

Consolidated Financial Statements of

Pinetree Capital Ltd.

(Unaudited)

June 30, 2005

Contents

Consolidated Financial Statements

Consolidated Balance Sheets	2
Consolidated Statements of Operations	3
Consolidated Statements of Retained Earnings	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-11

(These unaudited consolidated financial statements have not been reviewed by our auditors.)

PINETREE CAPITAL LTD.
Consolidated Balance Sheets
As at June 30, 2005 and December 31, 2004
(Unaudited)

	<u>June 30,</u> <u>2005</u>	December 31, <u>2004</u> (note 3)
Assets		
Investments, at fair value (note 4)	\$ 84,150,940	\$ 82,426,943
Cash and cash equivalents	-	94,131
Prepaid and other receivables (note 7(b))	419,268	620,977
Deposits in trust (note 5)	212,707	637,782
Capital assets, net	8,143	6,782
	<u>\$ 84,791,058</u>	<u>\$ 83,786,615</u>
Liabilities and Shareholders' Equity		
Bank indebtedness, net (note 9)	\$ 589,958	\$ -
Due to brokers	18,086,296	17,506,566
Accounts payable and accrued liabilities (note 7(a))	1,114,704	1,414,591
Advances from affiliated companies (note 8)	843,384	899,654
Short term loans payable (note 10)	1,525,397	2,310,740
Income taxes payable	1,173,153	1,937,569
	<u>23,332,892</u>	<u>24,069,120</u>
Future tax liabilities	<u>2,211,689</u>	<u>3,395,985</u>
	<u>25,544,581</u>	<u>27,465,105</u>
Shareholders' equity		
Share capital (note 6)	17,603,563	17,539,298
Contributed surplus (note 6(b))	983,192	930,922
Retained earnings	40,659,722	37,851,290
	<u>59,246,477</u>	<u>56,321,510</u>
	<u>\$ 84,791,058</u>	<u>\$ 83,786,615</u>

See accompanying notes to the consolidated financial statements.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>2005</u>	<u>2004</u> (note 3)	<u>2005</u>	<u>2004</u> (note 3)
Net investment gains (losses)				
Gain on disposal of investments, net	\$ 2,261,188	\$ 4,445,808	\$ 7,296,859	\$ 12,635,922
Unrealized losses on investments, net	(2,238,392)	(19,798,475)	(3,528,135)	(28,209,319)
	22,796	(15,352,667)	3,768,724	(15,573,397)
Other revenue				
Interest and dividend income	18,988	18,013	27,765	85,424
Other income (note 7(c))	146,500	21,581	593,500	36,581
	188,284	(15,313,073)	4,389,989	(15,451,392)
Expenses				
Operating, general and administrative (note 7(a))	813,243	1,433,534	1,767,421	2,609,614
Stock-based compensation (note 6(b))	15,388	15,740	52,270	33,965
Foreign exchange loss (gain)	(13,587)	37,499	91,344	9,567
Amortization	671	-	1,270	-
Interest (note 8(a))	284,131	119,894	556,218	287,973
	1,099,846	1,606,667	2,468,523	2,941,119
Income (loss) before income taxes	(911,562)	(16,919,740)	1,921,466	(18,392,511)
Recovery of income taxes	(1,331,568)	(6,585,252)	(886,966)	(7,175,152)
Income (loss) before extraordinary gain	420,006	(10,334,488)	2,808,432	(11,217,359)
Extraordinary gain from reverse takeover (note 3)	-	583,714	-	583,714
Net income (loss) for the period	\$ 420,006	\$ (9,750,774)	\$ 2,808,432	\$ (10,633,645)
Earnings (loss) per common share				
Before extraordinary gain	\$ 0.03	\$ (0.83)	\$ 0.20	\$ (0.90)
Extraordinary gain	-	0.05	-	0.05
Net income (loss) for the period	\$ 0.03	\$ (0.78)	\$ 0.20	\$ (0.85)
Weighted average number of common shares outstanding				
Basic	13,950,649	12,469,863	13,823,791	12,458,026
Diluted	14,580,103	12,469,863	14,400,623	12,458,026

See accompanying notes to the consolidated financial statements.

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

	<u>2005</u>	<u>2004</u> (note 3)
Retained earnings, beginning of period	\$ 37,851,290	\$ 41,837,011
Net income (loss) for the period	<u>2,808,432</u>	<u>(10,633,645)</u>
Retained earnings, end of period	\$ 40,659,722	\$ 31,203,366

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	2005	2004 (note 3)	2005	2004 (note 3)
Cash flows from (used in) operating activities				
Net income (loss) for the period	\$ 420,006	\$ (9,750,774)	\$ 2,808,432	\$ (10,633,645)
Items not affecting cash				
Gain on disposal of investments, net	(2,261,188)	(4,445,808)	(7,296,859)	(12,635,922)
Unrealized losses on investments, net	2,238,392	19,798,475	3,528,135	28,209,319
Amortization	671	-	1,270	-
Stock-based compensation expense	15,388	15,740	52,270	33,965
Acquisition adjustments	-	(2,473,596)	-	(2,473,596)
Extraordinary gain from acquisition	-	(583,714)	-	(583,714)
Future income taxes	(1,121,654)	(6,706,664)	(1,184,296)	(9,232,664)
	<u>(708,385)</u>	<u>(4,146,341)</u>	<u>(2,091,048)</u>	<u>(7,316,257)</u>
Changes in non-cash working capital balances related to operations				
Advances to affiliated companies	-	1,225,431	-	2,934,987
Prepaid and other receivables	158,866	(181,053)	201,709	(191,929)
Deposits in trust	425,075	-	425,075	-
Accounts payable and accrued liabilities	(342,083)	840,995	(299,887)	1,499,487
Advances from affiliated companies	25,593	-	(56,270)	-
Income taxes payable	(1,006,212)	121,412	(764,416)	2,057,512
	<u>(1,447,146)</u>	<u>(2,139,556)</u>	<u>(2,584,837)</u>	<u>(1,016,200)</u>
Cash flows from (used in) financing activities				
Purchase of shares under normal course issuer bid	(72,858)	(115,051)	(483,957)	(573,524)
Proceeds from issue of share capital	57,199	11,250	730,397	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)
Reduction of share capital for dissenting shareholders	(182,175)	-	(182,175)	-
	<u>(197,834)</u>	<u>(6,741,298)</u>	<u>64,265</u>	<u>(7,199,771)</u>
Cash flows from (used in) investing activities				
Purchase of capital assets	(1,423)	-	(2,631)	-
Due to brokers	4,319,534	(3,951,202)	579,730	(6,925,401)
Short term loans payable	(976,591)	-	(785,343)	-
Purchase of investments	(15,936,946)	(10,194,209)	(32,442,941)	(32,705,857)
Proceeds on disposal of investments	13,786,943	22,953,119	34,487,668	47,904,160
	<u>1,191,517</u>	<u>8,807,708</u>	<u>1,836,483</u>	<u>8,272,902</u>
Net increase (decrease) in cash and cash equivalents, during the period	(453,463)	(73,146)	(684,089)	56,931
Cash and cash equivalents, (bank indebtedness), beginning of period	(136,495)	162,076	94,131	31,999
Cash and cash equivalents, (bank indebtedness), end of period	\$ (589,958)	\$ 88,930	\$ (589,958)	\$ 88,930
Supplemental cash flow information				
Income taxes paid	<u>\$ 764,465</u>	<u>\$ -</u>	<u>\$ 1,064,465</u>	<u>\$ -</u>
Interest paid	<u>\$ 284,131</u>	<u>\$ 119,894</u>	<u>\$ 556,218</u>	<u>\$ 287,973</u>

See accompanying notes to the consolidated financial statements.

Pinetree Capital Ltd.
Notes to Consolidated Financial Statements
June 30, 2005
(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 develops and manages a portfolio of equity securities of private and public issuers engaged in growth businesses in the following four sectors: (i) Mining and Oil & Gas; (ii) Biotechnology; and (iii) Technology and Other. Pinetree's investment focus among these three sectors changes over time, depending on changing investment opportunities. As well, Pinetree takes advantage of special situations and merchant banking opportunities.

2. Significant accounting policies:

Management has prepared the unaudited 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. The following information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's audited consolidated financial statements for the year ended December 31, 2004. Accounting policies followed in the preparation of the annual consolidated financial statements are consistent with those used in the preparation of the June 30, 2005 interim consolidated financial statements.

3. Business combination:

In the prior year, 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. 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 held 70.4% of the post amalgamation common shares of Pinetree immediately after the completion of the transaction.

Under this form of purchase accounting, Genevest is deemed to have acquired Pinetree and the consolidated financial statements of Pinetree for periods after June 1, 2004 include only Genevest's operating results prior to the reverse takeover and the results of the consolidated company thereafter. All comparative figures and references to the periods prior to June 1, 2004 are those of Genevest only.

Pinetree Capital Ltd.
Notes to Consolidated Financial Statements
June 30, 2005
(Unaudited)

4. Investments:

(a) Investments consist of the following as at June 30, 2005 by sector:

Sector: Mining and Oil & Gas

Sub-sector	Number of investments	Cost	Fair Value	% of sector (FV)
Precious metals and diamonds	51	\$ 17,424,679	\$ 17,761,013	32.2
Base metals	16	12,000,774	15,624,409	28.3
Oil & gas	23	9,314,396	12,410,394	22.5
Uranium	15	5,151,516	5,578,698	10.1
Coal	4	3,788,319	3,813,661	6.9
	109	47,679,684	55,188,175	100.0

Security Description	Cost	Fair Value	% of Sector (FV)	
Sector: Biotechnology				
ChondroGene Limited	1,795,895 common shares	1,155,452	1,508,552	31.6
Haemacure Corp.	3,132,000 common shares			
	1,000,000 warrants expire Mar 19, 2006	883,605	923,940	19.4
LAB International Inc.	1,296,000 common shares			
	750,000 warrants expire Nov 1, 2005			
	50,000 warrants expire Dec 22, 2005			
	300,000 warrants expire Dec 30, 2006	1,599,097	907,200	19.0
Alegro Health Corp.	1,559,500 common shares			
	750,000 warrants expire Aug 4, 2006	404,163	698,800	14.6
Spectral Diagnostics Inc.	481,500 common shares			
	150,000 warrants expire Nov 19, 2006	908,517	298,530	6.3
Other equity investments - Biotechnology sector (i)		1,021,791	434,597	9.1
		5,972,625	4,771,619	100.0

Sector: Technology and Other

Fiber Optics Systems Technology Inc.	3,377,400 common shares			
	506,848 warrants expire Oct 13, 2005			
	2,294,311 warrants expire Mar 2, 2006	2,542,377	7,791,821	32.7
Enghouse Systems Limited	650,000 common shares	786,919	5,044,000	21.1
Certicom Corp.	515,000 common shares	2,397,992	2,590,450	10.9
AirIQ Inc.	2,658,611 common shares			
	1,111,111 warrants expire Dec 17, 2005	940,863	1,355,892	5.7
Solomon Technologies, Inc.	1,171,474 series A preferred stock			
	1,771,474 warrants expire Apr 30, 2014			
	US\$50,000 promissory note Aug 15, 2005	1,706,747	1,498,626	4.8
Other equity investments - Technology and Other sector (i)		7,134,085	5,910,357	24.8
		15,508,983	24,191,146	100.0

Total investments **\$ 69,161,292** **\$ 84,150,940**

(i) Other equity investments in Biotechnology sector and Technology and Other sector include all investments which are not in the top five investments in their respective sector, by Fair Value, held by the Company as at June 30, 2005.

Pinetree Capital Ltd.
Notes to Consolidated Financial Statements
June 30, 2005
(Unaudited)

4. Investments (continued):

(b) Investments consist of the following as at December 31, 2004 by sector:

Sector: Mining and Oil & Gas

Sub-sector	Number of investments	Cost	Fair Value	% of sector (FV)
Precious metals and diamonds	66	\$ 23,096,736	\$ 27,571,133	50.4
Oil & gas	19	8,147,540	9,389,340	17.1
Coal	5	2,222,327	6,880,870	12.6
Base metals	13	5,796,110	6,801,207	12.4
Uranium	10	3,612,779	4,129,722	7.5
	113	42,875,492	54,772,272	100.0

Security Description	Cost	Fair Value	% of sector (FV)
Sector: Biotechnology			
ChondroGene Limited	1,795,895 common shares	1,155,452	30.5
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	28.3
Haemacure Corp.	2,850,000 common shares 1,000,000 warrants expire Mar 19, 2006	787,705	16.0
Alegro Health Corp.	1,500,000 common shares 750,000 warrants expire Aug 4, 2006	375,000	11.0
Spectral Diagnostics Inc.	490,000 common shares 200,000 warrants expire Feb 15, 2005 150,000 warrants expire Nov 19, 2006	989,482	8.6
Other investments - Biotechnology sector (i)	586,358	341,175	5.6
	5,806,497	6,134,458	100.0

Security Description	Cost	Fair Value	% of sector (FV)
Sector: Technology and Other			
Enghouse Systems Limited(ii)	800,000 common shares	968,515	33.3
Solomon Technologies, Inc.	1,171,474 series A preferred stock 1,771,474 warrants expire Apr 30, 2014	1,643,645	17.9
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	10.7
AirIQ Inc.	2,843,611 common shares 1,111,111 warrants expire Dec 17, 2005	979,171	8.3
FUN Technologies plc (formerly CES Software plc)	400,000 common shares	738,970	7.3
Other equity investments – Technology and Other sector (i)	7,049,576	4,908,577	22.5
	14,322,723	21,520,213	100.0

Total investments	\$ 63,004,712	\$ 82,426,943
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(i) Other equity investments in Biotechnology sector and Technology and Other sector include all investments which are not in the top five investments in their respective sector, 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
June 30, 2005
(Unaudited)

5. Deposits in trust and contingent liability:

Arising from the reverse takeover of Pinetree by Genevest (see note 3), were two dissenting shareholders holding a total of 260,319 common 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 at December 31, 2004, Genevest had paid \$2.45 per share for a total of \$637,782 as deposit in trust for the dissenting shares which have been cancelled and the Company had accrued a contingent liability against share capital of \$780,957 relating to the payment of fair value for the dissenting shares.

During the six months ended June 30, 2005, the Company settled with one of the dissenters holding 173,500 common shares and reduced share capital for an additional \$182,175 relating to the fair value of the shares.

6. Share Capital:

- (a) On July 14, 2004, the Company planned to purchase up to 650,000 common shares through a normal course issuer bid (the "2004 NCIB"). The 2004 NCIB runs from July 19, 2004 to July 18, 2005. Purchase and payment for the common shares will be made in accordance with the TSX requirements. During fiscal 2004, pursuant to the 2004 NCIB, the Company had purchased 443,700 common shares of the Company at an average price of \$2.03 per common share. During the six months ended June 30, 2005, pursuant to the 2004 NCIB, the Company had purchased an additional 206,300 common shares of the Company at an average price of \$2.35 per common share.
- (b) On January 3, 2005, the Company granted 50,000 stock options exercisable at \$2.40 per common share and expiring on January 2, 2010. 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 options granted.

The fair value of the options granted 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	83.8%
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 3, 2005	\$ 1.41

For the six months ended June 30, 2005, included in stock-based compensation is \$23,241 relating to the stock options granted during the period and \$29,029 relating to stock options granted in the prior years to directors, officers, employees and consultants of the Company.

Pinetree Capital Ltd.
Notes to Consolidated Financial Statements
June 30, 2005
(Unaudited)

6. Share Capital (continued):

- (c) On June 16, 2005, the Company granted 225,000 stock options exercisable at \$2.10 per common share and expiring on June 15, 2010. In accordance with CICA Handbook Section 3870, options granted are accounted for by the fair value method of accounting for stock-based compensation. These stock options have not vested and as a result, the Company has not fair valued these stock options.
- (d) During the six months ended June 30, 2005, 565,713 stock options were exercised at \$1.19 per common share and 62,856 stock options were exercised at \$0.91 per common share.
- (e) During the six months ended June 30, 2005, 46,095 stock options exercisable at US\$2.78 expired unexercised.
- (f) As at June 30, 2005, the Company had 13,952,405 common shares outstanding for \$17,603,563 and 1,499,443 stock options outstanding at prices ranges from \$0.80 to \$2.40 and expiring between September 28, 2005 and June 15, 2010.
- (g) Subsequent to June 30, 2005, 10,000 stock options were exercised at \$0.80 per common share.

7. Related party transactions:

- (a) During the six months ended June 30, 2005, the Company had consulting agreements with certain officers and directors representing approximately \$29,500 (six months ended June 30, 2004 - \$28,500) per month. Included in operating, general and administrative expenses is approximately \$177,500 (six months ended June 30, 2004 - \$171,000) 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 \$609,362 (six months ended June 30, 2004 - \$1,093,834) relating to this bonus.
- (b) The Company has promissory notes totaling \$354,517 (net) (December 31, 2004 - \$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 \$492,500 (six months ended June 30, 2004 - \$35,581) from companies in which the Company has an investment.
- (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.

Pinetree Capital Ltd.
Notes to Consolidated Financial Statements
June 30, 2005
(Unaudited)

8. Advances from affiliated companies:

Advances from affiliated companies consist of the following:

	June 30, 2005	December 31, 2004
Brownstone Ventures Inc. (a)	\$ 732,987	\$ 699,654
Maple Minerals Corp. (b)	110,397	—
PowerOne Capital Markets Limited (c)	—	200,000
	\$ 843,384	\$ 899,654

(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. For the six months ended June 30, 2005, included in the consolidated statements of operations is approximately \$17,063 of interest expense charged by Brownstone. In addition, the Company holds an investment in Brownstone having a fair value of \$2,224,394 (December 31, 2004 - \$1,446,344).

(b) The Company's advances from Maple Minerals Corp. ("Maple"), a reporting issuer trading on the TSXV under the symbol "MPM", are unsecured and interest free. These advances were a prepayment for a cost sharing arrangement with the Company covering specific operating, general and administrative expenses including lease commitments and salaries.

(c) 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. Bank indebtedness:

During the six months ended June 30, 2005, the Company signed a General Security Agreement ("GSA") with Royal Bank of Canada ("RBC") for a \$1 million revolving line of credit. Under the GSA, the Company's assets are collateralized after giving preference to CIBC. As at June 30, 2005, the Company had used \$637,204 of the line of credit.

10. Short term loans payable:

(a) As at December 31, 2004, the Company had an \$800,000 loan plus accrued interest of \$2,603 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 was due and made on January 13, 2005. As at June 30, 2005, the Company had repaid the outstanding RBC Loan.

(b) As at December 31, 2004, the Company had a \$1,500,000 loan plus accrued interest of \$8,137 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 and made on January 31, 2005. As at June 30, 2005, the Company had \$1,500,000 outstanding plus accrued interest of \$25,397. The accrued interest was subsequently paid.