



Pinetree Capital Ltd. Management's Discussion and Analysis

For the Year Ended: December 31, 2004

Date of Report: March 21, 2005

Nature of the Business and Overview

Pinetree Capital Ltd. ("Pinetree" or the "Company") was incorporated under the laws of the Province of Ontario and is publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "PNP". Pinetree's principal business is to fund emerging growth businesses with breakthrough proprietary products. Pinetree's interests are primarily in companies with application and platform software technologies, telecommunications and fibre optics technologies, and biomedical technology. Pinetree also takes advantage of special situations, merchant banking opportunities, and makes investments in a variety of sectors, primarily in gold and other mineral resources.

On June 1, 2004, Pinetree had acquired Genevest Inc. ("Genevest") by amalgamating Genevest with Pinetree's wholly owned subsidiary, 981268 Alberta Ltd. The consolidated financial statements of the consolidated entity are issued under the same name of the legal parent, Pinetree, but are considered a continuation of the financial statements of the legal subsidiary, Genevest. The acquisition was accounted for as a reverse takeover in accordance with the accounting requirements of Emerging Issues Committee Abstract #10 ("EIC #10") of the Canadian Institute of Chartered Accountants' Handbook, as the shareholders of Genevest became controlling shareholders of Pinetree after the transaction. Under this form of purchase accounting, Genevest is deemed to have acquired Pinetree.

The accompanying consolidated financial statements of operations include the operating results of Pinetree for the seven months ended December 31, 2004, and the Genevest operating results for the twelve months ended December 31, 2004. The Genevest operating results for the twelve months ended December 31, 2003, have been presented as a comparative.

Caution Regarding Forward-Looking Statements

This Management's Discussion and Analysis contains forward-looking statements which are subject to risks and uncertainties and other factors that may cause Pinetree's results to differ materially from expectations. When reviewing the Company's forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. These include risks relating to market fluctuations, investee performance, strength of the Canadian and US economy, foreign exchange fluctuations and other risks. These forward-looking statements speak only as of the date hereof. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update these forward-looking statements. The Company does have an ongoing obligation to disclose material information as it becomes available.

Critical Accounting Estimates

Management has prepared the consolidated financial statements and this Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2004, after giving effect to the reverse takeover of Pinetree by Genevest Inc. ("Genevest") and the related transactions on the basis described in note 3 of the Notes to the audited consolidated financial statements for the year ended December 31, 2004.

The combination has been reflected as an acquisition of Pinetree by Genevest in the consolidated financial statements. The consolidated financial statements have been prepared using accounting policies that are consistent with the policies used in preparing Genevest's audited consolidated financial statements as at and for the year ended December 31, 2003.

This MD&A of the financial condition and results of operations should be read in conjunction with Pinetree's audited consolidated financial statements and notes thereto as at and for the year ended December 31, 2004;

Accounting policies followed in the preparation of the annual consolidated financial statements are disclosed in Note 2 of the Notes to the audited consolidated financial statements for the year ended December 31, 2004.

The following are critical accounting policies:

- 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.
- Privately-held investments - 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.

- Stock-based compensation plans – The Company has stock-based compensation plans which are described in note 7(d) of the Notes to the audited consolidated financial statements for the year ended December 31, 2004. 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.
- 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.
- 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.

Results of Operations

The Company's selected annual information for the three most recently completed financial years as at and for the years ending December 31st are as follows:

	2004	2003	2002
Net investment gains (losses)	\$ (6,526,108)	\$ 27,596,807	\$ (2,270,625)
Income (loss) before extraordinary gain	(4,740,633)	16,587,265	(4,333,643)
Net income (loss) for the year	(3,985,721)	16,587,265	(4,333,643)
Earnings (loss) per share before extraordinary gain – basic and diluted	(0.37)	1.33	(0.43)
Earnings (loss) per share – basic and diluted	(0.31)	1.33	(0.43)
Total assets	83,786,615	84,218,415	48,062,323
Total liabilities	27,465,105	32,800,796	13,117,047
Shareholder's equity	56,321,510	51,417,619	34,945,276

The net income of \$16,587,265 for fiscal year 2003 increased from a net loss of \$4,333,643 in 2002 and was primarily from recorded unrealized gains on investments of \$17,516,174 as compared to unrealized losses on investments of \$3,880,969 in 2002. The Company also had realized net gains on disposal of investments of \$10,080,633 as compared to \$1,610,344 in 2002.

The total assets of \$84,218,415 for fiscal year 2003 increased from \$48,062,323 as at December 31, 2002. The increase was primarily due from an increase in investments at fair value of \$80,016,099 as at December 31, 2003 as compared to \$38,831,777 as at December 31, 2002.

For the year ended December 31, 2004, the Company generated a realized net gain on disposal of investments of \$13,392,332 compared to a net gain on disposal of investments in 2003 of \$10,080,633. During the year, 100.5% of the realized net gain was attributable to the sale of marketable securities as compared to 45.1% last year.

The Company also had net unrealized losses on investments of \$19,918,440 in the year ended December 31, 2004, compared to net unrealized gains on investments of \$17,516,174 in 2003. Of the unrealized net losses for fiscal 2004, 83.9% was from the reversal of unrealized net gains on the disposal of investments and 16.1% was due to the write down to market on the Company's investments. Of the unrealized net gains for fiscal 2003, 20.0% was from the reversal of unrealized net gains on the disposal of investments and 120.0% was due to the write up to market on the Company's investments.

The Company had a net investment loss of \$6,526,108 in 2004 compared to net investment gain of \$27,596,807 in 2003. The net investment loss in the current year was due primarily to the unrealized losses on investments.

Other revenue totalled \$477,373 in the year ended December 31, 2004 compared to \$482,334 last year. Other revenue is comprised of \$75,491 (2003 - \$388,562) of interest from the Company's advances to affiliated companies and \$22,472 (2003 - \$93,772) of dividend income distributed from certain of the Company's investments. Interest income decreased due to the significant repayment of amounts due to from affiliated companies. Other revenue also comprised of \$379,409 (2003 - nil) from consulting fees and rental income.

Operating, general and administrative expenses in the year ended December 31, 2004 increased from \$2,261,057 in the year ended December 31, 2003 to \$4,037,451 in 2004. The increase in the current year resulted from an annual bonus of \$1,053,856 (2003 - \$801,419) to the Company's Chairman and Chief Executive Officer, equal to 10% of the realized pre-tax profit of the Company. The Company also paid \$700,000 plus GST upon the termination of the consulting agreement for the Chairman and Chief Executive Officer of Genevest effective May 31, 2004. The operating, general and administrative expenses for the current year take into account Pinetree's expenses for the seven months ended December 31, 2004 and Genevest's expenses for the twelve months ended December 31, 2004.

During year ended December 31, 2004, the Company recorded stock-based compensation expense of \$105,309 for stock options that were granted last year and during the current year. During the year ended December 31, 2003, the Company recorded compensation expense of \$779,200 for stock options that were repriced and \$50,838 for stock options that were granted.

The Company experienced an unrealized foreign exchange gain of \$310,803 on its U.S. dollar denominated net assets versus an unrealized foreign exchange loss of \$542,349 in 2003. The net gain arose due to the significant improvement through the year in the value of the Canadian versus the U.S. dollar, which reduced the Canadian dollar value of U.S. dollar amounts due to brokers, resulting in a foreign exchange gain.

The Company recorded a recovery of income taxes in the year ended December 31, 2004 of \$5,849,518 as compared to a provision for income taxes of \$7,311,640 last year. In 2004, the Company has \$2,218,581 (2003 - \$893,980) in current tax expenses and a recovery of future income taxes of \$8,068,099 (2003 - \$6,417,660 future income tax expenses). The recovery of future income taxes in the current year was primarily a result of the decrease in the excess of fair value over tax cost on long term assets and marketable securities held at the end of the year which decreases future tax liabilities.

For the year ended December 31, 2004, the Company reported a loss of \$4,740,633 (\$0.37 per share) before extraordinary gain from acquisition compared to income before extraordinary gain of \$16,587,265 (\$1.33 per share) last year. As a result of the business combination the Company had an extraordinary gain from acquisition of \$754,912.

Net loss for the year ended December 31, 2004 was \$3,985,721 (\$0.31 per share), arising primarily from net unrealized losses on investments. In the year ended December 31, 2003, net income for the year was \$16,587,265 (\$1.33 per share), primarily from net investment gains.

Summary of Quarterly Results:

	Quarter ended (unaudited)			
	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Net investment gains (losses)	7,618,389	1,428,900	(15,352,667)	(220,730)
Income (loss) before extraordinary gain	6,456,763	19,963	(10,334,488)	(882,871)
Net income (loss) for the year	6,456,763	191,161	(9,750,774)	(882,871)
Earnings (loss) per share before extraordinary gain – basic and diluted	0.47	0.00	(0.83)	(0.07)
Earnings (loss) per share – basic and diluted	0.47	0.01	(0.78)	(0.07)

	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Net investment gains (losses)	17,938,559	12,923,478	3,633,097	(6,898,327)
Net income (loss)	10,473,530	8,991,225	3,833,894	(6,711,384)
Basic and diluted earnings (loss) per share	0.86	0.73	0.31	(0.53)

For the three months ended December 31, 2004, the Company generated realized net gains on disposal of investments of \$674,903 compared to realized net gains for the three months ended December 31, 2003 of \$4,389,307. During the three months ended December 31, 2004, the Company recorded unrealized net gains on investments of \$6,119,893 versus unrealized net gains of \$13,549,252 in the same period last year. Of the unrealized net gains for the current quarter, 17.5% was from the reversal of unrealized net gains on the disposal of investments and 117.5% was due to the write up to market on the Company's investments. For the three months ended December 31, 2003, of the unrealized net gains for the quarter, 9.3% was from

the reversal of unrealized net gains on the disposal of investments and 109.3% was due to the write up to market on the Company's investments.

Operating, general and administrative expenses in the three months ended December 31, 2004 increased slightly from \$808,898 for the three months ended December 31, 2003 to \$876,582 in the current period.

Net income for the three months ended December 31, 2004 was \$6,456,763 (\$0.47 per share), arising primarily from net unrealized gains on investments. In the three months ended December 31, 2003, net income for the period was \$10,473,530 (\$0.86 per share), primarily from unrealized gains on investments.

Cash Flows

Net cash used from operations was \$1,143,228 in the year ended December 31, 2004, versus the cash generated from operating activities of \$2,192,538 last year. During 2004, the Company had \$637,782 deposited in trust for dissenting shareholders.

For 2004, cash used in financing activities was \$7,631,149 (2003 - \$944,960), arising primarily from the cancellation of Pinetree shares held by Genevest of \$1,995,000 and the cancellation of Genevest shares held by Pinetree of \$4,620,883. The Company also purchased \$1,402,906 of the Company's common shares on the open market under a normal course issuer bid as compared to \$944,960 in 2003. During 2004, the Company had proceeds of \$398,447 from stock options that were exercised as compared to nil in the prior year.

Net cash generated from investing activities was \$8,836,509 in the year ended December 31, 2004 as compared to cash used of \$1,309,666 last year. During the current year, the Company purchased \$60,549,578 of investments, an increase of \$4,088,366 as compared to \$56,461,212 in year ended December 31, 2003. The Company had proceeds from its disposition of investments of \$69,871,345, an increase of \$26,997,648, as compared to \$42,873,697 last year. During 2004, the Company repaid \$2,788,926 of amounts due to brokers whereas last year, the Company received \$12,277,849 from brokers.

For the year ended December 31, 2004, the Company had a net increase in cash and cash equivalents of \$62,132 as compared to a net decrease of \$62,088 in 2003, leaving a balance of cash and cash equivalents of \$94,131 (2003 - \$31,999).

Investments

During the year ended December 31, 2004, the Company did not make any new strategic investments. However, the Company did make a number of new investments in, and dispositions of, marketable securities of a variety of mineral resource companies yielding net realized gains of approximately \$13.4 million. As at December 31, 2004, the Company held marketable securities with a quoted market value of approximately \$62.0 million (Dec 31, 2003 - \$65.7 million), of which approximately \$54.8 million (Dec 31, 2003 - \$60.3 million) represented investments in gold and mineral resource companies.

Refer to note 5 of the Notes to the Consolidated Financial Statements for details of the Company's investment portfolio.

Liquidity and Capital Resources

Balance Sheet Highlights	December 31, 2004	December 31, 2003
Investments, at fair value	\$ 82,426,943	\$ 80,016,099
Total assets	83,786,615	84,218,415
Total liabilities	27,465,105	32,800,796
Share capital and contributed surplus	18,470,220	9,580,608
Retained earnings	37,851,290	41,837,011
Net asset value per share – Basic	4.16	4.23
Net asset value per share – Diluted	3.65	3.62

From December 31, 2003 to December 31, 2004, the fair value of Pinetree's portfolio increased by 3.5%, to \$82,426,943 from \$80,016,099. The cost base of the Company's portfolio was \$63,004,712 as at December 31, 2004 (December 31, 2003 - \$49,865,606). As such, the excess of fair value over cost stood at \$19,422,231 as at December 31, 2004 versus an excess of \$30,150,493 as at December 31, 2003.

Cash and cash equivalents stood at \$94,131 on December 31, 2004 as compared to \$31,999 on December 31, 2003, an increase of \$62,132. Net advances from affiliated companies increased to \$899,654 as at December 31, 2004 compared to net advances to affiliated companies of \$4,170,317 as at December 31, 2003. The increase was a result of the significant repayment of Genevest's advances of \$2,793,597 as at December 31, 2003 and the amalgamation of Pinetree and Genevest on June 1, 2004 which eliminated all inter-company balances in preparing the consolidated financial statements of the Company.

Amounts due to brokers decreased by \$2,788,926 from \$20,295,492 as at December 31, 2003 to \$17,506,566 as at December 31, 2004. Accounts payable and accrued liabilities increased to \$1,414,591 from \$145,526 as at December 31, 2003. The increase was primarily from an accrual of \$780,957 for the payment of the dissenting shareholders of Genevest (see Commitments and Off Balance Sheet Arrangements section below).

During the year, Pinetree's management handled all in-bound investor relations inquiries.

Commitments

As a December 31, 2004, the Company has material commitments for cash resources of \$17,506,566 due to brokers and \$899,654 due to affiliated companies which are due on demand; and \$1,937,569 in income taxes payable.

The Company has an \$800,000 loan from Royal Bank of Canada (the "RBC loan"). The RBC Loan is repayable in eight monthly payments of \$100,000 plus interest at RBC prime plus 2.5% per annum. The first payment is due on January 13, 2005. As at the date of this MD&A, the Company has satisfied all payments relating to the RBC Loan.

The Company also has a \$1,500,000 loan from Quest Capital Corp. (the "Quest Loan") which is unsecured and bears interest at 18% per annum. Interest is payable on the last day of each month with the first payment on January 31, 2005. The full amount of the Quest Loan plus any

outstanding interest is due on March 31, 2005. As at the date of this MD&A, the Company has satisfied all payments relating to the Quest Loan and has extended the maturity date to June 30, 2005.

The Company's cash and cash equivalents and marketable securities are sufficient to pay these material commitments.

The Company continues to have no long-term debt; however, the Company made a lease commitment for its premises starting June 1, 2001 for annual payments of approximately \$243,000 (\$20,290 monthly) until May 31, 2007. The Company also has consulting agreements with officers and directors representing approximately \$34,200 per month that renew automatically annually.

Arising from the Business Combination of Pinetree and Genevest which is described in the Joint Management Information Circular ("Circular") of Pinetree and Genevest dated April 20, 2004, are two dissenting shareholders holding a total of 260,319 shares of Genevest, now a wholly owned subsidiary of Pinetree. In accordance with Alberta's Business Corporations Act, shareholders who dissent to an amalgamation transaction have the right to be paid fair value by the Company for their shares. As per a court order dated December 31, 2004, Genevest paid the dissenting shareholders \$2.45 per share for a total of \$637,782 as a deposit in trust for the outstanding dissenting shares. The Company has also accrued a liability of \$780,957 against share capital for payment of the dissenting shares. Pending court settlement or agreement between the parties, the fair value of the dissenting shares may be higher or lower than \$2.45 per share.

On October 1, 2003, in connection with the Company's normal operations, the Company signed a priority agreement with CIBC World Markets Inc. ("CIBC") whereby CIBC has priority over the assets of the Company that are margined. Pinetree and Genevest has also signed a Cross Guarantee agreement with CIBC whereby Pinetree guarantees Genevest's outstanding debt to CIBC and Genevest guarantees Pinetree's debt to CIBC.

During the year, the Company signed a General Security Agreement ("GSA") with Royal Bank of Canada for a \$250,000 revolving line of credit and under the GSA, the Company's assets are collateralized after giving preference to CIBC.

Related Party Transactions

- (a) During the period, the Company had consulting agreements with officers and directors representing approximately \$34,200 (2003 - \$37,000) per month. Included in operating, general and administrative expenses for the year ended December 31, 2004 is approximately \$410,000 (2003 - \$445,000) paid under these contracts. Included in the consulting agreement for the Chairman and Chief Executive Officer of the Company, is an annual bonus equal to 10% of the realized pre-tax profit of the Company. Included in operating, general and administrative expenses is \$1,127,626 (2003 - \$801,419) relating to this bonus. The Company also paid \$749,000 upon the termination of the consulting agreement for the Chairman and Chief Executive Officer of Genevest effective May 31, 2004.

- (b) As at December 31, 2004, the Company had advances from an affiliated company of \$699,654 (December 31, 2003 - \$1,361,592 due from affiliated company) was from Brownstone Ventures Inc. ("Brownstone"), a reporting issuer trading on the TSXV under the symbol "BWN". The advances bear interest at Royal Bank prime plus 1% per annum. Included in the consolidated statements of operations is approximately \$1,668 of interest expense charged by Brownstone and \$43,800 (2003 - \$116,000) of interest income relating to interest charged to Brownstone. In addition, the Company holds an investment in Brownstone having a fair value of \$1,446,344 (December 31, 2003 - \$485,000).
- (c) As at December 31, 2004, the Company has advances of \$200,000 from an affiliated company, PowerOne Capital Markets Limited, an Ontario limited market dealer. The Company has a 50% interest in PowerOne Capital Markets Limited with a fair value of \$758,736 (December 31, 2003 - \$1).
- (d) The Company has promissory notes totaling \$481,780 owing from officers and a director of the Company. The promissory notes are unsecured and interest free.
- (e) Other income includes consulting income of \$335,900 (December 31, 2003 - nil) from companies in which the Company has an investment interest.
- (f) 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.

Outstanding Share Data:

As at December 31, 2004, the Company had 13,530,136 common shares outstanding for \$17,539,298 and 1,899,107 warrants exercisable at an average price of \$1.40 per common share and expiring between January 3, 2005 to November 16, 2009.

As at March 21, 2005, the Company had 13,411,536 common shares outstanding.

For more details, refer to Note 7 of the Notes to the Consolidated Financial Statements wherein share capital is described.

Additional Information:

Additional information relating to Pinetree can be found on SEDAR at www.sedar.com.