

Consolidated Financial Statements of

Pinetree Capital Ltd.

(Unaudited)

June 30, 2004

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PINETREE CAPITAL LTD.
Consolidated Balance Sheets
As at June 30, 2004 and December 31, 2003
(unaudited)

	June 30, 2004	December 31, 2003 (note 3)
Assets		
Investments, at fair value (note 5)	\$ 69,498,119	\$ 80,016,099
Cash and cash equivalents	88,930	31,999
Advances to affiliated companies	1,235,330	4,170,317
Prepaid and other receivables	191,929	-
	\$ 71,014,308	\$ 84,218,415
Liabilities and Shareholders' Equity		
Due to brokers	\$ 13,370,091	\$ 20,295,492
Accounts payable and accrued liabilities	1,645,013	145,526
Income taxes payable (note 6)	2,953,206	895,694
	17,968,310	21,336,712
Future tax liabilities (note 6)	2,231,420	11,464,084
	20,199,730	32,800,796
Shareholders' equity		
Share capital (note 4)	18,751,634	8,750,570
Contributed surplus	859,578	830,038
Retained earnings	31,203,366	41,837,011
	50,814,578	51,417,619
	\$ 71,014,308	\$ 84,218,415

See accompanying notes to the consolidated financial statements.

PINETREE CAPITAL LTD.
Consolidated Statements of Operations
Three and Six Months Ended June 30,
(unaudited)

	Three Months Ended		Six Months Ended	
	2004	2003 (note 3)	2004	2003 (note 3)
Net investment gains (losses)				
Gain on disposal of investments, net	\$ 4,445,808	\$ 2,352,485	\$ 12,635,922	\$ 2,615,743
Unrealized gains (losses) on investments, net	(19,798,475)	1,280,612	(28,209,319)	(5,880,973)
	(15,352,667)	3,633,097	(15,573,397)	(3,265,230)
Other revenue				
Interest and dividend income	18,013	101,824	85,424	268,406
Other income	21,581	-	36,581	-
	(15,313,073)	3,734,921	(15,451,392)	(2,996,824)
Expenses				
Operating, general and administrative	1,433,534	462,508	2,609,614	738,120
Stock-based compensation	15,740	157,668	33,965	157,668
Foreign exchange gain	37,499	247,575	9,567	438,008
Interest	119,894	165,958	287,973	285,002
	1,606,667	1,033,709	2,941,119	1,618,798
Income (loss) before income taxes and extraordinary gain	(16,919,740)	2,701,212	(18,392,511)	(4,615,622)
Recovery of income taxes (note 6)	(6,585,252)	(1,132,682)	(7,175,152)	(1,738,132)
Income (loss) before extraordinary gain	(10,334,488)	3,833,894	(11,217,359)	(2,877,490)
Extraordinary gain from acquisition	583,714	-	583,714	-
Net income (loss) for the period	\$ (9,750,774)	\$ 3,833,894	\$ (10,633,645)	\$ (2,877,490)
Basic and diluted earnings (loss) per common share				
Before extraordinary gain	\$ (1.63)	\$ 0.73	\$ (1.78)	\$ (0.55)
Extraordinary gain	0.09	-	0.09	-
Net income (loss)	\$ (1.54)	\$ 0.73	\$ (1.69)	\$ (0.55)
Weighted average number of common shares outstanding				
Basic and Diluted	6,335,072	5,220,015	6,297,713	5,253,773
Diluted	6,499,462	5,220,015	6,338,212	5,253,773

See accompanying notes to the consolidated financial statements.

PINETREE CAPITAL LTD.
Consolidated Statements of Retained Earnings
Six Months Ended June 30,
(unaudited)

	<u>2004</u>	<u>2003</u> (note 3)
Retained Earnings, beginning of period	\$ 41,837,011	\$ 32,647,655
Net loss for the period	<u>(10,633,645)</u>	<u>(2,877,490)</u>
Retained Earnings, end of period	\$ 31,203,366	\$ 29,770,165

See accompanying notes to the consolidated financial statements.

PINETREE CAPITAL LTD.**Consolidated Statements of Cash Flows
Three and Six Months Ended June 30,
(unaudited)**

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>2004</u>	<u>2003</u> (note 3)	<u>2004</u>	<u>2003</u> (note 3)
Cash flows from (used in) operating activities				
Net income (loss) for the period	\$ (9,750,774)	\$ 3,833,894	\$ (10,633,645)	\$ (2,877,490)
Items not affecting cash				
Gain on disposal of investments, net	(4,445,808)	(2,352,485)	(12,635,922)	(2,615,743)
Unrealized losses (gains) on investments, net	19,798,475	(1,280,612)	28,209,319	5,880,973
Compensation expense for issuance of stock options	15,740	4,668	33,965	4,668
Compensation expense for repricing of stock options	-	153,000	-	153,000
Acquisition adjustments	(2,473,596)	-	(2,473,596)	-
Extraordinary gain from acquisition	(583,714)	-	(583,714)	-
Future income taxes	(6,706,664)	(1,132,682)	(9,232,664)	(1,738,132)
	<u>(4,146,341)</u>	<u>(774,217)</u>	<u>(7,316,257)</u>	<u>(1,192,724)</u>
Changes in non-cash working capital balances related to operations				
Advances to affiliated companies	1,225,431	14,573	2,934,987	2,159,911
Prepaid and other receivables	(181,053)	(1,354)	(191,929)	(91,814)
Due to brokers	(3,951,202)	(919,578)	(6,925,401)	1,094,387
Accounts payable and accrued liabilities	840,995	145,788	1,499,487	123,730
Income taxes payable	121,412	-	2,057,512	-
	<u>(6,090,758)</u>	<u>(1,534,788)</u>	<u>(7,941,601)</u>	<u>2,093,490</u>
Cash flows from (used in) financing activities				
Purchase of shares under normal course issuer bid	(115,051)	(230,499)	(573,524)	(449,276)
Proceeds from issue of share capital	11,250	-	11,250	-
Cancellation of Pinetree shares held by Genevest	(1,995,000)	-	(1,995,000)	-
Cancellation of Genevest shares held by Pinetree	(4,620,883)	-	(4,620,883)	-
Share issuance costs	(21,614)	-	(21,614)	-
	<u>(6,741,298)</u>	<u>(230,499)</u>	<u>(7,199,771)</u>	<u>(449,276)</u>
Cash flows from (used in) investing activities				
Purchase of investments	(10,194,209)	(10,924,517)	(32,705,857)	(18,944,992)
Proceeds on disposal of investments	22,953,119	12,155,768	47,904,160	16,955,801
	<u>12,758,910</u>	<u>1,231,251</u>	<u>15,198,303</u>	<u>(1,989,191)</u>
Net increase (decrease) in cash and cash equivalents, during the period	(73,146)	(534,036)	56,931	(344,977)
Cash and cash equivalents, beginning of period	162,076	283,146	31,999	94,087
Cash and cash equivalents (bank indebtedness), end of period	\$ 88,930	\$ (250,890)	\$ 88,930	\$ (250,890)
Supplemental cash flow information				
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ 119,894	\$ 165,958	\$ 287,973	\$ 285,002

See accompanying notes to the consolidated financial statements.

Pinetree Capital Ltd.
Notes to Consolidated Financial Statements
June 30, 2003
(unaudited)

1. Nature of 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. 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, primarily in gold and other mineral resources.

2. Auditor review:

These unaudited consolidated financial statements have not been reviewed by the Company's auditors.

3. Significant accounting policies:

Management has prepared the unaudited interim consolidated financial statements of the Company in accordance with Canadian generally accepted accounting principles for interim financial reporting. Accordingly, they do not include all of the information and notes required by Canadian generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period.

Management has prepared the consolidated financial statements after giving effect to the combination of Pinetree and Genevest Inc. ("Genevest") and the related transactions on the basis described in Note 4 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 one month ended June 30, 2004; and
- the unaudited consolidated financial statements of Genevest as at and for the six months ended June 30, 2004.

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

- The elimination of the inter-company advances and inter-company interest and dividends between Pinetree and Genevest for the one month ended and as at June 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 4.

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3. Significant accounting policies (continued):

The combination has been reflected as an acquisition of Pinetree by Genevest in these 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. The following information should be read in conjunction with the description of the transaction in the Joint Management Information Circular ("Circular") of Pinetree and Genevest dated April 20, 2004 and in Note 4 of these notes to the consolidated financial statements, and the consolidated financial statements and notes thereto included in the Genevest's annual consolidated financial statements 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 June 30, 2004 interim consolidated financial statements.

4. 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 the 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

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70.4% of the post amalgamation common shares of Pinetree immediately after the completion of the transaction.

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4. Business combination (continued):

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 and any comparative figures will reflect the results of operations of Genevest.
- (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 \$15,372,608, being 82.5% of the net assets of Pinetree immediately prior to the business combination, plus transaction costs of \$342,396.

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:

	As at June 1, 2004
Purchase price	
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	342,396
	<u>\$ 17,367,608</u>
 Fair value of Pinetree's net assets acquired	
Current assets	\$ 5,056,786
Investments	20,253,719
Capital assets, net	267,117
	<u>25,577,622</u>
Less: current liabilities	(7,198,792)
½ Transaction costs	(171,198)
½ Share issuance costs	10,807
	<u>\$ 18,218,439</u>
 Fair value of net assets assumed	
	<u>\$ 18,218,439</u>
 Excess of fair value of net assets assumed over purchase price	
	<u>\$ 850,831</u>
 Allocation of the excess fair value:	
Capital assets	267,117
Extraordinary gain	583,714
	<u>\$ 850,831</u>

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4. Business combination (continued):

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
Common Shares:		
Balance as at December 31, 2003	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		(21,614)
Common shares before reverse split, June 1, 2004	<u>23,873,968</u>	<u>18,820,879</u>
Reverse split (1.75:1) on June 2, 2004	13,642,267	-
Purchased for cash under issuer buyback plan	(31,500)	(69,245)
Balance as at June 30, 2004	<u>13,610,767</u>	<u>\$ 18,751,634</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.

5. Investments:

(I) Investments consist of the following as at June 30, 2004:

Security Description	Cost	Fair Value
Investments in gold and mineral resource companies		
Hecla Mining Company	\$ 3,157,214	\$ 4,424,105
FNX Mining Company Inc.	2,420,014	3,817,170
Solitario Resources Corp.	1,247,350	1,548,000
Pan – Global Energy Ltd.	1,338,339	1,537,500
Durban Roodepoort Deep Ltd.	1,705,437	1,433,032
Other investments in gold and mineral resource companies (a)	<u>27,688,386</u>	<u>30,874,669</u>
	<u>37,556,740</u>	<u>43,634,476</u>

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5. Investments (continued):

	Security Description	Cost	Fair Value
Investments in biotechnology companies			
ChondroGene Limited	1,638,000 common shares	962,282	1,965,600
LAB International Inc.	1,000,000 common shares		
	750,000 warrants expire Nov 1, 2005		
	50,000 warrants expire Dec 22, 2005	1,350,000	1,271,000
Spectral Diagnostics Inc.	420,000 common shares		
	200,000 warrants expire Feb 15, 2005	1,050,000	957,600
Haemacure Corp.	2,000,000 common shares		
	1,000,000 warrants expire Mar 19, 2005	630,000	576,000
TM Biosciences Corp. (b)	42,400 common shares		
	93,750 warrants expire Jun 22, 2005	67,840	114,480
Other investments in biotechnology companies (a)		208,500	6,000
		4,268,622	4,890,680
Other investments			
Enghouse Systems Limited	400,000 common shares	968,515	8,392,000
Fiber Optics Systems Technology Inc.	3,909,400 common shares		
	506,848 warrants expire Oct 13, 2005		
	2,294,311 warrants expire Feb 27, 2006	2,942,846	2,942,846
Tengtut International Corp.	2,087,710 common shares		
	150,000 warrants, tba	2,042,395	2,271,581
AirIQ Inc.	2,603,611 common shares		
	1,111,111 warrants expire Dec 17, 2005	878,901	1,093,517
Brainhunter (formerly TrekLogic Technologies Inc.)	825,000 common shares	642,736	1,072,500
Other equity investments (a)		8,148,657	5,200,519
		15,624,050	20,972,963
Total investments		\$ 57,449,412	\$ 69,498,119

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

	Security Description	Cost	Fair Value
Investments in gold and mineral resource companies			
Newmont Mining Corporation	61,500 common shares	\$ 3,354,420	\$ 4,998,451
Hecla Mining Company	462,500 common shares	1,780,768	4,955,223
Wheaton River Minerals Ltd.	710,000 common shares		
	100,000 warrants expire May 30, 2007		
	82,500 warrants expire Aug 25, 2008	978,795	3,152,850
FNX Mining Company Inc.	454,500 common shares	1,403,299	3,963,240
Gold Fields Limited	132,500 common shares	2,138,940	2,636,756
Other investments in gold and mineral resource companies (a)		29,438,944	45,678,547
		39,095,166	65,385,067
Investments in biotechnology companies			
LAB International Inc.	1,655,500 common shares		
	750,000 warrants expire Nov 1, 2005		
	50,000 warrants expire Dec 22, 2005	2,037,825	1,832,050
ChondroGene Limited	1,371,500 common shares	670,307	1,028,625
Spectral Diagnostics Inc.	400,000 common shares		
	200,000 warrants expire Feb 15, 2005	1,034,834	1,060,000
Hemosol Inc.	400,000 common shares		
	400,000 warrants expire Nov 28, 2006	300,000	770,400

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5. Investments (continued):

	Security Description	Cost	Fair Value
Investments in biotechnology companies (continued)			
TM Biosciences Corp.	937,500 common shares		
	468,750 warrants expire Jun 22, 2005	300,000	303,750
Other investments in biotechnology companies (a)		111,675	267,650
		4,454,641	5,262,475
Other investments			
Tengt International Corp.	1,013,750 common shares		
	150,000 warrants	763,716	2,097,866
TrekLogic Technologies Inc.	950,000 common shares	485,278	1,758,425
Pinetree Capital Corp.	1,500,000 common shares	1,687,700	1,500,000
AirIQ Inc.	2,623,111 common shares		
	1,111,111 warrants expire Dec 17, 2005	1,004,513	1,370,576
GeoGlobal Resources Inc. (formerly Suite 101.com Inc.)	362,000 common shares		
	150,000 warrants expire Dec 23, 2005	495,734	635,807
Other equity investments (a)		1,878,858	2,005,883
		6,315,799	9,368,557
Total investments		\$ 49,865,606	\$ 80,016,099

(a) Other investments in gold and mineral resources companies, biotechnology companies, and other equity investments include all investments which are not in the top five investments in their respective category, by fair value, held by the Company as at June 30, 2004 and December 31, 2003.

(b) On June 25, 2004, TM Biosciences Corp. had a 1:5 reverse stock split.

6. 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 36.12% (June 30, 2003 – 35.12%) of pre-tax income as a result of the following for the six months end June 30, :

	2004	2003
Loss before income taxes	\$ (18,392,511)	\$ (4,615,622)
Computed "expected" income tax recovery	\$ (6,643,375)	\$ (1,621,006)
Rate differential	—	123,453
Net future tax asset not recognized	(1,030,579)	—
Non-taxable portion of dividend income	(8,117)	—
Non-taxable portion of capital gains	(343,123)	—
Non-taxable portion of unrealized losses	834,120	425
Permanent and other differences	15,922	(241,004)
Provision for income taxes	\$ (7,175,152)	\$ (1,738,132)

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6. Income Taxes:

(b) Significant components of the provision for income taxes for the six months ended June 30 are as follows:

	2004	2003
Current tax expense	\$ 2,057,512	\$ —
Future income tax recoverable relating to origination and reversal of temporary differences	(9,232,664)	(1,738,132)
Recovery of income taxes	\$ (7,175,152)	\$ (1,738,132)

(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:

	June 30, 2004	December 31, 2003
Future tax assets		
Non-capital losses carried forward	\$ 3,436,751	\$ —
Capital losses carried forward	270,385	—
Future tax assets	3,707,136	—
Future tax liabilities		
Investments – differences in accounting cost and tax cost	(4,308,260)	(11,464,084)
Future tax liabilities	(4,308,260)	(11,464,084)
Total future tax assets and liabilities	\$ (601,124)	\$ (11,464,084)
Less : valuation allowance	(1,630,296)	—
Net future tax liabilities	\$ (2,231,420)	\$ (11,464,084)

7. Related party transactions:

(a) During the period, the Company had consulting agreements with officers and directors representing approximately \$28,500 (June 30, 2003 - \$37,000) per month. Included in operating, general and administrative expenses in the six months ended June 30, 2004 is approximately \$171,000 (June 30, 2003 - \$222,000) 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 \$1,093,834 (six months ended June 30, 2003 - \$140,595) 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.

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7. Related party transactions (continued):

- (b) As at June 30, 2004, the Company's advances to affiliated companies was to Brownstone Ventures Inc. ("Brownstone"), a reporting issuer trading on the TSXV under the symbol "BWN", 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 \$23,500 (six months ended June 30, 2003 - \$60,000) of interest income relating to interest charged to Brownstone. In addition, the Company holds an investment in Brownstone of \$668,933 (December 31, 2003 - \$485,000).
- (c) Other income includes consulting income of \$35,581 (six months ended June 30, 2003 - \$nil) from companies in which Pinetree has an investment interest.
- (d) 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.

8. Comparative consolidated financial statements:

The comparative interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the interim 2004 consolidated financial statements.