Notes to Consolidated Financial Statements
For the years ended December 31, 2001 and 2000

1. Nature of business:

Pinetree Capital Corp. ["Pinetree" or the "Company"] was incorporated under the laws of the Province of Ontario and is publicly traded on the Toronto Stock Exchange ["TSE"] under the symbol "PNP". Pinetree's principal business is to fund emerging growth businesses with breakthrough proprietary products. Pinetree's interests are in companies with information and internet infrastructure technologies, telecommunications and wireless technologies, and biomedical technologies.

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: Emerald Capital Corp. (600229 Alberta Inc.), 474048 B.C. Ltd., 1177344 Ontario Inc., 1065614 Ontario Inc., and Pinetree (Barbados) Inc. All significant inter-company accounts and transactions are eliminated on consolidation.

(b) Investments:

At each financial reporting period, the Company's management determines the valuation 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 sheets 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.
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 permanent decline

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

in value as indicated by the assessment of the financial condition of the investment based on operational results, forecasts and other developments since acquisition.

2. Options and warrants of privately held securities are carried at cost unless there's an upward adjustment 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.

(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 Pinetree'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 Pinetree'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.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash and short-term investments with original maturities of less than three months.

(d) Capital assets:

Capital assets are recorded at cost, less accumulated amortization. Amortization is provided at rates designed to amortize the cost of capital assets over their estimated useful lives as follows:

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

(e) Revenue recognition:

Realized gains and losses on disposition of investments and unrealized gains or 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 year of disposition. Dividend income is recorded on the ex-dividend date. Interest income and other income are recorded on an accrual basis.

2. Significant accounting policies (continued):

(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. 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 loss for the year.

(g) Income taxes:

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. Under The Canadian Institute of Chartered Accountants' Handbook Section 3465, "Accounting for Income Taxes", the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(h) Stock-based compensation plans:

The Company has stock-based compensation plans, which are described in note 7. No compensation expense is recognized for these plans when the stock or stock options are issued. Any consideration paid on the exercise of stock options or purchase of stock is credited to share capital.

(i) 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, investments, 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.

(j) Earnings per share:

Basic earnings per share have been determined by dividing net income 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. Fully diluted earnings per 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.

3. Changes in accounting policies:

(a) Investments:

Effective January 1, 2001, the Company changed its accounting policy for marketable securities, equity investments and other investments to the fair value method. In prior years, the Company accounted for its marketable securities using the lower of cost and market method. Equity investments, where the Company does not have control but is able to exercise significant influence over an investee, were carried at cost plus the Company's equity in undistributed earnings (losses), less dividends received, since the date of acquisition. Other long-term investments were carried at cost and were written down to their market value where other than a temporary decline in market value has occurred. This change in policy to fair value has been accounted for retroactively and accordingly, the comparative consolidated financial statements have been restated.

The fair value method allows the Company to present consolidated financial statements that are consistent with its operating activities, and provides more useful information to evaluate the Company's business. As part of the change in accounting policy for investments to fair value, unrealized changes in the fair value of investments are now recorded as part of income for the year.

The change has been applied retroactively from January 1, 2000 and the 2000 consolidated financial statements have been restated. The cumulative effect of this change as of January 1, 2000 increased opening retained earnings by $38,532,671. Other effects of the change in policy on the consolidated balance sheet as at December 31, 2000 were to reduce marketable securities, equity investments and other investments to nil and to increase investments by $52,665,431, increase income taxes receivable by $50,000, reduce future tax assets by $1,095,821, and increase future tax liability by $5,233,203.

On the consolidated statement of operations for the year ended December 31, 2000, this change resulted in a decrease in gain on sale of investments of $4,016,242; an increase in reversal of previously recognized gains of $18,234,162; an increase in unrealized losses of $678,566; the elimination of share of loss in affiliated companies of $747,855; an increase in interest and dividend income of $40,000; an increase in foreign exchange loss of $76,638; the elimination of write-down of marketable securities and write-down of long-term investments of $5,139,019 and $1,769,031, respectively; and a decrease in provision for income taxes of $3,857,752.

As a result, the cumulative effect as at December 31, 2000 was to increase retained earnings previously reported by $25,585,010.

(b) Earnings per share:

The Company has retroactively adopted the new recommendations for determining earnings per share issued by The Canadian Institute of Chartered Accountants. Prior year consolidated financial statements have been restated to conform with the recommendations. Accordingly, basic earnings per share have been determined by dividing net income 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. Fully diluted earnings per 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. This change has no effect on basic earnings per share and has resulted in a decrease of $0.07 in fully diluted earnings per share in the year ended December 31, 2000.

4. Restricted Cash:

During 2001, the Company pledged $350,000 of cash held in a Guaranteed Investment Certificate as collateral for a letter of credit issued for one of the Company's investee companies. The Guaranteed Investment Certificate earned interest at a rate of 1.75% per annum and matured and became unrestricted on January 31, 2002 (2000 – 4.25% per annum and matured on January 31, 2001).

5. Investments:

Investments consist of the following as at December 31, 2001:

	Security Description	Fair Value
Investments with a quoted market value		
Brownstone Resources Inc.	2,685,859 common shares	$ 349,162
Enghouse Systems Limited	700,000 common shares	6,146,000
GeneVest Inc.	1,870,803 common shares	3,223,858
iJoin Systems, Inc.	300,000 series B preferred shares	205,832
Lumenon Innovative Lightwave Technology Inc.	815,500 common shares	754,703
Manitex Capital Inc.	2,099,906 common shares	104,995
NSI Global Inc.	3,131,770 common shares	2,254,874
Red-tail Info Tech Inc.	834,000 common shares	83,400
SoftQuad Software Inc.	2,571,218 common shares	3,200,055
Treat Systems Inc.	305,779 common shares	15,289
Other equity investments (a)		1,391,875
		$ 17,730,043
Investments with no quoted market value		
Fiber Optics System Technology Inc.	428,135 common shares; 93,012 warrants expire Oct 13, 2005	$ 2,233,842
Primacy Corporation	3,530,373 common shares; 50,000 warrants expire Jul 13, 2003	1,996,076
Solomon Technologies, Inc.	11% convertible debenture, due Jan 18, 2002 (currently under renegotiation)	703,573
Other equity investments (a)		864,216
Other debt investments (a), (b)		275,274
		$ 6,072,981
Total investments		$ 23,803,024

5. Investments (continued):

Investments consist of the following as at December 31, 2000:

	Security Description	Fair Value
Investments with a quoted market value		
Brownstone Resources Inc.	2,285,859 common shares	$ 580,240
Enghouse Systems Limited	700,000 common shares	6,790,000
GeneVest Inc.	1,806,503 common shares	5,293,054
Lumenon Innovative Lightwave Technology Inc.	815,500 common shares	6,135,492
Manitex Capital Inc.	2,099,906 common shares	839,962
NSI Communications Inc.	3,131,770 common shares	4,196,572
Red-tail Info Tech Inc.	950,000 common shares; 500,000 warrants expire Dec 15, 2001	456,000
SoftQuad Software Inc.	2,571,218 common shares	15,117,656
Treat Systems Inc.	305,779 common shares	184,505
Other equity investments (c)		5,800,595
		$ 45,394,076
Investments with no quoted market value		
Fiber Optics System Technology Inc.	428,135 common shares; 93,012 warrants expire Oct 13, 2005	2,073,400
iJoin Systems, Inc.	1,500,000 series B preferred shares; 750,000 warrants expire Jan 14, 2002	1,110,750
JCI Corporation	31,793 common shares; 11% convertible promissory notes	633,407
KBL Capital Partners Inc.	50 common shares	1
Primacy Corporation	3,000,000 common shares; 50,000 warrants expire Jul 13, 2003	1,777,200
Prolessons.com Inc.	698,500 common shares	470,218
Other equity investments (c)		800,874
Other debt investments (c)		405,505
		$ 7,271,355
Total investments		$ 52,665,431

(a) Other equity investments and Other debt investments include investments in which Pinetree owns less than 5% of the company, or Pinetree has invested less than $500,000 in the company, or the investment's fair value is less than $500,000 as at December 31, 2001.

(b) As at December 31, 2001, total debt investments outstanding, at cost, bear interest at an average annual rate of 6% and are scheduled for repayment on April 25, 2005.

(c) Other equity investments and Other debt investments include investments in which Pinetree owns less than 5% of the company, or Pinetree has invested less than $500,000 in the company, or the investment's fair value is less than $500,000 as at December 31, 2000.

6. Capital assets:

Capital assets consists of the following:

	2001			2000		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Computer equipment	**$ 95,751**	**$ 57,134**	**$ 38,617**	$ 86,840	$ 42,971	$ 43,869
Leasehold improvements	**255,706**	**31,760**	**223,946**	—	—	—
Furniture and equipment	**286,629**	**112,920**	**173,709**	247,777	86,206	161,571
	$ 638,086	**$ 201,814**	**$ 436,272**	$ 334,617	$ 129,177	$ 205,440

7. Share Capital:

Share capital consists of the following:

Authorized: Unlimited number of common shares
Issued and outstanding:

	2001		2000	
	#	**Amount**	#	Amount
Balance, beginning of year	**9,698,369**	**$19,056,837**	9,387,569	$18,513,612
Issued for cash pursuant to exercise warrants (a)	**15,000**	**20,250**	187,500	245,625
Issued for cash under stock option agreements	—	—	52,500	67,500
Issued for cash pursuant to private placement offerings net of share issuance costs	—	—	70,800	230,100
Purchase for cash under issuer buyback plan (b)	**(133,800)**	**(132,900)**	—	—
Balance, end of year	**9,579,569**	**18,944,187**	9,698,369	19,056,837
Share purchase loan (c)	**(225,000)**	**(405,000)**	(250,000)	(427,500)
		$18,539,187		$18,629,337

(a) Warrants:

Attached to the 1999 private placement offerings were warrants to purchase 415,000 common shares ranging from $1.25 to $1.35 per share expiring from September 2000 to August 2001, the value of which was not material. In 2001, 15,000 (2000 – 187,500) warrants were exercised during the year. As at December 31, 2001, there were no warrants outstanding (2000 – 15,000 warrants were outstanding at a purchase exercise price of $1.35 per share).

(b) Issuer buyback plan:

The Company plans to purchase up to 485,000 common shares through an issuer buyback plan. The issuer buyback plan runs from April 10, 2001 to April 9, 2002. Purchase and payment for the common shares will be made by the Company in accordance with Canadian Venture Exchange ["CDNX"] requirements and, subsequent to September 10, 2001, TSE requirements. During the year, the Company purchased 133,800 common shares ranging from $0.54 to $1.60 per share.

7. Share Capital (continued):

(c) Employee stock purchase plan:

Under this plan, the Company may loan money to employees to purchase not greater than 10% of outstanding common shares of the Company. A trustee holds the shares until the loan is repaid. Any amount loaned by the Company to an employee pursuant to the plan shall be non-interest bearing and payable within a period not exceeding 10 years. In the event that the employment of the employee is terminated, the employee loan is payable 60 days from termination. Also, upon termination, the trustee may without notice sell the common shares held. During the year, no shares were cancelled and 25,000 common shares were surrendered under the plan.

Under this plan, an officer and director of the Company is indebted to the Company for $405,000 (2000 – $427,500) in connection with the Company's employee stock purchase plan agreement dated November 16, 1994. As at December 31, 2001, 225,000 (2000 – 250,000) common shares of the Company have been pledged as collateral for this loan. This loan is non-interest bearing and has the following terms of repayment:

(i) 5% in each of the sixth and seventh year from date of issue of the shares;

(ii) 10% in each of the eighth and ninth year from the date issued; and

(iii) remaining balance to be paid in the tenth year from the date issued.

(d) Stock option plans:

The Company has 1989, 1995, Plan No. 2, 1997, and 2000 stock option plans for directors, officers, key employees and consultants to enable them to purchase common shares of the Company, as administered by the Board of Directors.

The number of shares which were authorized to be issued was a maximum of 10% of the outstanding shares on a fully diluted basis for the 1989 plan, 2,000,000 for the 1995 plan, 333,333 for Plan No. 2, 750,000 for the 1997 plan, and 2,000,000 for the 2000 plan. 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 10 years (five years under the 2000 plan). The 2000 options have a vesting period of eight quarters (no vesting period prior to the 2000 plan).

Under the 1989, 1995, Plan No. 2 and 1997 plans, the exercise prices for purchasing these shares cannot be less than the market price of the common shares on the last day on which the common shares traded prior to the date of the granted option. For the 2000 plan, the exercise prices for purchasing these shares cannot be less than the minimum exercise price as provided by stock exchange rules.

No further shares are being issued under the 1989, 1995, Plan No. 2 and 1997 stock option plans.

7. Share Capital (continued):

A summary of the status of the Company's five stock option plans as at December 31, 2001 and 2000 and changes during the years ended on those dates is presented below:

Stock Options	2001 Shares	2001 Weighted Average Exercise Price	2000 Shares	2000 Weighted Average Exercise Price
Outstanding, at beginning of year	1,312,500	$ 2.54	402,500	$ 1.58
Granted	357,500	1.97	962,500	2.87
Exercised	—	—	(52,500)	1.29
Forfeited	(514,332)	2.20	—	—
Outstanding, at end of year	1,155,668	$ 2.51	1,312,500	$ 2.54
Exercisable, at end of year	970,045	$ 2.60	1,260,000	$ 2.53

The following table summarizes information about stock options outstanding as at December 31, 2001:

	Options outstanding			Options exercisable		
Range of exercise prices	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 to $2.50	432,500	$ 1.79	3.43	273,438	$ 1.70	3.01
$2.51 to $3.62	723,168	2.95	3.06	696,607	2.95	3.04
	1,155,668	$ 2.51	3.20	970,045	$ 2.60	3.03

8. Advances to and from affiliated companies:

Advances to and from affiliated companies consist of the following:

	2001	2000
Advances to affiliated companies		
Brownstone Resources Inc. (a), (c)	$ 1,384,537	$ 1,004,713
KBL Capital Partners Inc. (b), (c)	—	187
	$ 1,384,537	$ 1,004,900
Advances from affiliated companies		
GeneVest Inc. (b), (c), (d)	$ 5,956,793	$ 1,130,168
Maple Minerals Inc. (a), (c)	—	2,422
	$ 5,956,793	$ 1,132,590

(a) The Company does not exercise significant influence and generally has less than 20% interest in these companies.

(b) The Company is able to exercise significant influence over these companies.

(c) These advances bear interest at Royal Bank prime plus 1% per annum and are due on demand. As at December 31, 2001, the effective interest rate was 5% (2000 – 8.5%).

(d) These advances are unsecured except for the advance from GeneVest Inc. (CDNX: GNV.u) which is collateralized by a general security agreement on all present and future tangible and intangible personal property of the Company.

9. Related party transactions:

(a) During the year, Pinetree had consulting agreements with officers and directors representing approximately $30,000 (2000 - $36,000) per month. Included in operating, general and administrative expenses in 2001 is approximately $357,000 (2000 - $433,000) paid under these contracts. In addition, in 2000, the Company had accrued a bonus of $61,107 for services rendered to the Company by a company owned by a director and officer.

(b) Included in the consolidated statements of operations is approximately $98,000 (2000 – $146,000) of interest income relating to interest charged to affiliated companies throughout the year and approximately $270,000 (2000 – $19,000) of interest expense charged by affiliated companies throughout the year.

10. Income Taxes:

(a) Income tax expense attributable to income before income taxes differs from the amounts computed by applying the combined federal and provincial tax rate of 41.74% (2000 – 43.95%) of pre-tax income as a result of the following:

	2001	2000
Loss before income taxes	$(31,094,471)	$(15,018,574)
Computed "expected" income tax recovery	(12,978,832)	(6,600,663)
Future income tax benefit resulting from rate change	381,049	102,403
Net future income tax asset not recognized	2,374,245	—
Non-taxable portion of capital gains	939,299	(624,156)
Non-taxable portion of reversal of unrealized gains (losses)	(199,847)	4,178,520
Non-taxable portion of unrealized gains (losses)	4,960,513	(535,445)
Permanent and other differences	50,569	21,947
Recovery of income taxes	$ (4,473,004)	$ (3,457,394)

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

	2001	2000
Current tax expense	$ —	$ —
Non-capital loss carried back	—	(175,891)
Future income tax recoverable relating to origination and reversal of temporary differences	(4,473,004)	(3,281,503)
Recovery of income taxes	$ (4,473,004)	$ (3,457,394)

10. Income Taxes: (continued):

(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:

	2001	2000
Future tax assets		
Capital assets – differences in amortization and unamortized capital cost	$ 44,097	$ 27,986
Non-capital losses carried forward	2,061,448	718,213
Capital losses carried forward	342,792	—
Net future tax assets	$ 2,448,337	$ 746,199
Future tax liabilities		
Long-term investments – differences in accounting cost and tax cost	$ (74,092)	$ (5,233,203)
Net future tax liabilities	$ (74,092)	$ (5,233,203)
Total future tax assets and liabilities	2,374,245	(4,487,004)
Less: valuation allowance	(2,374,245)	—
Net future tax assets (liabilities)	$ —	(4,487,004)

(d) As at December 31, 2001, the Company has non-capital losses of approximately $5,337,000 expiring as follows:

2007	$ 391,000
2008	4,946,000
	$ 5,337,000

11. Lease commitments:

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

2002	$ 247,000
2003	243,500
2004	243,500
2005	243,500
2006	243,500
2007	101,000
	$ 1,322,000

12. Financial Instruments:

(a) Fair value:

The Company has determined the fair value of its financial instruments as follows:

(i) The carrying amounts of cash and cash equivalents, prepaid and other receivables, advances to and from affiliated companies, due to brokers and accounts payable and accrued liabilities 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) above.

(b) Currency risk:

The Company's activities which resulted in exposure to fluctuations in foreign currency exchange rates consisted of the purchase of investments in foreign currencies. The Company does not use derivative financial instruments to reduce its currency risk.

As at December 31, 2001, cash and cash equivalents included $8,085 (2000 - $86,989), advances to affiliated companies included $310,853 (2000 – nil), investments included $13,011,163 (2000 - $36,344,653), advances from affiliated companies included $4,982,500 (2000 - $446,680) and due to brokers included $182,880 (2000 - $3,044,569) denominated in U.S. dollars.

(c) Credit risk:

Certain of the Company's financial assets, including cash and cash equivalents, are exposed to the risk of a financial loss occurring as a result of default of a counterparty on its obligation to the Company. The Company may, from time to time, invest in debt obligations.

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. As at December 31, 2000, $583,998 included in prepaid and other receivables was due from one party.

13. Subsequent events:

On January 15, 2002, the Company purchased 700,000 common shares of NSI Global Inc. (TSE: NGL) for $350,000 as part of a $14.2 million private placement financing completed by NSI Global Inc.

14. Comparative consolidated financial statements:

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2001 consolidated financial statements.