

Consolidated Financial Statements of

Pinetree Capital Ltd.

For the years ended December 31, 2004 and 2003

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AUDITORS' REPORT

To the Shareholders of

Pinetree Capital Ltd.

We have audited the consolidated balance sheets of **Pinetree Capital Ltd.** (the "Company") as at December 31, 2004 and 2003 and the consolidated statements of operations, retained earnings 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, 2004 and 2003 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"

Chartered Accountants

Toronto, Canada
March 11, 2005

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

| Assets | <u>2004</u> | <u>2003</u> (notes 3, 14) |
|---|----------------------|------------------------------|
| Investments, at fair value (note 5) | \$ 82,426,943 | \$ 80,016,099 |
| Cash and cash equivalents | 94,131 | 31,999 |
| Advances to affiliated companies, net (note 8) | - | 4,170,317 |
| Prepaid and other receivables (note 9(b)) | 620,977 | - |
| Deposits in trust (note 4) | 637,782 | - |
| Capital assets, net (note 6) | 6,782 | - |
| | <u>\$ 83,786,615</u> | <u>\$ 84,218,415</u> |
| Liabilities and Shareholders' Equity | | |
| Due to brokers | \$ 17,506,566 | \$ 20,295,492 |
| Accounts payable and accrued liabilities (note 4) | 1,414,591 | 145,526 |
| Advances from affiliated companies (note 8) | 899,654 | - |
| Short term loans payable (note 10) | 2,310,740 | - |
| Income taxes payable (note 11) | 1,937,569 | 895,694 |
| | <u>24,069,120</u> | <u>21,336,712</u> |
| Future tax liabilities (note 11) | 3,395,985 | 11,464,084 |
| | <u>27,465,105</u> | <u>32,800,796</u> |
| Shareholders' equity | | |
| Share capital (notes 4, 7) | 17,539,298 | 8,750,570 |
| Contributed surplus (note 7(e)) | 930,922 | 830,038 |
| Retained earnings | 37,851,290 | 41,837,011 |
| | <u>56,321,510</u> | <u>51,417,619</u> |
| | <u>\$ 83,786,615</u> | <u>\$ 84,218,415</u> |

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Sheldon Inwentash" Director

"Ron Perry" Director

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

| | <u>2004</u> | <u>2003</u> (notes 3, 14) |
|---|-----------------------|------------------------------|
| Net investment gains (losses) | | |
| Gain on disposal of investments, net | \$ 13,392,332 | \$ 10,080,633 |
| Unrealized gains (losses) on investments, net | (19,918,440) | 17,516,174 |
| | <u>(6,526,108)</u> | <u>27,596,807</u> |
| Other revenue | | |
| Interest and dividend income (note 8) | 97,964 | 482,334 |
| Other income (note 9(c)) | 379,409 | - |
| | <u>(6,048,735)</u> | <u>28,079,141</u> |
| Expenses | | |
| Operating, general and administrative (note 9) | 4,037,451 | 2,261,057 |
| Stock-based compensation (note 7(e)) | 105,309 | 830,038 |
| Foreign exchange loss (gain) | (310,803) | 542,349 |
| Amortization | 290 | - |
| Interest (note 8) | 709,169 | 546,792 |
| | <u>4,541,416</u> | <u>4,180,236</u> |
| Income (loss) before income taxes and extraordinary gain | (10,590,151) | 23,898,905 |
| Provision for (recovery of) income taxes (note 11) | (5,849,518) | 7,311,640 |
| Income (loss) before extraordinary gain | (4,740,633) | 16,587,265 |
| Extraordinary gain from reverse takeover (note 3) | 754,912 | - |
| Net income (loss) for the year | <u>\$ (3,985,721)</u> | <u>\$ 16,587,265</u> |
| Basic and diluted earnings (loss) per common share | | |
| Before extraordinary gain | \$ (0.37) | \$ 1.33 |
| Extraordinary gain from reverse takeover | 0.06 | - |
| Net income (loss) for the year | <u>\$ (0.31)</u> | <u>\$ 1.33</u> |
| Weighted average number of common shares outstanding | | |
| Basic and diluted | 12,974,733 | 12,437,088 |

See accompanying notes to the consolidated financial statements.

PINETREE CAPITAL LTD.
Consolidated Statements of Retained Earnings
Years Ended December 31,

| | <u>2004</u> | <u>2003</u> (notes 3, 14) |
|--------------------------------------|----------------------|------------------------------|
| Retained earnings, beginning of year | \$ 41,837,011 | \$ 25,249,746 |
| Net income (loss) for the year | <u>(3,985,721)</u> | 16,587,265 |
| Retained earnings, end of year | \$ 37,851,290 | \$ 41,837,011 |

See accompanying notes to the consolidated financial statements.

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

| | <u>2004</u> | <u>2003</u> (notes 3, 14) |
|--|--------------------|------------------------------|
| Cash flows from (used in) operating activities | | |
| Net income (loss) for the year | \$ (3,985,721) | \$ 16,587,265 |
| Items not affecting cash | | |
| Gain on disposal of investments, net | (13,392,332) | (10,080,633) |
| Unrealized losses (gains) on investments, net | 19,918,440 | (17,516,174) |
| Amortization | 290 | - |
| Stock-based compensation expense | 105,309 | 830,038 |
| Reduction of share capital for dissenting shareholders | (780,957) | - |
| Extraordinary gain from reverse takeover | (754,912) | - |
| Reversal of unrealized gain on Pinetree shares held by Genevest | (307,398) | - |
| Future income taxes | (8,068,099) | 6,417,660 |
| | <u>(7,265,380)</u> | <u>(3,761,844)</u> |
| Changes in non-cash working capital balances related to operations | | |
| Advances to affiliated companies | 4,170,317 | 4,580,745 |
| Prepaid and other receivables | (620,977) | - |
| Deposits in trust | (637,782) | - |
| Accounts payable and accrued liabilities | 1,269,065 | 92,546 |
| Advances from affiliated companies | 899,654 | - |
| Income taxes payable | 1,041,875 | 1,281,091 |
| | <u>(1,143,228)</u> | <u>2,192,538</u> |
| Cash flows from (used in) financing activities | | |
| Purchase of shares under normal course issuer bid | (1,402,906) | (944,960) |
| Proceeds from issue of share capital | 398,447 | - |
| Cancellation of Pinetree shares held by Genevest | (1,995,000) | - |
| Cancellation of Genevest shares held by Pinetree | (4,620,883) | - |
| Share issuance costs | (10,807) | - |
| | <u>(7,631,149)</u> | <u>(944,960)</u> |
| Cash flows from (used in) investing activities | | |
| Purchase of capital assets | (7,072) | - |
| Due to brokers | (2,788,926) | 12,277,849 |
| Short term loans payable | 2,310,740 | - |
| Purchase of investments | (60,549,578) | (56,461,212) |
| Proceeds on disposal of investments | 69,871,345 | 42,873,697 |
| | <u>8,836,509</u> | <u>(1,309,666)</u> |
| Net increase (decrease) in cash and cash equivalents, during the year | 62,132 | (62,088) |
| Cash and cash equivalents, beginning of year | 31,999 | 94,087 |
| Cash and cash equivalents, end of year | \$ 94,131 | \$ 31,999 |
| Supplemental cash flow information | | |
| Income taxes paid | \$ 1,256,673 | \$ 396,235 |
| Interest paid | \$ 709,169 | \$ 546,792 |

See accompanying notes to the consolidated financial statements.

PINETREE CAPITAL LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2004 and 2003

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". 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, primarily in gold and other mineral resources.

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: Genevest Inc. ("Genevest") and Pinetree (Barbados) Inc. All significant inter-company accounts and transactions have been eliminated on consolidation. The consolidated financial statements have been prepared after giving effect to the reverse takeover of Pinetree by Genevest and the related transactions on the basis described in Note 3.

(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.

PINETREE CAPITAL LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2004 and 2003

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 the Company'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 the Company'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.

PINETREE CAPITAL LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2004 and 2003

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:

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

PINETREE CAPITAL LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2004 and 2003

2. Significant accounting policies (continued):

(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 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 common share:

Basic earnings (loss) per common 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 common 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. During the year ended December 31, 2004, there was no effect on diluted loss per common share as the effect of outstanding stock options in basic loss per common share would be anti-dilutive.

(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. Business combination:

Acquisition of Genevest

On June 1, 2004, Pinetree acquired the remaining issued and outstanding shares of Genevest for a deemed aggregate consideration of \$15,201,410 by issuing 16,826,860 pre-consolidation common shares of Pinetree. 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 its amalgamation with Genevest for proceeds of \$4,620,883 and subsequently cancelled after the amalgamation.

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

PINETREE CAPITAL LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2004 and 2003

3. Business combination (continued):

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 \$17,196,410, being 82.5% of the net assets of Pinetree immediately prior to the business combination and the original investment in Pinetree by Genevest, 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:

| | 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 | 171,198 |
| | <u>\$ 17,196,410</u> |
| Fair value of Pinetree's net assets acquired | |
| Current assets | \$ 4,885,588 |
| Investments | 20,253,719 |
| Capital assets, net | 267,117 |
| | <u>25,406,424</u> |
| Less: current liabilities | (7,187,985) |
| Fair value of net assets assumed | <u>\$ 18,218,439</u> |
| Excess of fair value of net assets assumed over purchase price | <u>\$ 1,022,029</u> |
| Allocation of the excess fair value: | |
| Capital assets | 267,117 |
| Extraordinary gain | 754,912 |
| | <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

PINETREE CAPITAL LTD.
Notes to Consolidated Financial Statements
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3. Business combination (continued):

an extraordinary gain in accordance with Canadian generally accepted accounting principles. This extraordinary gain is not taxable.

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.

4. Deposits in trust and contingent liability:

Arising from the reverse takeover of Pinetree by Genevest, are two dissenting shareholders holding a total of 260,319 shares of Genevest. In accordance with Alberta's Business Corporations Act, shareholders who dissent have the right to be paid fair value by the company for their shares. As per a court order dated December 20, 2004, Genevest paid \$2.45 per share for a total of \$637,782 as a deposit in trust for the dissenting shares which have been cancelled. Pending court settlement or agreement between the parties, the fair value of the dissenting shares may be higher or lower than \$2.45 per share. The Company has accrued a contingent liability against share capital of \$780,957 relating to the payment of fair value for the dissenting shares.

PINETREE CAPITAL LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2004 and 2003

5. Investments:

(a) Investments consist of the following as at December 31, 2004:

| | Security Description | Cost | Fair Value |
|--|--|----------------------|----------------------|
| Investments in gold and mineral resource companies | | | |
| Hecla Mining Company | 519,300 common shares | \$ 2,798,934 | \$ 3,643,922 |
| Western Canadian Coal Corp. | 500,000 common shares | 667,091 | 3,060,000 |
| Guyana Goldfields Inc. | 839,500 common shares | | |
| | 125,000 warrants expire Mar 11, 2005 | 1,009,842 | 2,844,580 |
| Cline Mining Company | 1,200,600 common shares | | |
| | 600,300 warrants expire May 9, 2006 | 660,330 | 2,227,113 |
| High River Gold Mines Ltd. | 942,900 common shares | | |
| | 150,000 warrants expire Oct 26, 2006 | 1,525,322 | 1,725,507 |
| Other investments in gold and mineral resource companies (i) | | 36,213,973 | 41,271,150 |
| | | 42,875,492 | 54,772,272 |
| Investments in biotechnology companies | | | |
| ChondroGene Limited | 1,795,895 common shares | 1,155,452 | 1,871,468 |
| LAB International Inc. | 1,550,000 common shares | | |
| | 750,000 warrants expire Nov 1, 2005 | | |
| | 50,000 warrants expire Dec 22, 2005 | | |
| | 300,000 warrants expire Dec 30, 2006 | 1,912,500 | 1,737,550 |
| Haemacure Corp. | 2,850,000 common shares | | |
| | 1,000,000 warrants expire Mar 19, 2006 | 787,705 | 983,250 |
| Alegro Health Corp. | 1,500,000 common shares | | |
| | 750,000 warrants expire Aug 4, 2006 | 375,000 | 675,000 |
| Spectral Diagnostics Inc. | 490,000 common shares | | |
| | 200,000 warrants expire Feb 15, 2005 | | |
| | 150,000 warrants expire Nov 19, 2006 | 989,482 | 526,015 |
| Other investments in biotechnology companies (i) | | 586,358 | 341,175 |
| | | 5,806,497 | 6,134,458 |
| Other investments | | | |
| Enghouse Systems Limited (ii) | 800,000 common shares | 968,515 | 7,144,000 |
| Solomon Technologies, Inc. | 1,171,474 common shares | | |
| | 1,771,474 warrants expire Apr 30, 2014 | 1,643,645 | 3,829,263 |
| 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 | 2,286,999 |
| AirIQ Inc. | 2,843,611 common shares | | |
| | 1,111,111 warrants expire Dec 17, 2005 | 979,171 | 1,775,374 |
| FUN Technologies plc (formerly CES Software plc) | 400,000 common shares | 738,970 | 1,576,000 |
| Other equity investments (i) | | 7,049,576 | 4,908,577 |
| | | 14,322,723 | 21,520,213 |
| Total investments | | \$ 63,004,712 | \$ 82,426,943 |

(i) Other investments in gold and mineral resource 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 December 31, 2004.

(ii) On September 15, 2004, Enghouse Systems Limited had a 2 for 1 stock split.

PINETREE CAPITAL LTD.
Notes to Consolidated Financial Statements
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5. Investments (continued):

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

| | 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 (i) | | 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 |
| TM Biosciences Corp. | 937,500 common shares | | |
| | 468,750 warrants expire Jun 22, 2005 | 300,000 | 303,750 |
| Other investments in biotechnology companies (i) | | 111,675 | 267,650 |
| | | 4,454,641 | 5,262,475 |
| Other investments | | | |
| Tengtu 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. | 362,000 common shares | | |
| (formerly Suite 101.com Inc.) | 150,000 warrants expire Dec 23, 2005 | 495,734 | 635,807 |
| Other equity investments (i) | | 1,878,858 | 2,005,883 |
| | | 6,315,799 | 9,368,557 |
| Total investments | | \$ 49,865,606 | \$ 80,016,099 |

(i) Other investments in gold and mineral resource 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 December 31, 2003.

(ii) The investments as at December 31, 2003 were held by Genevest.

PINETREE CAPITAL LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2004 and 2003

6. Capital assets:

Capital assets consist of the following:

| | 2004 | | | 2003 | | |
|--------------------|----------|--------------------------|----------------|------|--------------------------|----------------|
| | Cost | Accumulated amortization | Net book value | Cost | Accumulated amortization | Net book value |
| Computer equipment | \$ 7,072 | \$ 290 | \$ 6,782 | \$ — | \$ — | \$ — |
| | \$ 7,072 | \$ 290 | \$ 6,782 | \$ — | \$ — | \$ — |

7. Share capital:

Share capital consists of the following:

Authorized: Unlimited number of common shares

Issued and outstanding:

| | 2004 | | 2003 | |
|--|--------------|---------------|--------------|--------------|
| | # of Options | Amount | # of Options | Amount |
| Balance, beginning of year | 8,758,669 | \$ 8,750,570 | 9,400,169 | \$ 9,695,530 |
| Cancelled employee stock purchase loan – Pinetree (b) | — | — | (200,000) | — |
| Purchased for cash under NCIB – Pinetree (c) | (215,000) | — | (441,500) | — |
| Purchased for cash under NCIB – Genevest (c) | — | (504,279) | — | (944,960) |
| Issued for cash pursuant to exercise of stock options | 3,439 | — | — | — |
| Issued for cash pursuant to exercise of stock options | — | 15,675 | — | — |
| 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 | — | (10,807) | — | — |
| Common shares before reverse split, June 1, 2004 | 23,873,968 | 18,831,686 | 8,758,669 | \$ 8,750,570 |
| Reverse split (1.75:1) on June 2, 2004 | 13,642,267 | — | — | — |
| Purchased for cash under NCIB (c) | (443,700) | (898,627) | — | — |
| Reduction of share capital for dissenting shareholders | — | (780,957) | — | — |
| Issued for cash pursuant to exercise of stock options | 326,854 | 387,196 | — | — |
| Consolidation and reconciliation of shareholders' register | 4,715 | — | — | — |
| Balance, end of year (a) | 13,530,136 | \$ 17,539,298 | 8,758,669 | \$ 8,750,570 |

(a) 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 while the amounts are those of the legal subsidiary Genevest.

PINETREE CAPITAL LTD.
Notes to Consolidated Financial Statements
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7. Share capital (continued):

(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. 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) Issuer buyback plan:

In fiscal 2003, the Company had planned to purchase up to 455,000 common shares through a normal course issuer bid (the "2003 NCIB"). The 2003 NCIB ran from May 26, 2003 to May 25, 2004. Purchase and payment for the common shares were 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.

During the five months prior to the business combination, the Company had purchased 215,000 common shares of the Company pursuant to the 2003 NCIB at an average price of \$1.14 per share.

In fiscal 2003, Genevest had planned to purchase up to 485,000 of its common shares through a normal course issuer bid (the "Genevest 2003 NCIB"). The Genevest 2003 NCIB ran from March 6, 2003 to March 5, 2004. Purchase and payment for the common shares were made in accordance with TSX Venture Exchange ("TSXV") requirements. The Company purchased and cancelled 485,000 common shares under the Genevest 2003 NCIB and also 15,000 common shares at prices ranging from \$1.25 to \$3.25.

On February 25, 2004, Genevest announced its plan to purchase up to 475,000 common shares through a new normal course issuer bid (the "Genevest 2004 NCIB"). The Genevest 2004 NCIB commenced on March 8, 2004 and will end no later than March 7, 2005. Purchase and payment for the common shares will be made in accordance with TSXV requirements. Genevest purchased and cancelled 32,100 common shares under the Genevest 2004 NCIB at prices ranging from \$2.70 to \$3.15.

On June 9, 2004, the Company had planned to purchase up to 680,000 common shares through a normal course issuer bid (the "2004 NCIB"). The 2004 NCIB runs from June 11, 2004 to June 10, 2005. Purchase and payment for the common shares will be made in accordance with the TSX requirements. During the year, pursuant to the 2004 NCIB, the Company had purchased 443,700 common shares of the Company at an average price of \$2.03 per share.

PINETREE CAPITAL LTD.
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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. On May 27, 2004, the 2000 plan was amended and approved by the shareholders to increase the maximum issue to 5,250,000 options, being 3,000,000 options after giving effect to the 1.75 share consolidation. 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.

On June 1, 2004, as a result of the business combination with Genevest, existing option holders of Genevest received Pinetree options in exchange for the Genevest options. As a result, there were 2,022,940 Pinetree stock options that were granted to Genevest shareholders.

(e) Stock option grants:

During the year, the Company granted 16,642 stock options exercisable at prices ranging from \$2.06 to \$2.47 per common share and expiring January 20, 2009 to November 16, 2009. The Company also granted to the Genevest shareholders 2,022,940 stock options at prices ranging from \$0.80 to \$3.35 per common share and expiring July 14, 2004 to April 8, 2008. In accordance with CICA Handbook Section 3870, options granted are accounted for by the fair value method of accounting for stock-based compensation. The Company records compensation expense and credits contributed surplus for all stock options granted.

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Notes to Consolidated Financial Statements
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7. Share capital (continued):

The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | |
|--|----------------|
| Black-Scholes weighted average assumptions used | |
| Expected volatility | 85.0% |
| Expected dividend yield | n/a |
| Risk-free interest rate | 2.75% |
| Expected option life in years | 3.5 |
| Fair value per stock option granted on January 21, 2004 | \$ 0.81 |
| Fair value per stock option granted on November 17, 2004 | \$ 1.23 |
| Fair value per stock option granted to Genevest shareholders | \$ 0.59 |

For the year ended December 31, 2004, included in stock-based compensation is \$7,381 relating to the stock options granted during the year and \$97,928 relating to the granting of stock options in the prior years to directors, officers, employees and consultants of the Company.

- (f) A summary of the status of the Company's stock option plans as at December 31, 2004 and 2003 and changes during the years ended on those dates after giving effect to the 1.75 share consolidation is presented below:

| Stock Options | 2004 | | 2003 | |
|-----------------------------------|--------------------|--|--------------------|--|
| | # of Shares | Weighted average exercise price | # of Shares | Weighted average exercise price |
| Outstanding, at beginning of year | 580,377 | \$ 1.75 | 603,234 | \$ 1.75 |
| Granted | 2,039,582 | 1.23 | 64,285 | 1.75 |
| Forfeited | (720,852) | (1.19) | (87,142) | (4.06) |
| Outstanding, at end of year | 1,899,107 | \$ 1.40 | 580,377 | \$ 1.75 |
| Exercisable, at end of year | 1,841,110 | \$ 1.40 | 533,240 | \$ 1.75 |

PINETREE CAPITAL LTD.
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7. Share capital (continued):

The following table summarizes information about stock options outstanding as at December 31, 2004:

| 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) |
| \$0.80 - \$1.50 | 1,260,278 | \$ 1.16 | 1.08 | 1,227,275 | \$ 1.16 | 1.02 |
| \$1.51 - \$2.00 | 576,092 | 1.75 | 3.44 | 561,089 | 1.75 | 3.44 |
| \$2.01 - \$3.35 | 62,737 | 3.06 | 1.24 | 52,746 | 3.23 | 0.59 |
| | 1,899,107 | \$ 1.40 | 1.80 | 1,841,110 | \$ 1.40 | 1.74 |

8. Advances from (to) affiliated companies:

Advances from (to) affiliated companies consist of the following:

| | 2004 | 2003 |
|--------------------------------------|-------------------|-----------------------|
| Brownstone Ventures Inc. (a) | \$ 699,654 | \$ (1,361,592) |
| Pinetree Capital Corp. | — | (2,793,597) |
| PowerOne Capital Markets Limited (b) | 200,000 | (15,128) |
| | \$ 899,654 | \$ (4,170,317) |

(a) The Company's advances from 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. Included in the consolidated statements of operations is approximately \$1,668 of interest expense charged by Brownstone and \$43,800 (2003 - \$116,000) of interest income relating to interest charged to Brownstone.

(b) The Company has a 50% interest in PowerOne Capital Markets Limited, an Ontario limited market dealer. These advances bear no interest and are due on demand.

9. Related party transactions:

(a) During the year, the Company had consulting agreements with certain officers and directors representing approximately \$34,200 (2003 - \$37,000) per month. Included in operating, general and administrative expenses is approximately \$410,000 (2003 - \$445,000) 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 \$1,127,626 (2003 - \$801,419) relating to this bonus including GST.

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9. Related party transactions (continued):

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) The Company has promissory notes totaling \$481,780 owing from officers and a director of the Company. The promissory notes are unsecured and interest free.
- (c) Other income includes consulting income of \$335,900 (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.

10. Short term loans payable:

- (a) The Company has an \$800,000 loan from Royal Bank of Canada (the "RBC Loan"). The RBC Loan is repayable in eight monthly payments of \$100,000 plus interest at RBC prime plus 2.5% per annum. The first payment is due on January 13, 2005. As at December 31, 2004, the Company had \$800,000 outstanding plus accrued interest of \$2,603 relating to the RBC Loan.
- (b) The Company has a \$1,500,000 loan from Quest Capital Corp. (the "Quest Loan") which is unsecured and bears interest at 18% per annum. Interest is payable on the last day of each month with the first payment due on January 31, 2005. The full amount of the Quest Loan plus any outstanding interest is due on March 31, 2005. As at December 31, 2004, the Company had \$1,500,000 outstanding plus accrued interest of \$8,137 relating to the Quest Loan.

11. 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% (2003 – 36.77%) of pre-tax income as a result of the following:

| | 2004 | 2003 |
|---|-----------------|---------------|
| Income (loss) before income taxes | \$ (10,590,151) | \$ 23,898,905 |
| Computed "expected" income tax expense (recovery) | (3,825,163) | 8,787,627 |
| Rate differential | — | (228,764) |
| Corporate minimum tax adjustment | (302,894) | (433,095) |
| Non-taxable portion of dividend income | (8,117) | (34,480) |
| Non-taxable portion of capital gains | (646,953) | (1,019,993) |
| Non-taxable portion of unrealized losses (gains) | 1,364,803 | (401,115) |
| Recognition of losses not previously benefited | (2,641,310) | — |
| Permanent and other differences | 210,116 | 641,460 |
| Provision for (recovery of) income taxes | \$ (5,849,518) | \$ 7,311,640 |

PINETREE CAPITAL LTD.
Notes to Consolidated Financial Statements
Years Ended December 31, 2004 and 2003

11. Income taxes (continued):

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

| | 2004 | 2003 |
|--|-----------------------|---------------------|
| Current tax expense | \$ 2,218,581 | \$ 893,980 |
| Future income tax expense (recovery) relating to origination and reversal of temporary differences | (8,068,099) | 6,417,660 |
| Provision for (recovery of) income taxes | \$ (5,849,518) | \$ 7,311,640 |

(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:

| | 2004 | 2003 |
|---|-----------------------|------------------------|
| Future tax assets | | |
| Capital assets – differences in amortization and unamortized capital cost | \$ 65,714 | \$ — |
| Non-capital losses carried forward | 3,769,782 | — |
| Net future tax assets | 3,835,496 | — |
| Future tax liabilities | | |
| Investments – differences in accounting cost and tax cost | (7,231,481) | (11,464,084) |
| Net future tax liabilities | (7,231,481) | (11,464,084) |
| Total future tax assets and liabilities | (3,395,985) | (11,464,084) |
| Less: valuation allowance | — | — |
| Net future tax liabilities | \$ (3,395,985) | \$ (11,464,084) |

(d) As at December 31, 2004, the Company has non-capital losses of approximately \$10,437,000 expiring as follows:

| | |
|------|----------------------|
| 2007 | \$ 5,831,000 |
| 2008 | 2,546,000 |
| 2010 | 610,000 |
| 2011 | 1,450,000 |
| | \$ 10,437,000 |

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12. Lease commitments:

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

| | | |
|------|----|---------|
| 2005 | \$ | 250,300 |
| 2006 | | 250,300 |
| 2007 | | 114,400 |
| | \$ | 615,000 |

13. 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, deposits in trust, advances to (from) affiliated companies, due to brokers, accounts payable and accrued liabilities, and short term loans payable 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).

(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, 2004, investments included \$16,126,876 (2003 - \$19,082,538), cash and cash equivalents included \$48,525 (2003 - \$10,329), advances to affiliated companies included nil (2003 - \$3,450,608), due to brokers included \$4,267,521 (2003 - \$2,642,424) and accounts payable and accrued liabilities included \$22,034 (2003 - nil) denominated in U.S. dollars. Also, investments included \$1,114,454 (2003 - \$909,644) and due to brokers included \$265,822 (2003 - \$547,643) denominated in Australian 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.

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13. Financial instruments (continued):

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.

14. Comparative consolidated financial statements:

The comparative consolidated financial statements are those of Genevest and have been reclassified from statements previously presented to conform to the presentation of the 2004 consolidated financial statements.