stock options offset against \$240,085 that was used to purchase Pinetree common shares under a Normal Course Issuer Bid ("NCIB"). In Q3 of 2003, the Company repurchased \$346,488 of common shares under the NCIB.

Net cash used in investing activities was \$3,222,087 in the three months ended September 30, 2004 as compared to net cash used of \$3,105,725 in the three months ended September 30, 2003. During the current quarter, the Company purchased \$7,719,789 of new investments, a decrease of \$8,458,624 as compared to \$16,178,413 in the three months ended September 30, 2003. In Q3 of 2004, the Company realized proceeds from disposition of investments of \$4,500,731 as compared to \$13,072,688 in Q3 of 2003.

For the three months ended September 30, 2004, the Company had a net increase in cash and cash equivalents of \$185,055 as compared to net cash used of \$237,159 in the three months ended September 30, 2003.

## Investments

During the three months ended September 30, 2004, the Company did not make any new strategic investments. However, the Company did make a number of new investments in, and dispositions of, marketable securities of a variety of mineral resource companies yielding net realized gains of approximately \$445,000. As at September 30, 2004, the Company held marketable securities with a quoted market value of approximately \$56.0 million (Dec 31, 2003 – \$65.7 million), of which approximately \$49.1 million (Dec 31, 2003 – \$60.3 million) represented investments in gold and mineral resource companies.

Refer to note 4 of the Notes the Consolidated Financial Statements for details of the Company's investment portfolio.

## Liquidity and Capital Resources

<b>Balance Sheet Highlights (unaudited)</b>	<b>September 30, 2004</b>	<b>December 31, 2003</b>
Investments, at fair value	\$ 74,146,077	\$ 80,016,099
Total assets	75,422,251	84,218,415
Total liabilities	24,262,496	32,800,796
Share capital and contributed surplus	19,765,228	9,580,608
Retained earnings	31,394,527	41,837,011
<b>Net asset value per share – Basic</b>	<b>3.72</b>	<b>5.32</b>
<b>Net asset value per share – Diluted</b>	<b>3.15</b>	<b>4.55</b>

From December 31, 2003 to September 30, 2004, the fair value of Pinetree's portfolio decreased by 7%, to \$74,146,077 from \$80,016,099 due to the sale of investments with large gains such as Enghouse Systems Limited and Wheaton River Mineral Ltd and as a result of fair value adjustments of unrealized losses of its holdings during the current quarter of \$26,861,926. The cost base of the Company's portfolio was \$60,843,739 as at September 30, 2004 (December 31, 2003 - \$49,865,606). As such, the excess of fair value over cost stood at \$13,302,338 as at September 30, 2004 versus an excess of \$30,150,493 as at December 31, 2003.

Cash and cash equivalents stood at \$273,985 on September 30, 2004 as compared to \$31,999 on December 31, 2003, an increase of \$241,986. Net advances to affiliated companies decreased to \$527,015 as at September 30, 2004 compared to \$4,170,317 as at December 31, 2003. The decrease was a result of the significant repayment of Genevest's advances of \$2,793,597 as at December 31, 2003 and the amalgamation of Pinetree and Genevest on June 1, 2004 which eliminated all inter-company balances in preparing the consolidated financial statements of the Company.

Amounts due to brokers decreased by \$3,002,374 from \$20,295,492 as at December 31, 2003 to \$17,293,118 as at September 30, 2004. Accounts payable and accrued liabilities increased to \$1,383,147 from \$145,526 as at December 31, 2003. The increase was primarily from a bonus accrual to the Chairman and Chief Executive Officer of the Company of \$1,044,544 for the nine months ended September 30, 2004 (see Related Party Transactions below).

During the period, Pinetree's management handled all in-bound investor relations inquiries.

### **Commitments and Off Balance Sheet Arrangements**

As at September 30, 2004, the Company has material commitments for cash resources of \$17,293,118 due to brokers; an accrued liability of \$1,259,413 owing to the Chairman and Chief Executive Officer of the Company relating to an annual bonus equal to 10% of the realized pre-tax profit of the Company which is included in his consulting agreement; and \$2,222,638 income taxes payable. As at the date of this MD&A, the Company has paid \$300,000 plus GST to the Chairman and Chief Executive Officer of the Company relating to the accrued liability. The Company's cash and cash equivalents and marketable securities is sufficient to pay these material commitments which are due on demand.

The Company continues to have no long-term debt; however, the Company made a lease commitment for its premises starting June 1, 2001 for annual payments of approximately \$243,000 (\$20,290 monthly) until May 31, 2007. The Company also has consulting agreements with officers and directors representing approximately \$29,500 per month that renew automatically annually.

Arising from the Business Combination of Pinetree and Genevest which is described in the Joint Management Information Circular ("Circular") of Pinetree and Genevest dated April 20, 2004, are two dissenting shareholders holding a total of 260,319 shares of Genevest, now a wholly owned subsidiary of Pinetree. In accordance with Alberta's Business Corporations Act, shareholders who dissent to an amalgamation transaction have the right to be paid fair value by the Company for their shares. The Company is currently in negotiations with the dissenting shareholders to determine that amount.

On October 1, 2003, in connection with the Company's normal operations, the Company signed a priority agreement with CIBC World Markets Inc. ("CIBC") whereby CIBC has priority over the assets of the Company that are margined. Pinetree has also signed a Guarantee agreement with CIBC whereby Pinetree guarantees Genevest's outstanding debt to CIBC.

Subsequent to September 30, 2004, the Company received approval for a \$250,000 revolving line of credit and signed a General Security Agreement ("GSA") with Royal Bank of Canada. Under the GSA, the Company's assets are collateralized after giving preference to CIBC.

### **Related Party Transactions**

- (a) During the period, the Company had consulting agreements with officers and directors representing approximately \$29,500 (September 30, 2003 - \$37,000) per month. Included in operating, general and administrative expenses in the nine months ended September 30, 2004 is approximately \$315,000 (September 30, 2003 - \$333,000) 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. Included in operating, general and administrative expenses is \$1,044,544 (nine months ended September 30, 2003 - \$404,608) relating to this bonus. The Company also paid \$749,000 upon the termination of the consulting agreement for the Chairman and Chief Executive Officer of Genevest effective May 31, 2004.

- (b) As at September 30, 2004, the Company's advances to affiliated companies of \$727,015 (December 31, 2003 - \$1,361,592) was to Brownstone Ventures Inc. ("Brownstone"), a reporting issuer trading on the TSXV under the symbol "BWN". The advances bear 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 Brownstone. Included in the consolidated statements of operations is approximately \$45,500 (nine months ended September 30, 2003 - \$94,000) of interest income relating to interest charged to Brownstone. In addition, the Company holds an investment in Brownstone having a fair value of \$759,330 (December 31, 2003 - \$485,000).
- (c) As at September 30, 2004, the Company has advances of \$200,000 from an affiliated company, PowerOne Capital Markets Limited, an Ontario limited market dealer. The Company has a 50% interest in PowerOne Capital Markets Limited.
- (d) Other income includes consulting income of \$71,808 (nine months ended September 30, 2003 - \$nil) 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.

**Additional Information:**

Additional information relating to Pinetree can be found on SEDAR at [www.sedar.com](http://www.sedar.com).