

Consolidated Financial Statements of

## **Pinetree Capital Ltd.**

For the years ended December 31, 2005 and 2004

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# AUDITORS' REPORT

To the Shareholders of

**Pinetree Capital Ltd.**

We have audited the consolidated balance sheets of **Pinetree Capital Ltd.** as at December 31, 2005 and 2004 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
February 24, 2006

*Ernst + Young LLP*

Chartered Accountants

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

<b>Assets</b>	<u>2005</u>	<u>2004</u> (note 3)
Investments, at fair value (note 5)	\$ 176,142,271	\$ 82,426,943
Cash and cash equivalents	-	94,131
Prepays and other receivables (note 9(b))	182,487	620,977
Deposits in trust (note 4(a))	-	637,782
Capital assets, net (note 6)	12,994	6,782
	<u>\$ 176,337,752</u>	<u>\$ 83,786,615</u>
 <b>Liabilities and Shareholders' Equity</b>		
Bank indebtedness, net (note 10(a))	\$ 2,317,947	\$ -
Due to brokers	37,237,403	17,506,566
Accounts payable and accrued liabilities (note 9(a))	2,114,168	1,414,591
Loan from officer (note 9(e))	1,976,485	-
Advances from affiliated companies (note 8)	1,015,000	899,654
Deferred revenue (note 11)	995,873	-
Short term loans payable (note 10(b))	2,600,000	2,310,740
Income taxes payable (notes 4(b) and 12)	117,650	1,937,569
	<u>48,374,526</u>	<u>24,069,120</u>
<b>Future tax liabilities (note 12)</b>	<u>17,177,760</u>	<u>3,395,985</u>
	<u>65,552,286</u>	<u>27,465,105</u>
<b>Shareholders' equity</b>		
Share capital (notes 4(a) and 7)	25,433,456	17,539,298
Contributed surplus (note 7(h))	1,907,994	930,922
Retained earnings (note 7(f))	83,444,016	37,851,290
	<u>110,785,466</u>	<u>56,321,510</u>
	<u>\$ 176,337,752</u>	<u>\$ 83,786,615</u>

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Sheldon Inwentash" Director

"Ronald Perry" Director

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

	<u>2005</u>	<u>2004</u> (note 3)
<b>Net investment gains (losses)</b>		
Gain on disposal of investments, net	\$ 18,219,425	\$ 13,392,332
Unrealized gains (losses) on investments, net	53,150,534	(19,918,440)
	<u>71,369,959</u>	<u>(6,526,108)</u>
<b>Other revenue</b>		
Interest and dividend income	324,773	97,964
Other income (note 9(c))	1,636,571	379,409
	<u>73,331,303</u>	<u>(6,048,735)</u>
<b>Expenses</b>		
Operating, general and administrative (notes 4(a) and 9(a))	4,742,725	4,037,451
Stock-based compensation (note 7(h))	1,855,685	105,309
Foreign exchange gain	(11,606)	(310,803)
Amortization	2,682	290
Interest	1,392,991	709,169
	<u>7,982,477</u>	<u>4,541,416</u>
<b>Income (loss) before income taxes</b>	65,348,826	(10,590,151)
<b>Provision for (recovery of) income taxes (note 12)</b>	13,662,329	(5,849,518)
<b>Income (loss) before extraordinary gain</b>	51,686,497	(4,740,633)
<b>Extraordinary gain from reverse takeover (note 3)</b>	-	754,912
<b>Net income (loss) for the year</b>	<u>\$ 51,686,497</u>	<u>\$ (3,985,721)</u>
<b>Basic earnings (loss) per common share</b>		
Before extraordinary gain (loss)	\$ 3.69	\$ (0.37)
Extraordinary gain	-	0.06
Net income (loss) for the year	<u>\$ 3.69</u>	<u>\$ (0.31)</u>
<b>Diluted earnings (loss) per common share</b>		
Before extraordinary gain (loss)	\$ 3.43	\$ (0.37)
Extraordinary gain	-	0.06
Net income (loss) for the year	<u>\$ 3.43</u>	<u>\$ (0.31)</u>
<b>Weighted average number of common shares outstanding</b>		
Basic	13,995,129	12,974,733
Diluted	15,087,229	12,974,733

See accompanying notes to the consolidated financial statements.

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

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	<u>2005</u>	<u>2004</u> (note 3)
Retained earnings, beginning of year	\$ 37,851,290	\$ 41,837,011
Adjustment for cancellation of issuer buy back and dissenting shares (note 7(f))	(6,093,771)	-
Net income (loss) for the year	<u>51,686,497</u>	<u>(3,985,721)</u>
Retained earnings, end of year	<u>\$ 83,444,016</u>	<u>\$ 37,851,290</u>

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See accompanying notes to the consolidated financial statements.

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

	<u>2005</u>	<u>2004</u> (note 3)
<b>Cash flows from (used in) operating activities</b>		
Net income (loss) for the year	\$ 51,686,497	\$ (3,985,721)
Items not affecting cash		
Gain on disposal of investments, net	(18,219,425)	(13,392,332)
Unrealized losses (gains) on investments, net	(53,150,534)	19,918,440
Amortization	2,682	290
Stock-based compensation expense	1,855,685	105,309
Acquisition adjustments	-	(780,957)
Extraordinary gain from reverse takeover	-	(754,912)
Reversal of unrealized gain on Pinetree shares held by Genevest	-	(307,398)
Future income taxes	13,781,775	(8,068,099)
	<u>(4,043,320)</u>	<u>(7,265,380)</u>
Changes in non-cash working capital balances related to operations		
Advances to affiliated companies	-	4,170,317
Prepays and other receivables	438,490	(620,977)
Accounts payable and accrued liabilities	699,577	1,269,065
Deferred revenue	995,873	-
Income taxes payable	(1,819,919)	1,041,875
	<u>(3,729,299)</u>	<u>(1,405,100)</u>
<b>Cash flows from (used in) financing activities</b>		
Purchase of shares under normal course issuer bid	(1,456,586)	(1,402,906)
Proceeds from issuance of share capital	2,378,360	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)
Deposits in trust	637,782	(637,782)
Loan from officer	1,976,485	-
Advances from affiliated companies	115,346	899,654
	<u>3,651,387</u>	<u>(7,369,277)</u>
<b>Cash flows from (used in) investing activities</b>		
Purchase of capital assets	(8,894)	(7,072)
Increase (decrease) in due from brokers	19,730,837	(2,788,926)
Short term loans payable	289,260	2,310,740
Purchase of investments	(89,608,969)	(60,549,578)
Proceeds on disposal of investments	67,263,600	69,871,345
	<u>(2,334,166)</u>	<u>8,836,509</u>
<b>Net increase (decrease) in cash and cash equivalents, during the year</b>	<u>(2,412,078)</u>	<u>62,132</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>94,131</u>	<u>31,999</u>
<b>Cash and cash equivalents, (bank indebtedness), end of year</b>	<u>\$ (2,317,947)</u>	<u>\$ 94,131</u>
<b>Supplemental cash flow information</b>		
Income taxes paid	\$ 1,619,198	\$ 1,256,673
Interest paid	\$ 1,392,991	\$ 709,169

See accompanying notes to the consolidated financial statements.

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**PINETREE CAPITAL LTD.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**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 (the "TSX") under the symbol "PNP". Pinetree is a diversified investment, financial advisory and merchant banking firm focused on the small cap market. Pinetree's investments are primarily in the following resource sectors: Oil & Gas, Uranium, Precious Metals, and Base Metals. As well, Pinetree has investments in the Biotechnology and Technology sectors. Pinetree's investment approach is to build a macro position in a sector, find the micro-cap opportunities in that sector and work with those companies to build them to commercial production and create an exit.

**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"), Pinetree Resource Partnership, Pinetree Income Partnership, Pinetree (Barbados) Inc., Pinetree Capital Markets Ltd., and Emerald Capital Corp. 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.

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**PINETREE CAPITAL LTD.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**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.

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**PINETREE CAPITAL LTD.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**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:

	<b>Rate</b>	<b>Basis</b>
Computer equipment	30%	Declining balance
Furniture and equipment	20%	Declining balance
Leasehold improvements	6 years	Over the term of the lease

(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. Deferred revenue is recognized over the period for which the revenue is earned.

(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. Non-monetary assets have been translated at the rate of exchange prevailing at the date of transaction.

(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.

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**PINETREE CAPITAL LTD.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**2. Significant accounting policies (continued):**

(h) Stock-based compensation plans:

The Company has stock-based compensation plans which are described in note 7(g). 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 on 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:**

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' ("CICA") 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**  
**Years Ended December 31, 2005 and 2004**

**3. Business combination (continued):**

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 was allocated to the fair value of Pinetree's net assets as follows:

	<b>As at June 1, 2004</b>
<b>Purchase price</b>	
Original investment in Pinetree common shares at fair value	\$ 1,995,000
82.5% of the fair value of Pinetree's net assets acquired	15,030,212
Transaction costs	171,198
	<u>\$ 17,196,410</u>
<b>Fair value of Pinetree's net assets acquired</b>	
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)
<b>Fair value of net assets assumed</b>	<u>\$ 18,218,439</u>
<b>Excess of fair value of net assets assumed over purchase price</b>	<u>\$ 1,022,029</u>
<b>Allocation of the excess fair value:</b>	
Capital assets	267,117
Extraordinary gain	754,912
	<u>\$ 1,022,029</u>

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

**4. Deposits in trust and contingent liability:**

- (a) 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 were 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 current year, the Company settled with the dissenters holding the 260,319 common shares for an additional \$273,335 relating to the settlement for fair value of the shares. This additional amount was included in operating, general, administrative expense in accordance with Section 1506 (accounting changes) of the CICA Handbook.

**PINETREE CAPITAL LTD.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**4. Deposits in trust and contingent liability (continued):**

- (b) On November 28, 2005, the Ontario Ministry of Finance ("OMF") issued notices of reassessment to the Company's wholly-owned subsidiary, Genevest, as a result of an audit of income tax returns filed by Genevest for the 2000, 2001, and 2002 taxation years. OMF, among other things, disputed the Company's revenue recognition methodology on the disposal of certain investments. As at December 31, 2005, OMF has reassessed Genevest an amount owing of approximately \$2,361,000.

Genevest is in the process of filing notices of objection within the statutory time frame. The final outcome of the notices of objection is not presently determinable. However, Genevest and Genevest's legal and tax advisors believe the Company will prevail in this matter. Accordingly, the Company has not accrued any provision relating to the income tax potentially owing on the reassessments.

**5. Investments:**

- (a) Investments consist of the following as at December 31, 2005 by sector:

<b>Issuer</b>	<b>Note</b>	<b>Security Description</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Sector (FV)</b>
<b>Sector: Resources (Uranium/Coal)</b>					
Brownstone Ventures Inc.	(i, ii, iii)	2,564,859 common shares	\$ 554,917	\$ 5,052,772	17.4
Tournigan Gold Corp.	(i, iii)	3,114,500 common shares			
		750,000 warrants expire Mar 31, 2007	1,726,537	2,926,786	10.1
Khan Resources Inc.	(i, iii)	2,860,000 common shares			
		150,000 warrants expire Sept 30, 2006	1,821,810	2,860,000	9.9
Western Canadian Coal Corp.	(i)	500,000 common shares			
		43,500 warrants expire Feb 9, 2006	1,453,336	1,755,000	6.1
Summit Resources Ltd.	(i)	2,500,000 common shares	666,071	1,211,888	4.2
Kilgore Minerals Ltd.	(ii, iii)	1,101,000 common shares			
		350,000 warrants expire Jan 20, 2006	585,228	872,622	3.0
Monster Copper Corp.	(iii)	1,635,000 common shares			
		400,000 warrants expire Dec 6, 2007	506,073	574,703	2.0
UGL Enterprises Ltd.	(iii)	1,391,954 common shares			
		341,666 warrants expire Mar 31, 2007			
		31,061 warrants expire Apr 8, 2007	642,277	508,063	1.8
First Uranium Ltd.	(iii)	500,000 common shares	500,000	500,000	1.7
Other investments – Resources (Uranium/Coal) sector (iv)			10,580,057	12,674,990	43.8
			<b>19,036,306</b>	<b>28,936,824</b>	<b>100.0</b>
<b>Sector: Resources (Oil &amp; Gas)</b>					
Connacher Oil & Gas Ltd.	(i)	2,000,000 common shares	1,213,972	7,680,000	18.8
CanWest Petroleum Corp.	(i, iii)	1,000,000 common shares			
		US\$600,000 8% convertible debenture			
		573,437 warrants expire Sept 19, 2006			
		209,766 warrants expire Sept 19, 2007			
		250,000 warrants expire Dec 12, 2007	2,769,550	5,717,917	14.0
Delta Petroleum Corp.	(i)	216,129 common shares	4,984,708	5,485,709	13.4
GeoGlobal Resources Inc.	(i)	238,200 common shares			
		150,000 warrants expire Feb 24, 2006			
		37,500 warrants expire Sept 9, 2007	965,101	5,221,860	12.8

**PINETREE CAPITAL LTD.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**5. Investments (continued):**

<b>Issuer</b>	<b>Note</b>	<b>Security Description</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Sector (FV)</b>
<b>Sector: Resources (Oil &amp; Gas) (continued)</b>					
Petrolifera Petroleum Limited	(i, ii)	417,600 common shares 150,000 warrants expire May 8, 2007	<b>680,800</b>	<b>3,702,744</b>	<b>9.1</b>
Other investments – Resources (Oil & Gas) sector (iv)			<b>12,039,173</b>	<b>12,984,716</b>	<b>31.9</b>
			<b>22,653,304</b>	<b>40,792,946</b>	<b>100.0</b>
<b>Sector: Resources (Precious Metals)</b>					
Guyana Goldfields Inc.	(i)	1,342,500 common shares	<b>2,195,521</b>	<b>5,235,750</b>	<b>13.7</b>
Miramar Mining Corporation	(i)	1,170,200 common shares 50,000 warrants expire Feb 15, 2006	<b>2,276,100</b>	<b>3,548,384</b>	<b>9.3</b>
Afriore Ltd.	(i)	800,000 common shares 50,000 warrants expire Aug 24, 2007	<b>840,574</b>	<b>2,313,000</b>	<b>6.0</b>
Aquiline Resources Inc.	(i)	1,371,400 common shares 125,000 warrants expire Oct 11, 2006	<b>1,680,308</b>	<b>2,149,670</b>	<b>5.6</b>
Solitario Resources Corp.	(i)	1,047,800 common shares	<b>1,393,821</b>	<b>1,896,518</b>	<b>5.0</b>
FieldEx Exploration Inc.	(ii, iii)	2,000,000 common shares 2,000,000 warrants expire Nov 29, 2007	<b>300,000</b>	<b>1,112,000</b>	<b>2.9</b>
Unigold Inc.	(ii, iii)	1,352,000 common shares 1,000,000 warrants expire Oct 12, 2006	<b>466,074</b>	<b>943,600</b>	<b>2.5</b>
Southern Silver Exploration Corp.	(iii)	800,000 common shares 200,000 warrants expire Apr 11, 2007 800,000 warrants expire Oct 31, 2007	<b>200,000</b>	<b>741,600</b>	<b>1.9</b>
Noront Resources Ltd.	(iii)	2,844,500 common shares 150,000 warrants expire May 26, 2006 375,000 warrants expire Dec 30, 2007	<b>956,385</b>	<b>650,833</b>	<b>1.7</b>
Other investments – Resources (Precious Metals) sector (iv)			<b>18,329,797</b>	<b>19,647,249</b>	<b>51.4</b>
			<b>28,638,580</b>	<b>38,238,604</b>	<b>100.0</b>
<b>Sector: Resources (Base Metals)</b>					
FNX Mining Company Inc.	(i)	775,000 common shares	<b>6,821,320</b>	<b>10,532,250</b>	<b>69.2</b>
Liberty Mines Inc.	(i, iii)	1,350,091 common shares 454,545 warrants expire Jan 15, 2007	<b>331,704</b>	<b>842,821</b>	<b>5.5</b>
Yukon Zinc Corporation	(i)	2,000,000 common shares 250,000 warrants expire Oct 21, 2006 350,000 warrants expire Oct 22, 2007	<b>545,008</b>	<b>783,175</b>	<b>5.1</b>
BcMetals Corporation	(i)	1,030,267 common shares 33,333 warrants expire Nov 21, 2006 100,000 warrants expire Apr 16, 2007	<b>1,029,700</b>	<b>700,582</b>	<b>4.6</b>
Titanium Corporation Inc.	(i)	200,000 common shares 200,000 warrants expire Aug 27, 2007	<b>450,000</b>	<b>520,000</b>	<b>3.4</b>
Other investments – Resources (Base Metals) sector (iv)			<b>2,241,205</b>	<b>1,851,932</b>	<b>12.2</b>
			<b>11,418,937</b>	<b>15,230,760</b>	<b>100.0</b>
<b>Sector: Biotechnology</b>					
ChondroGene Limited	(i)	1,916,295 common shares	<b>1,254,158</b>	<b>2,107,925</b>	<b>35.5</b>
LAB International Inc.	(i)	1,325,000 common shares 300,000 warrants expire Dec 30, 2006	<b>1,612,432</b>	<b>1,298,500</b>	<b>21.9</b>
Haemacure Corp.	(i, ii, iii)	4,231,500 common shares 1,000,000 warrants expire Mar 19, 2006	<b>1,446,461</b>	<b>1,057,875</b>	<b>17.8</b>
Other investments - Biotechnology sector (iv)			<b>2,661,352</b>	<b>1,473,510</b>	<b>24.8</b>
			<b>6,974,403</b>	<b>5,937,810</b>	<b>100.0</b>

**PINETREE CAPITAL LTD.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**5. Investments (continued):**

<b>Issuer</b>	<b>Note</b>	<b>Security Description</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Sector (FV)</b>
<b>Sector: Energy Related Technology</b>					
Fiber Optics Systems Technology Inc.	(i, ii, iii)	2,729,278 common shares 1,921,022 warrants expire Mar 2, 2006	<b>2,008,997</b>	<b>17,565,314</b>	<b>93.7</b>
Solomon Technologies, Inc.	(i, iii)	25,000 common shares 1,171,474 series A preferred stock US\$150,000 12% promissory note due Mar 15, 2006 1,221,474 warrants expire Apr 30, 2014	<b>1,826,276</b>	<b>683,993</b>	<b>3.6</b>
Enercoil Resources Incorporated	(i, iii)	500,000 warrants expire Nov 5, 2014 1,000,000 common shares 1,000,000 warrants expire Dec 2, 2006	<b>500,000</b>	<b>500,000</b>	<b>2.7</b>
			<b>4,335,273</b>	<b>18,749,307</b>	<b>100.0</b>
<b>Sector: Technology and Other</b>					
Enghouse Systems Limited	(i)	650,000 common shares	<b>786,919</b>	<b>5,206,500</b>	<b>18.4</b>
Certicom Corp.	(i)	600,000 common shares	<b>2,875,770</b>	<b>3,720,000</b>	<b>13.2</b>
VIQ Solutions Inc.	(i, ii, iii)	4,520,000 common shares 266,000 warrants expire Jun 30, 2006 550,000 warrants expire Jul 14, 2006 935,000 warrants expire Sept 16, 2006	<b>909,425</b>	<b>1,197,800</b>	<b>4.2</b>
Tengtu International Corp.	(i, iii)	2,834,798 common shares 150,000 warrants expire TBD 173,077 8% preferred A stock (10:1) 1,730,770 warrants expire Mar 29, 2008 865,285 warrants expire Mar 29, 2008	<b>1,892,799</b>	<b>1,011,369</b>	<b>3.6</b>
AirIQ Inc.	(i)	2,858,611 common shares	<b>1,127,012</b>	<b>886,169</b>	<b>3.1</b>
Fluid Audio Networks, Inc.	(iii)	300,000 series A preferred shares 257,357 series B preferred shares	<b>903,412</b>	<b>874,862</b>	<b>3.1</b>
ADB Systems International Inc.	(ii, iii)	1,146,500 common shares 1,000,000 warrants expire Feb 23, 2009 \$375,000 11% convertible debenture	<b>696,501</b>	<b>588,910</b>	<b>2.1</b>
Other investments – Technology and Other sector (iv)			<b>5,366,535</b>	<b>14,770,410</b>	<b>52.3</b>
			<b>14,558,373</b>	<b>28,256,020</b>	<b>100.0</b>
<b>Total investments</b>			<b>\$ 107,615,176</b>	<b>\$ 176,142,271</b>	

- (i) These investments are in the top five of their respective sector, by Fair Value, and the investment has a fair value greater than \$500,000, as at December 31, 2005.
- (ii) The Company has issued a Section 101 report under the Ontario Securities Act for these investments and the investment has a fair value greater than \$500,000.
- (iii) The Company owns, on a partially diluted basis, at least a 5% interest in these investments and the investment has a fair value greater than \$500,000, as at December 31, 2005.
- (iv) Other investments in each sector include all equity investments, warrants, promissory notes and convertible debentures which are not individually listed in their respective sector, held by the Company as at December 31, 2005.

**PINETREE CAPITAL LTD.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**5. Investments (continued):**

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

<b>Issuer</b>	<b>Note</b>	<b>Security Description</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Sector (FV)</b>
<b>Sector: Resources (Uranium/Coal)</b>					
Western Canadian Coal Corp.	(i)	500,000 common shares	\$ 667,091	\$ 3,060,000	22.9
Cline Mining Corporation	(i)	1,200,600 common shares			
		600,300 warrants expire May 10, 2006	660,330	2,227,113	16.7
Brownstone Ventures Inc.	(i, ii)	3,615,859 common shares	762,756	1,446,344	10.8
Quincy Gold Corp.	(i)	1,050,000 common shares			
		125,000 warrants expire Jun 21, 2006	376,860	1,011,069	7.6
Khan Resources Inc.	(i, ii)	1,680,000 common shares			
		880,000 warrants expire Oct 31, 2005	996,248	996,248	7.5
Gallery Gold Limited	(ii)	1,980,000 common shares	482,521	743,122	5.6
Other investments – Resources (Uranium/Coal) sector (iii)			3,420,794	3,855,058	28.9
			<b>7,366,600</b>	<b>13,338,954</b>	<b>100.0</b>
<b>Sector: Resources (Oil &amp; Gas)</b>					
Delta Petroleum Corp.	(i)	90,000 common shares	1,637,731	1,698,520	18.5
Canoro Resources Ltd.	(i)	385,000 common shares			
		57,500 warrants expire Dec 31, 2005			
		300,000 warrants expire Mar 11, 2006	421,294	1,650,910	18.0
Pan-Global Energy Ltd.	(i)	976,600 common shares	1,230,893	976,600	10.7
Connacher Oil & Gas Ltd.	(i)	1,500,000 common shares	762,500	742,500	8.1
Bankers Petroleum Ltd.	(i, ii)	1,408,000 common shares			
		141,500 warrants expire Mar 10, 2006			
		175,000 warrants expire Aug 19, 2006	564,755	741,602	8.1
Northern Sun Exploration Company Inc.	(ii)	1,000,000 common shares			
		1,000,000 warrants expire Dec 15, 2006	610,100	593,600	6.5
Other investments – Resources (Oil & Gas) sector (iii)			2,871,513	2,759,758	30.1
			<b>8,098,786</b>	<b>9,163,490</b>	<b>100.0</b>
<b>Sector: Resources (Precious Metals)</b>					
Hecla Mining Co.	(i)	519,300 common shares	2,798,934	3,643,922	12.5
Guyana Goldfields Inc.	(i)	839,000 common shares			
		125,000 warrants expire Mar 11, 2005	1,009,842	2,844,580	9.7
Solitario Resources Corp.	(i)	970,200 common shares	1,437,537	1,756,062	6.0
High River Gold Mines Ltd.	(i)	942,900 common shares			
		150,000 warrants expire Oct 26, 2006	1,525,322	1,725,507	5.9
Alamos Gold Inc.	(i)	390,000 common shares	720,329	1,404,000	4.8
Noront Resources Ltd.	(ii)	420,000 common shares			
		400,000 warrants expire Sept 28, 2005			
		150,000 warrants expire may 26, 2006	705,909	897,285	3.1
Other investments – Resources (Precious Metals) sector (iii)			15,602,447	16,916,308	58.0
			<b>23,800,320</b>	<b>29,187,664</b>	<b>100.0</b>

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

<b>Issuer</b>	<b>Note</b>	<b>Security Description</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Sector (FV)</b>
<b>Sector: Resources (Base Metals)</b>					
FNX Mining Company Inc.	(i)	118,100 common shares	364,642	611,758	17.8
BcMetals Corporation	(i)	792,267 common shares			
		33,333 warrants expire Nov 21, 2006			
		100,000 warrants expire Apr 16, 2007	641,627	514,974	14.9
Other investments – Resources (Base Metals) sector (iii)			2,743,710	2,318,608	67.3
			<b>3,749,979</b>	<b>3,445,340</b>	<b>100.0</b>
<b>Sector: Biotechnology</b>					
ChondroGene Limited	(i)	1,628,000 common shares			
		157,895 warrants expire Jan 11, 2005	1,155,452	1,871,468	27.9
LAB International Inc.	(i)	950,000 common shares			
		750,000 warrants expire Nov 1, 2005			
		50,000 warrants expire Dec 22, 2005	1,912,500	1,737,550	25.9
Haemacure Corp.	(i, ii)	2,850,000 common shares			
		1,000,000 warrants expire Mar 19, 2006	787,705	983,250	14.7
Alegro Health Corp.	(i, ii)	1,500,000 common shares			
		750,000 warrants expire Aug 4, 2006	375,000	675,000	10.1
Other investments - Biotechnology sector (iii)			2,149,633	1,432,636	21.4
			<b>6,380,290</b>	<b>6,699,904</b>	<b>100.0</b>
<b>Sector: Energy Related Technology</b>					
Solomon Technologies, Inc.	(i, ii)	1,171,474 series A preferred stock			
		1,271,474 warrants expire Apr 30, 2014			
		500,000 warrants expire Nov 5, 2014	1,643,645	3,829,263	62.6
Fiber Optics Systems Technology Inc.	(i, ii)	3,909,400 common shares			
		506,848 warrants expire Oct 13, 2005			
		2,294,311 warrants expire Mar 2, 2006	2,942,846	2,286,999	37.4
			<b>4,586,491</b>	<b>6,116,262</b>	<b>100.0</b>
<b>Sector: Technology and Other</b>					
Enghouse Systems Limited	(i)	800,000 common shares	968,515	7,144,000	49.4
AirIQ Inc.		2,843,611 common shares			
		1,111,111 warrants expire Dec 17, 2005	979,171	1,775,374	12.3
FUN Technologies plc (formerly CES Software plc)	(i)	400,000 common shares	738,970	1,576,000	10.9
Tengt International Corp.	(i, ii)	2,630,110 common shares			
		150,000 warrants expire TBD	2,144,228	994,766	6.9
Brainhunter Inc.	(i)	825,000 common shares	642,736	742,500	5.1
Other investments – Technology and Other sector (iii)			3,548,626	2,242,689	15.4
			<b>9,022,246</b>	<b>14,475,329</b>	<b>100.0</b>
<b>Total investments</b>			<b>\$ 63,004,712</b>	<b>\$ 82,426,943</b>	

- (i) These investments are in the top five of their respective sector, by Fair Value, and the investment has a fair value greater than \$500,000, as at December 31, 2004.
- (ii) The Company owns, on a partially diluted basis, at least a 5% interest in these investments and the investment has a fair value greater than \$500,000, as at December 31, 2004.

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

(iii) Other investments in each sector include all equity investments, warrants, promissory notes and convertible debentures which are not individually listed in their respective sector, held by the Company as at December 31, 2004.

**6. Capital assets:**

Capital assets consist of the following:

	2005			2004		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 14,798	\$ 2,972	\$ 11,826	\$ 7,072	\$ 290	\$ 6,782
Furniture and equipment	1,168	—	1,168	—	—	—
	<b>\$ 15,966</b>	<b>\$ 2,972</b>	<b>\$ 12,994</b>	<b>\$ 7,072</b>	<b>\$ 290</b>	<b>\$ 6,782</b>

**7. Share capital:**

Share capital consists of the following:

**Authorized:** Unlimited number of common shares

**Issued and outstanding:**

	# of Shares	Amount
<b>Balance, December 31, 2003</b>	8,758,669	\$ 8,750,570
Purchased for cash under NCIB – Pinetree (b)	(215,000)	—
Purchased for cash under NCIB – Genevest (c)	—	(504,279)
Issued pursuant to exercise of stock options	3,439	—
Issued 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
Reverse split (1.75:1) on June 2, 2004	13,642,267	—
Purchased for cash under NCIB (d)	(443,700)	(898,627)
Reduction of share capital for dissenting shareholders	—	(780,957)
Issued pursuant to exercise of stock options	326,854	387,196
Consolidation and reconciliation of shareholders' register	4,715	—
<b>Balance, December 31, 2004</b>	<b>13,530,136</b>	<b>\$ 17,539,298</b>
Purchased for cash under NCIB (e)	(516,000)	(1,456,586)
Issued pursuant to exercise of stock options	1,836,714	3,256,973
Adjustment to retained earnings for cancellation of shares (f)	—	6,093,771
<b>Balance, December 31, 2005 (a)</b>	<b>14,850,850</b>	<b>\$ 25,433,456</b>

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**PINETREE CAPITAL LTD.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**7. Share capital (continued):**

(a) In accordance with Emerging Issues Committee Abstract #10 of the CICA Handbook, the number of common shares disclosed reflects that of the legal parent, Pinetree, while the amounts are those of the legal subsidiary Genevest.

(b) Issuer buyback plan (Pinetree 2003):

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 the TSX requirements. 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.

(c) Issuer buyback plan (Genevest 2004 and 2003):

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 the TSX Venture Exchange (the "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 ended no later than March 7, 2005. Purchase and payment for the common shares were made in accordance with the TSXV requirements. Genevest purchased and cancelled 32,100 common shares under the Genevest 2004 NCIB at prices ranging from \$2.70 to \$3.15.

(d) Issuer buyback plan (2004):

On June 9, 2004, the Company had 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 the TSX requirements. During 2004, pursuant to the 2004 NCIB, the Company had purchased 443,700 common shares of the Company at prices ranging from \$1.50 to \$2.42.

(e) Issuer buyback plan (2005):

Pursuant to the 2004 NCIB, the Company purchased 206,300 common shares at prices ranging from \$2.16 to \$3.08. During the year, the Company cancelled 650,000 of its common shares pursuant to the 2004 NCIB which ended July 18, 2005.

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**PINETREE CAPITAL LTD.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**7. Share capital (continued):**

On July 13, 2004, the Company had planned 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 are made in accordance with the TSX requirements. During the year, pursuant to the 2005 NCIB, the Company had purchased 309,700 common shares of the Company at prices ranging from \$2.75 to \$3.57.

(f) Adjustment to share capital and retained earnings:

As at December 31, 2005, the Company reclassified \$6,093,771 relating to the cancellation of issuer buy back shares and dissenting shares by increasing share capital and reducing retained earnings by the same amount.

(g) Stock option plans:

The Company has two stock option plans in place for directors, officers, key employees and consultants to enable them to purchase common shares of the Company, as administered by the Board of Directors. They are referred to as the "2000 Plan" and the "2005 Plan".

The number of shares authorized to be issued was 2,000,000 for the 2000 Plan and 2,750,000 for the 2005 Plan. On May 27, 2004, an amendment to the 2000 Plan was approved by 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 that took place on June 1, 2004. 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 Plan options have a vesting period of eight quarters and the 2005 Plan options have a vesting period of six quarters. The exercise prices for purchasing these shares cannot be less than the minimum exercise price as provided by the TSX rules.

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, 2,022,940 Pinetree stock options were granted to former Genevest shareholders.

(h) Stock option grants:

During the year, the Company granted 1,000,000 stock options exercisable at prices ranging from \$2.10 to \$6.45 per common share and expiring from January 2, 2010 to December 5, 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 stock options granted.

**PINETREE CAPITAL LTD.**  
**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	<b>79.5% - 86.4%</b>
Expected dividend yield	<b>n/a</b>
Risk-free interest rate	<b>2.75% - 3.00%</b>
Expected option life in years	<b>3.5</b>
Fair value per stock option granted on January 3, 2005	<b>\$ 1.41</b>
Fair value per stock option granted on June 16, 2005	<b>\$ 1.21</b>
Fair value per stock option granted on September 30, 2005	<b>\$ 1.99</b>
Fair value per stock option granted on October 3, 2005	<b>\$ 2.01</b>
Fair value per stock option granted on October 11, 2005	<b>\$ 1.90</b>
Fair value per stock option granted on November 17, 2005	<b>\$ 2.49</b>
Fair value per stock option granted on December 6, 2005	<b>\$ 3.89</b>

For the year ended December 31, 2005, included in stock-based compensation is \$1,827,604 relating to the stock options granted during the year and \$28,081 relating to the granting of stock options in the prior years to directors, officers, employees and consultants of the Company.

- (i) A summary of the status of the Company's stock option plans as at December 31, 2005 and 2004 and changes during the years ended on those dates after giving effect to the 1.75 share consolidation, is presented below:

	2005		2004	
	# of Shares	Weighted average exercise price	# of Shares	Weighted average exercise price
<b>Stock Options</b>				
Outstanding, at beginning of year	<b>1,899,107</b>	<b>\$ 1.40</b>	580,377	\$ 1.75
Granted	<b>1,000,000</b>	<b>4.62</b>	2,039,582	1.23
Exercised/forfeited	<b>(1,526,470)</b>	<b>(1.35)</b>	(720,852)	(1.19)
Outstanding, at end of year	<b>1,372,637</b>	<b>\$ 3.40</b>	1,899,107	\$ 1.40
Exercisable, at end of year	<b>1,074,387</b>	<b>\$ 3.36</b>	1,841,110	\$ 1.40

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

The following table summarizes information about stock options outstanding as at December 31, 2005:

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)
\$1.00 - \$1.50	201,712	\$ 1.19	1.96	201,712	\$ 1.19	1.96
\$1.51 - \$2.00	204,283	1.75	2.42	204,283	1.75	2.42
\$2.01 - \$2.50	241,642	2.17	4.29	105,942	2.22	4.17
\$2.51 - \$3.55	325,000	3.39	4.77	262,450	3.36	4.78
\$3.56 - \$6.50	400,000	6.19	4.93	300,000	6.45	4.93
	<b>1,372,637</b>	<b>\$ 3.40</b>	<b>3.97</b>	<b>1,074,387</b>	<b>\$ 3.36</b>	<b>3.78</b>

**8. Advances from affiliated companies:**

Advances from affiliated companies consist of the following:

	2005	2004
Brownstone Ventures Inc. (a)	\$ —	\$ 699,654
PowerOne Capital Markets Limited (b)	1,015,000	200,000
	<b>\$ 1,015,000</b>	<b>\$ 899,654</b>

(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 \$34,887 (2004 - \$1,668) of interest expense charged by Brownstone and nil (2004 - \$43,800) 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 \$29,300 (2004 - \$34,200) per month. Included in operating, general and administrative expenses is approximately \$351,600 (2004 - \$410,000) 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 on the Company's non-limited market dealer business plus a bonus equal to 10% of any limited market dealer's business' net realized profit.

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**PINETREE CAPITAL LTD.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**9. Related party transactions (continued):**

Included in operating, general and administrative expenses is \$1,981,128 (2004 - \$1,127,626) relating to this bonus, including GST.

During the year, the Company also paid \$27,000 (2004 – nil) for director's fees.

- (b) The Company has promissory notes totaling \$86,000 owing from an officer of the Company. The promissory notes are unsecured and interest free.
- (c) Other income includes consulting income of approximately \$931,600 (2004 - \$335,900) from companies in which Pinetree has an investment interest and \$428,979 related to advances which were previously written off but which have since been settled.
- (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.
- (e) As at December 31, 2005, the Company had a loan from an officer of the Company of \$1,976,485 which was unsecured and interest free. Subsequent to December 31, 2005, the loan was fully repaid.

**10. Short term loans payable:**

- (a) The Company has an operating line of credit with RBC for \$3,000,000, and as at December 31, 2005, the Company has used \$2,939,338. The operating line of credit bears interest at RBC prime plus 0.75%. On January 4, 2006, the operating line of credit was reduced to \$1,000,000.
- (b) As at December 31, 2004, the Company had an \$800,000 loan from Royal Bank of Canada (the "RBC Loan"). The RBC Loan was repaid during the current year. As at December 31, 2005, the Company had a \$2,600,000 (2004 - \$1,500,000) loan from Quest Capital Corp. (the "Quest Loan") which is secured against the Company's assets and bears interest at 18% per annum. Interest is payable on the last day of each month and the full amount of the Quest Loan plus any outstanding interest is due on March 31, 2006. Subsequent to December 31, 2005, the Company repaid in full the Quest Loan plus all outstanding interest.

**11. Deferred revenue:**

During the year, the Company received 500,000 common shares of CanWest Petroleum Corporation in lieu of cash for financial advisory fees for the period from November 1, 2005 to October 31, 2006. The fair value of the common shares received was US\$2.05 per common share or US\$1,025,000 (\$1,190,025). As at December 31, 2005, the Company recognized two months of revenue and deferred the remaining balance of US\$854,167 (\$995,873).

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**12. 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% (2004 – 36.12%) of pre-tax income as a result of the following:

	2005	2004
Income (loss) before income taxes	\$ 65,348,826	\$ (10,590,151)
Computed "expected" income tax expense (recovery)	23,603,996	(3,825,163)
Corporate minimum tax not previously recognized	(7,503)	(302,894)
Non-taxable portion of dividend income	(2,578)	(8,117)
Non-taxable portion of capital gains	(348,382)	(646,953)
Non-taxable portion of unrealized losses (gains)	(2,383,024)	1,364,803
Recognition of losses not previously benefited	—	(2,641,310)
Foreign tax rate differential	(6,959,609)	—
Permanent and other differences	(240,571)	210,116
Provision for (recovery of) income taxes	\$ 13,662,329	\$ (5,849,518)

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

	2005	2004
Current tax expense (recovery)	\$ (119,446)	\$ 2,218,581
Future income tax expense (recovery) relating to origination and reversal of temporary differences	13,781,775	(8,068,099)
Provision for (recovery of) income taxes	\$ 13,662,329	\$ (5,849,518)

(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:

	2005	2004
<b>Future tax assets</b>		
Capital assets – differences in amortization and unamortized capital cost	\$ 103,264	\$ 65,714
Non-capital losses carried forward	66,839	3,769,782
Net future tax assets	170,103	3,835,496
<b>Future tax liabilities</b>		
Investments – differences in accounting cost and tax cost	(17,347,863)	(7,231,481)
Net future tax liabilities	(17,347,863)	(7,231,481)
Total future tax assets and liabilities	(17,177,760)	(3,395,985)
Less: valuation allowance	—	—
<b>Net future tax liabilities</b>	<b>\$ (17,177,760)</b>	<b>\$ (3,395,985)</b>

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**12. Income taxes (continued):**

- (d) As at December 31, 2005, the Company has non-capital losses of approximately \$175,554 which expire on December 31, 2014.

**13. Lease commitments:**

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

2006	\$	251,300
2007		117,200
2008		7,900
2009		7,900
2010		7,200
	\$	391,500

**14. 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, prepaids and other receivables, deposits in trust, advances 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, 2005, investments included \$19,851,240 (2004 - \$16,126,876), cash and cash equivalents included \$620,120 (2004 - \$48,525), due to brokers included \$7,609,145 (2004 - \$4,267,521), accounts payable and accrued liabilities included \$19,021 (2004 - \$22,034) and deferred revenue included \$995,873 (2004 - nil) denominated in U.S. dollars. Also, investments included \$3,263,927 (2004 - \$1,114,454) and due to brokers included

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**14. Financial instruments (continued):**

\$1,592,125 (2004 – \$265,822) denominated in Australian dollars and investments included \$379,202 (2004 – nil) denominated in South African rands.

(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.

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.

**15. Comparative consolidated financial statements:**

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 consolidated financial statements.

**16. Subsequent events:**

- (a) Subsequent to December 31, 2005, 75,150 options were exercised at prices between \$1.19 and \$3.50 per share for total gross proceeds of \$125,395.
- (b) Subsequent to December 31, 2005, the Company granted 175,000 options exercisable at \$7.00 per option and expiring on January 2, 2011, and 350,000 options exercisable at \$9.17 per option and expiring on January 29, 2011.
- (c) Subsequent to December 31, 2005, the Company completed a non-brokered financing of 3,555,600 common shares of the Company at a price of \$9.00 per common share for aggregate gross proceeds of \$32,000,400. A cash commission of \$593,542 and 150,000 Warrants were issued as finders' fees in connection with the financing. Each Warrant will entitle the holder to acquire one common share of Pinetree at a price of \$9.00 expiring September 14, 2007.