

Consolidated Financial Statements of

Pinetree Capital Ltd.

(Unaudited)

September 30, 2005

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

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

	<u>September 30, 2005</u>	<u>December 31, 2004</u> (note 3)
Assets		
Investments, at fair value (note 4)	\$ 121,178,812	\$ 82,426,943
Cash and cash equivalents	-	94,131
Prepays and other receivables (note 7(b))	105,811	620,977
Deposits in trust (note 5)	212,707	637,782
Capital assets, net	7,438	6,782
	<u>\$ 121,504,768</u>	<u>\$ 83,786,615</u>
Liabilities and Shareholders' Equity		
Bank indebtedness, net (note 8)	\$ 862,735	\$ -
Due to brokers	27,962,412	17,506,566
Accounts payable and accrued liabilities (note 7(a))	1,244,039	1,414,591
Advances from affiliated companies	-	899,654
Short term loans payable (note 9)	1,117,680	2,310,740
Income taxes payable (note 10)	1,254,470	1,937,569
	<u>32,441,336</u>	<u>24,069,120</u>
Future tax liabilities (note 10)	7,488,636	3,395,985
	<u>39,929,972</u>	<u>27,465,105</u>
Shareholders' equity		
Share capital (notes 5 and 6)	17,402,625	17,539,298
Contributed surplus (note 6(b))	710,164	930,922
Retained earnings	63,462,007	37,851,290
	<u>81,574,796</u>	<u>56,321,510</u>
	<u>\$ 121,504,768</u>	<u>\$ 83,786,615</u>

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	2005	2004 (note 3)	2005	2004 (note 3)
Net investment gains (losses)				
Gain on disposal of investments, net	\$ 3,843,609	\$ 81,507	\$ 11,140,468	\$ 12,717,429
Unrealized gains/(losses) on investments, net	25,341,528	1,347,393	21,813,393	(26,861,926)
	29,185,137	1,428,900	32,953,861	(14,144,497)
Other revenue				
Interest and dividend income	302,326	12,000	330,091	97,424
Other income (note 7(c))	283,145	41,227	876,645	77,808
	29,770,608	1,482,127	34,160,597	(13,969,265)
Expenses				
Operating, general and administrative (note 7(a))	978,103	551,255	2,745,524	3,160,869
Stock-based compensation (note 6(b))	15,486	46,697	67,756	80,662
Foreign exchange loss (gain)	(63,386)	(141,222)	27,958	(131,655)
Amortization	705	76	1,975	76
Interest	311,009	149,429	867,227	437,402
	1,241,917	606,235	3,710,440	3,547,354
Income (loss) before income taxes	28,528,691	875,892	30,450,157	(17,516,619)
Provision for (recovery of) income taxes	5,726,406	855,929	4,839,440	(6,319,223)
Income (loss) before extraordinary gain	22,802,285	19,963	25,610,717	(11,197,396)
Extraordinary gain from reverse takeover (note 3)	-	171,198	-	754,912
Net income (loss) for the period	\$ 22,802,285	\$ 191,161	\$ 25,610,717	\$ (10,442,484)
Earnings (loss) per common share (basic)				
Before extraordinary gain	\$ 1.64	\$ 0.00	\$ 1.85	\$ (0.99)
Extraordinary gain	-	0.01	-	0.07
Net income (loss) for the period	\$ 1.64	\$ 0.01	\$ 1.85	\$ (0.92)
Earnings (loss) per common share (diluted)				
Before extraordinary gain	\$ 1.50	\$ 0.00	\$ 1.74	\$ (0.99)
Extraordinary gain	-	0.01	-	0.07
Net income (loss) for the period	\$ 1.50	\$ 0.01	\$ 1.74	\$ (0.92)
Weighted average number of common shares outstanding				
Basic	13,904,373	13,734,341	13,850,397	11,323,264
Diluted	15,232,041	13,775,258	14,707,092	11,323,264

See accompanying notes to the consolidated financial statements.

PINETREE CAPITAL LTD.
Consolidated Statements of Retained Earnings
Nine Months Ended September 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>25,610,717</u>	<u>(10,442,484)</u>
Retained earnings, end of period	<u>\$ 63,462,007</u>	<u>\$ 31,394,527</u>

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	2005	2004 (note 3)	2005	2004 (note 3)
Cash flows from (used in) operating activities				
Net income (loss) for the period	\$ 22,802,285	\$ 191,161	\$ 25,610,717	\$ (10,442,484)
Items not affecting cash				
Gain on disposal of investments, net	(3,843,609)	(81,507)	(11,140,468)	(12,717,429)
Unrealized losses (gains) on investments, net	(25,341,528)	(1,347,393)	(21,813,393)	26,861,926
Amortization	705	76	1,975	76
Stock-based compensation expense	15,486	46,697	67,756	80,662
Acquisition adjustments	-	171,198	-	(2,302,398)
Extraordinary gain from acquisition	-	(171,198)	-	(754,912)
Future income taxes	5,276,947	1,132,173	4,092,651	(8,100,491)
	(1,089,714)	(58,793)	(3,180,762)	(7,375,050)
Changes in non-cash working capital balances related to operations				
Advances to affiliated companies	-	708,315	-	3,643,302
Prepaid and other receivables	313,457	(280,292)	515,166	(472,221)
Deposits in trust	-	-	425,075	-
Accounts payable and accrued liabilities	129,335	(261,866)	(170,552)	1,237,621
Advances from affiliated companies	(843,384)	-	(899,654)	-
Income taxes payable	81,317	(730,568)	(683,099)	1,326,944
	(1,408,989)	(623,204)	(3,993,826)	(1,639,404)
Cash flows from (used in) financing activities				
Purchase of shares under normal course issuer bid	(539,737)	(240,085)	(1,023,694)	(813,609)
Proceeds from issue of share capital	50,285	336,597	780,682	347,847
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	-	(10,807)
Reduction of share capital for dissenting shareholders	-	-	(182,175)	-
	(489,452)	107,319	(425,187)	(7,092,452)
Cash flows from (used in) investing activities				
Purchase of capital assets	-	(3,029)	(2,631)	(3,029)
Due from(to) brokers	9,876,116	3,923,027	10,455,846	(3,002,374)
Short term loans payable	(407,717)	-	(1,193,060)	-
Purchase of investments	(20,837,235)	(7,719,789)	(53,280,176)	(40,425,646)
Proceeds on disposal of investments	12,994,500	4,500,731	47,482,168	52,404,891
	1,625,664	700,940	3,462,147	8,973,842
Net increase (decrease) in cash and cash equivalents, during the period	(272,777)	185,055	(956,866)	241,986
Cash and cash equivalents, (bank indebtedness), beginning of period	(589,958)	88,930	94,131	31,999
Cash and cash equivalents, (bank indebtedness), end of period	\$ (862,735)	\$ 273,985	\$ (862,735)	\$ 273,985
Supplemental cash flow information				
Income taxes paid	\$ 418,214	\$ 500,000	\$ 1,482,679	\$ 500,000
Interest paid	\$ 311,009	\$ 149,429	\$ 867,227	\$ 437,402

See accompanying notes to the consolidated financial statements.

Pinetree Capital Ltd.
Notes to Consolidated Financial Statements
September 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 three 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 these 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 September 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.
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September 30, 2005
(Unaudited)

4. Investments:

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

Sector: Mining and Oil & Gas

Sub-sector	Number of investments	Cost	Fair Value	% of sector (FV)
Precious metals and diamonds	49	\$ 22,362,923	\$ 24,733,623	30.0
Oil & gas	22	11,328,342	20,541,313	24.9
Base metals	18	12,059,208	17,281,341	20.9
Uranium	25	9,890,470	13,889,254	16.8
Coal	4	3,994,031	6,134,668	7.4
	118	59,634,974	82,580,199	100.0

Security Description	Cost	Fair Value	% of Sector (FV)	
Sector: Biotechnology				
ChondroGene Limited	1,795,895 common shares	1,155,452	1,706,100	35.6
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	1,456,940	1,260,500	26.3
Haemacure Corp.	3,132,000 common shares 1,000,000 warrants expire Mar 19, 2006	1,250,012	626,400	13.1
Spectral Diagnostics Inc.	481,500 common shares 150,000 warrants expire Nov 19, 2006	931,130	399,645	8.3
Alegro Health Corp.	1,559,500 common shares 750,000 warrants expire Aug 4, 2006	404,163	311,900	6.5
Other equity investments - Biotechnology sector (i)		1,135,830	493,368	10.2
		6,333,527	4,797,913	100.0

Sector: Technology and Other				
Fiber Optics Systems Technology Inc.	3,635,137 common shares 1,921,022 warrants expire Mar 2, 2006	2,675,791	15,449,957	45.7
Enghouse Systems Limited	650,000 common shares	786,919	5,427,500	16.1
Certicom Corp.	578,400 common shares	2,754,627	3,152,280	9.3
AirlQ Inc.	2,858,611 common shares 1,111,111 warrants expire Dec 17, 2005	1,127,012	1,200,617	3.6
PowerOne Capital Markets Limited	100 common shares	100	1,504,590	4.5
Other equity investments - Technology and Other sector (i)		10,171,469	7,065,756	20.8
		17,515,918	33,800,700	100.0

Total investments **\$ 83,484,419** **\$ 121,178,812**

(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 September 30, 2005.

Pinetree Capital Ltd.
Notes to Consolidated Financial Statements
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(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.

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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 a deposit in trust for the dissenting shares which have been cancelled, and the Company had accrued a contingent liability of \$780,957 against share capital relating to the payment of fair value for the dissenting shares.

During the nine months ended September 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 ran from July 19, 2004 to July 18, 2005. Purchase and payment for the common shares were made in accordance with 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 nine months ended September 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.

On July 13, 2005, the Company announced its intentions to purchase up to 695,000 common shares through a normal course issuer bid (the "2005 NCIB"). The 2005 NCIB runs from July 19, 2005 to July 18, 2006. Purchase and payment for the common shares will be made in accordance with TSX requirements. During the nine months ended September 30, 2005, pursuant to the 2005 NCIB, the Company had purchased 179,700 common shares of the Company at an average price of \$3.00 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. On June 16, 2005, the Company granted 225,000 stock options exercisable at \$2.10 per common share and expiring on June 15, 2010. On September 30, 2005, the Company granted 25,000 stock options exercisable at \$3.50 per common share and expiring on September 29, 2010. In accordance with CICA Handbook Section 3870, options granted are accounted for by the fair value method of accounting for stock-based compensation. 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.

Pinetree Capital Ltd.
Notes to Consolidated Financial Statements
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(Unaudited)

6. Share Capital (continued):

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
Fair value per stock option granted on June 16, 2005	\$ 1.23

For the nine months ended September 30, 2005, included in stock-based compensation is \$35,513 (nine months ended September 30, 2004 - \$6,668) relating to the stock options granted during the period and \$32,243 (nine months ended September 30, 2004 - \$73,994) relating to stock options granted in the prior years to directors, officers, employees and consultants of the Company.

- (c) During the nine months ended September 30, 2005, 565,713 stock options were exercised at \$1.19 per common share, 62,856 stock options were exercised at \$0.91 per common share and 62,856 stock options were exercised at \$0.80 per common share.
- (d) During the nine months ended September 30, 2005, 46,095 stock options exercisable at US\$2.78 expired unexercised.
- (e) As at September 30, 2005, the Company had 13,835,561 common shares and 1,838,726 stock options outstanding at prices ranges from \$1.19 to \$2.40 and expiring between January 9, 2006 and June 15, 2010.
- (f) Subsequent to September 30, 2005, 710,284 stock options were exercised at \$1.19 per common share, 79,283 stock options were exercised at \$1.75 per common share, and 4,200 stock options were exercised at \$2.10 per common share.
- (g) Subsequent to September 30, 2005, the Company granted 50,000 stock options exercisable at \$3.55 per common share expiring October 2, 2010; 250,000 stock options exercisable at \$3.35 per common share expiring October 10, 2010; and 150,000 stock options exercisable at \$3.00 per common share expiring October 30, 2010.

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7. Related party transactions:

- (a) During the nine months ended September 30, 2005, the Company had consulting agreements with certain officers and directors representing approximately \$29,500 (nine months ended September 30, 2004 - \$29,500) per month. Included in operating, general and administrative expenses is approximately \$266,200 (nine months ended September 30, 2004 - \$315,000) 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 \$968,728 (nine months ended September 30, 2004 - \$1,044,544) relating to this bonus.
- (b) The Company has promissory notes totaling \$79,000 (December 31, 2004 - \$481,780) owing from an officer of the Company. The promissory notes are unsecured and interest free.
- (c) Other income includes consulting income of \$867,645 (nine months ended September 30, 2004 - \$71,808) 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.

8. Bank indebtedness:

During the nine months ended September 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 September 30, 2005, the Company had used \$874,159 of the line of credit.

9. 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"), which 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 September 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 September 30, 2005, the Company had \$1,100,000 outstanding plus accrued interest of \$17,680. The accrued interest was subsequently paid.

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(Unaudited)

10. 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% (September 30, 2004 – 36.12%) of pre-tax income as a result of the following for the nine months end September 30, :

	2005	2003
Income (loss) before income taxes	\$ 30,450,157	\$ (17,516,619)
Computed "expected" income tax expense (recovery)	10,998,597	(6,327,003)
Net future tax asset not recognized	—	(193,107)
Non-taxable portion of dividend income	(2,304)	(8,117)
Non-taxable portion of capital gains	(174,076)	(429,793)
Non-taxable portion of unrealized losses (gains)	(120,960)	574,031
Recognition of losses not previously benefited	(3,720,785)	—
Permanent and other differences	(2,141,032)	64,766
Provision for (recovery of) income taxes	\$ 4,839,440	\$ (6,139,223)

(b) Significant components of the provision for (recovery of) income taxes for the year ended September 30, are as follows:

	2005	2004
Current tax expense	\$ 746,789	\$ 1,781,268
Future income tax expense (recovery) relating to origination and reversal of temporary differences	4,092,651	(8,100,491)
Provision for (recovery of) income taxes	\$ 4,839,440	\$ (6,319,223)

(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:

	September 30, 2004	December 31, 2004
Future tax assets		
Capital assets – differences in amortization and unamortized capital cost	\$ 105,323	\$ 65,714
Non-capital losses carried forward	—	3,769,782
Net future tax assets	105,323	3,835,496
Future tax liabilities		
Investments – differences in accounting cost and tax cost	(7,593,959)	(7,231,481)
Net future tax liabilities	(7,593,959)	(7,231,481)
Total future tax assets and liabilities	(7,488,636)	(3,395,985)
Less: valuation allowance	—	—
Net future tax liabilities	\$ (7,488,636)	\$ (3,395,985)