



Pinetree Capital Ltd. Management's Discussion and Analysis

For the Quarter Ended: September 30, 2006

Date of Report: November 14, 2006

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 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.

On July 31, 2006, the Company effected a two-for-one stock split and paid a stock dividend of one common share for every share owned on the close of business on July 19, 2006. All current figures and comparative figures reflect the stock split, retroactively.

Critical Accounting Estimates

This MD&A and related 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.

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, 2005.

Management prepared the related unaudited consolidated financial statements of the Company in accordance with Canadian generally accepted accounting principles for interim financial reporting. Accordingly, they do not include all of the information and notes required by Canadian generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period. Accounting policies followed in the preparation of the annual consolidated financial statements are consistent with those used in the preparation of the September 30, 2006 interim consolidated financial statements except for the following:

Effective January 1, 2006, the Company adopted Canadian Institute of Chartered Accountants' Handbook Section 3855 Financial Instruments – Recognition and Measurement (“CICA Section 3855”). CICA Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. As permitted by CICA Section 3855 and consistent with the investment policy followed in the preparation of the annual consolidated financial statements as at December 31, 2005, investments held by the Company are accounted for at fair value in accordance with CICA Accounting Guideline 18, Investment Companies.

For all accounting policies, refer to note 2 of the Notes to the audited consolidated financial statements for the year ended December 31, 2005.

Results of Operations

Financial Highlights for the period ending September 30, 2006 with comparatives:

Operating Results (Unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Gains on disposal of investments, net	\$ 14,762,245	\$ 3,843,609	\$ 53,921,242	\$ 11,140,468
Unrealized gains on investments, net	39,626,943	25,341,528	80,863,568	21,813,393
Net investment gains	54,389,188	29,185,137	134,784,810	32,953,861
Net income for the period	37,390,818	22,802,285	85,420,006	25,610,717
Earnings per common share – basic	0.87	0.82	2.23	0.92
Earnings per common share - diluted	0.82	0.75	2.11	0.87

Three months ended September 30, 2006:

For the three months ended September 30, 2006, the Company generated a realized net gain on disposal of investments of \$14,762,245, an increase of 284.1% as compared to a realized net gain on disposal of investments of \$3,843,609 in Q3 of 2005. During the period, \$10,963,392 of the realized net gain was attributable to the sale of marketable securities as compared to \$2,511,992 for the same period last year. The balance was realized on the disposal of long-term investments.

The Company had net unrealized gains on investments of \$39,626,943 for the three months ended September 30, 2006, an increase of 56.4% as compared to net unrealized gains on investments of \$25,341,528 for the same period last year. Of the unrealized net gains in Q3 of 2006, \$47,668,026 was due from the write-up to market on the Company's investments and \$8,041,083 was from the reversal of unrealized net gains on the disposal of investments. Of the net unrealized gains in Q3 of 2005, \$27,200,001 was due from the write-up to market on the Company's investments and \$1,858,473 was from the reversal of unrealized net gains on the disposal of investments.

Other revenue totalled \$479,610 in the three months ended September 30, 2006 compared to \$585,471 for the same period last year. Other revenue is comprised of \$466,506 (three months ended September 30, 2005 – \$283,145) from consulting fees and rental income. Other revenue also includes \$13,104 (three months ended September 30, 2005 - \$302,326) of interest and dividend income distributed from certain of the Company's investments.

Operating, general and administrative expenses in three months ended September 30, 2006 increased to \$3,045,985 from \$978,103 in the three months ended September 30, 2005. The increase in the current period resulted from an annual bonus accrual of \$2,381,950 in the current period as compared to \$359,365 in the same period last year to the Company's Chairman and Chief Executive Officer. The annual bonus is 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 the limited market dealer's business' net realized profit. Without the bonuses, operating, general and administrative expenses in three months ended September 30, 2006 increased by 7.3% from \$618,738 to \$664,035. The increase is primarily due to increases in general corporate expenses such as insurance, professional fees, and director's fees commensurate with the increase in the Company's activities.

Stock-based compensation expense increased to \$238,683 from \$15,486 in the three months ended September 30, 2005. The increase was primarily from stock options granted since Q2 of 2005. Stock options granted during the period 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 and expensed during the vesting periods.

Interest expense increased to \$870,572 in the three months ended September 30, 2006 as compared to \$311,009 in the same period last year. During the current period, the Company used more margin for purchases of investments as compared to last year and during the same period last year, the Company had a short-term loan outstanding for \$1,500,000 with an annual interest rate of 18%.

The Company recorded a provision for income taxes in the three months ended September 30, 2006 of \$13,330,139 as compared to a provision for income taxes of \$5,726,406 in Q3 of 2005. The provision for income taxes in the current period was primarily a result of the increase in the future tax liability arising from an increase in the excess of fair value over tax cost on long-term assets and marketable securities held at the end of the period.

Net income for the three months ended September 30, 2006 was \$37,390,818 (\$0.87 per share), an increase of 64.0% over the net income for the three months ended September 30, 2005 of \$22,802,285 (\$0.82 per share).

Nine months ended September 30, 2006:

For the nine months ended September 30, 2006, the Company generated a realized net gain on disposal of investments of \$53,921,242 compared to a net gain on disposal of investments of \$11,140,468 in the same period of 2005, a 384.0% increase. During the period, \$41,130,085 of the realized net gain was attributable to the sale of marketable securities as compared to \$8,729,366 for the same period last year. The balance of the realized net gain was from the disposal of long-term investments.

The Company also had net unrealized gains on investments of \$80,863,568 for the nine months ended September 30, 2006, an increase of 270.7% as compared to net unrealized gains on investments of \$21,813,393 for the same period last year. Of the unrealized net gains in 2006, \$128,093,396 was due to the write-up to market on the Company's investments offset against \$47,229,828 from the reversal of unrealized net gains on the disposal of investments. Of the unrealized net gains in 2005, \$29,752,672 was due to the write-up to market on the Company's investments offset against \$8,039,279 from the reversal of unrealized net gains on the disposal of investments.

The Company had a net investment gain of \$134,784,810 compared to net investment gain of \$32,953,861 in the same period of 2005, a 309.0% increase.

Other revenue totalled \$3,184,931 in the nine months ended September 30, 2006 as compared to \$1,206,736 for the same period last year. Other revenue is comprised of \$2,972,519 (nine months ended September 30, 2005 – \$876,645) from consulting fees and rental income. Other revenue also includes \$212,412 (nine months ended September 30, 2005 - \$330,091) of interest and dividend income distributed from certain of the Company's investments.

Operating, general and administrative expenses in the nine months ended September 30, 2006 increased to \$9,000,903 from \$2,745,524 in the nine months ended September 30, 2005. The increase in the current period resulted from an annual bonus accrual of \$6,379,517 in the current period as compared to \$968,728 in the same period last year to the Company's Chairman and Chief Executive Officer. The Company also paid a special bonus of \$285,000 to officers of the Company. Without the bonuses, operating, general and administrative expenses in nine months ended September 30, 2006 increased by 47.5% from \$1,776,796 to \$2,621,386. The increase is primarily due to increases in general corporate expenses such as professional fees, filing fees, and insurance.

Interest expense increased to \$2,147,632 in the nine months ended September 30, 2006 as compared to \$867,227 in the same period last year. During the current period, the Company increased its amounts due to brokers for purchases of investments as compared to last year, and interest rates rose through the period.

Stock-based compensation expense increased to \$5,102,126 from \$67,756 in the nine months ended September 30, 2005. The increase was primarily from stock options granted since Q2 of 2005. Stock options granted during the period 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 and expensed during the vesting periods.

The Company recorded a provision for income taxes in the nine months ended September 30, 2006 of \$37,046,246 as compared to a provision for income taxes of \$4,839,440 in the nine months ended September 30, 2005. The provision for income taxes in the current period is primarily a result of the increase in the future tax liability arising from an increase in the excess of fair value over tax cost on long-term assets and marketable securities held at the end of the period.

Net income for the nine months ended September 30, 2006 was \$85,420,006 (\$2.23 per share), as compared to net income for the nine months ended September 30, 2005 of \$25,610,717 (\$0.92 per share), an increase of 233.5%.

Summary of Quarterly Results:

	Quarter ended (unaudited)			
	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Net investment gains (losses)	54,389,188	(18,102,431)	98,498,053	38,416,098
Net income (loss) for the period	37,390,818	(18,324,172)	66,353,360	26,075,780
Earnings (loss) per common share - basic	0.87	(0.45)	2.14	0.91
Earnings (loss) per common share - diluted	0.82	(0.45)	2.00	0.83

	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004
Net investment gains	29,185,137	22,796	3,745,928	7,618,389
Net income for the period	22,802,285	420,006	2,388,426	6,456,763
Earnings per common share - basic	0.82	0.02	0.09	0.24
Earnings per common share - diluted	0.75	0.01	0.09	0.24

Cash Flows

Three months ended September 30, 2006

Net cash used in operations was \$1,847,861 in the three months ended September 30, 2006, compared to net cash used in operating activities of \$565,605 in the same period last year, a 226.7% increase.

During the three months ended September 30, 2006, the Company generated cash from financing activities of \$1,727,600 as compared to using cash in financing activities of \$1,332,836 in the same period of 2005. During the current period, the Company received \$1,727,600 from the exercise of stock options and warrants during the period. During the same period last year, \$50,285 was received from the exercise of stock options and \$843,384 was used to repay advances from affiliated companies.

Net cash used in investing activities was \$82,875 in the three months ended September 30, 2006 as compared to cash generated of \$1,625,664 in the same period last year. During the current period, the Company purchased \$65,673,233 of investments, an increase of \$44,835,998 as compared to \$20,837,235 in the three months ended September 30, 2005. The Company had proceeds from its disposition of investments of \$33,214,415, an increase of \$20,219,915, when compared to \$12,994,500 of dispositions in the same period last year. During the current period, the Company borrowed an additional \$33,043,658 of margin from

brokers as compared to using an additional \$9,876,116 in Q3 of 2005. This reflects the Company's increased investing activities.

For the three months ended September 30, 2006, the Company had a net decrease in cash and cash equivalents of \$203,136 as compared to a net decrease of \$272,777 during the three months ended September 30, 2005, leaving a cash and cash equivalents balance of \$137,351 as compared to a bank indebtedness balance of \$862,735 as at September 30, 2005.

Cash Flows

Nine months ended September 30, 2006

Net cash used in operations was \$4,947,999 in the nine months ended September 30, 2006, compared to net cash used in operating activities of \$3,094,172 in the same period last year, a 59.9% increase.

During the nine months ended September 30, 2006, the Company generated cash in financing activities of \$65,933,918 as compared to using \$1,324,841 in the same period in 2005. During the current period, the Company had net proceeds of \$64,025,034 from two private placement financings and received \$4,822,619 from the exercise of stock options and warrants. The Company repaid \$1,976,485 of an outstanding loan from an officer and \$937,250 of advances from an affiliated company. During the same period last year, \$780,682 was received from the exercise of stock options while \$1,023,694 was used to purchase the Company's common shares on the open market under a normal course issuer bid and \$899,654 was used to repay advances from affiliated companies. During the same period last year, the Company settled with one of the dissenting shareholders arising from the reverse takeover of Pinetree by Genevest in 2004; the Company paid an additional \$182,175 for the fair value of the common shares.

Net cash used in investing activities was \$58,530,621 in the nine months ended September 30, 2006 as compared to cash generated of \$3,462,147 in the same period last year. During the current period, the Company purchased \$213,642,189 of investments, an increase of \$160,362,013 as compared to \$53,280,176 in nine months ended September 30, 2005. The Company had proceeds from its disposition of investments of \$123,031,236, an increase of \$75,549,068, when compared to \$47,482,168 of dispositions last year. During the current period, the Company repaid \$2,600,000 in short-term loans and used an additional \$35,351,291 of amounts due to brokers. In the same period of 2005, the Company repaid \$1,193,060 in short-term loans and used an additional \$10,455,846 in amounts due to brokers.

For the nine months ended September 30, 2006, the Company had a net increase in cash and cash equivalents of \$2,455,298 as compared to a net decrease of \$956,866 during the nine months ended September 30, 2005, leaving a cash and cash equivalents balance of \$137,351 as compared to a bank indebtedness balance of \$862,735 as at September 30, 2005.

Investments

As at September 30, 2006, the Company held investments with a Fair Market Value of \$420,663,034 as compared to \$176,142,271 at the end of last year, a 138.8% increase. As at

September 30, 2006, \$351,413,957 of the investments (December 31, 2005 – \$122,575,784) were in resource companies.

Investments consist of the following:

Sectors:	September 30, 2006		December 31, 2005	
	Cost	Fair Value	Cost	Fair Value
Resources:				
Uranium/coal	\$ 70,750,916	\$ 92,252,000	\$ 19,036,306	\$ 28,936,824
Oil & gas	57,939,297	80,321,549	22,029,954	40,169,596
Precious metals	87,541,820	154,537,824	28,638,580	38,238,604
Base metals	22,593,732	24,302,584	11,418,937	15,230,760
Biotechnology	8,692,406	5,956,585	6,974,403	5,937,810
Energy related technology	6,589,264	25,395,722	4,958,623	19,372,657
Technology and other	17,024,565	37,896,770	14,558,373	28,256,020
Total investments	\$ 271,132,000	\$ 420,663,034	\$ 107,615,176	\$ 176,142,271

Refer to note 3 of the Notes to the Consolidated Financial Statements for three and nine months ended September 30, 2006 for details of the Company's investment portfolio.

Liquidity and Capital Resources

Balance Sheet Highlights (unaudited)	September 30, 2006	December 31, 2005
Investments, at fair value	\$ 420,663,034	\$ 176,142,271
Total assets	421,576,577	176,337,752
Total liabilities	151,421,326	65,552,286
Share capital and contributed surplus	101,291,229	27,341,450
Retained earnings	168,864,022	83,444,016
Net asset value per share – Basic	6.27	3.73
Net asset value per share – Diluted	5.82	3.42

The fair value of the Company's portfolio increased to \$420,663,034 from \$176,142,271 as at December 31, 2005. The cost base of the Company's portfolio was \$271,132,000 as at September 30, 2006 as compared to \$107,615,176 as at December 31, 2005. As such, the excess of fair value over cost stood at \$149,531,034 as at September 30, 2006 versus an excess of \$68,527,095 as at December 31, 2005, an increase of 118.2%.

As at September 30, 2006, the Company had accrued future tax liabilities of \$49,142,719 as compared to \$17,177,760 as at December 31, 2005. The future tax liability is primarily attributable to applying the expected tax rate (36.12%) for the period to the excess of fair value over tax cost on long-term assets and marketable securities held at the end of the period. The Company has also accrued income taxes payable of \$4,165,969 as compared to \$177,650 as at December 31, 2005.

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

Commitments

As at September 30, 2006, the Company has material commitments for cash resources of \$98,013,469: \$72,588,694 due to brokers; \$6,080,552 accounts payable and accrued liabilities; and \$77,750 due to affiliated company, all of which are due on demand. The Company also has a promissory note due to an affiliated company for \$19,266,473 (includes \$141,743 of accrued interest) which is due on January 31, 2008. The disposition of the Company's marketable securities would be 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. On April 26, 2006, the Company made an amended lease commitment for new premises starting January 1, 2007 for annual payments of approximately \$518,000 (\$43,167 monthly) until December 31, 2010 and approximately \$538,000 (\$44,833 monthly) from January 1, 2011 to December 31, 2013. The Company also has consulting agreements with officers and directors representing approximately \$31,600 per month that renew automatically annually.

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 and 2001 taxation years. OMF, among other things, disputed the Company's revenue recognition methodology on the disposal of certain investments. As at September 30, 2006, Genevest had an amount owing of approximately \$1,586,000 relating to this re-assessment.

Genevest has filed 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.

Related Party Transactions

- (a) During the period, the Company had consulting agreements with certain officers and directors representing approximately \$31,600 (nine months ended September 30, 2005 - \$29,500) per month. Included in operating, general and administrative expenses is approximately \$284,650 (nine months ended September 30, 2005 - \$266,250) paid under these contracts. The Company also paid a special bonus of \$285,000 to officers of the Company during the nine months ended September 30, 2006. 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 the Company's limited market dealer's net realized profit. Included in operating, general and administrative expenses is \$6,379,517 (nine months ended September 30, 2005 - \$968,728) relating to this bonus.
- (b) The Company has promissory notes totaling \$86,000 (December 31, 2005 - \$86,000) owing from an officer of the Company. The promissory notes are unsecured and interest free.

- (c) Other income includes consulting income of \$2,070,000 (nine months ended September 30, 2005 - \$867,645) from companies in which the Company has an investment. The Company also received dividend income of \$128,000 (nine months ended September 30, 2005 – nil) from a company in which the Company has an investment.
- (d) The Company has consulting and cost sharing arrangements 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 owing to an officer of the Company of \$1,976,485 which was unsecured and interest free. As at September 30, 2006, the loan was fully repaid.
- (f) On September 1, 2006, the Company purchased 5,000,000 shares of Mega for a total cost of \$21,250,000 from Brownstone Ventures Inc. (“Brownstone”), a company with common officers and a director of the Company and a reporting issuer trading on the TSX Venture Exchange under the symbol “BWN”. The Company paid \$2,125,000 in cash and signed a promissory note for \$19,125,000. The promissory note is collateralized against the Mega shares, bears interest at 9% per annum, payable quarterly and matures on January 31, 2008. Included in the consolidated statements of operations is \$141,473 of interest expense charged by Brownstone.
- (g) As at December 31, 2005, the Company had advances from PowerOne Capital Markets Limited (“PowerOne”) of \$1,015,000. The Company has a 50% interest in PowerOne, an Ontario limited market dealer. These advances bear no interest and are due on demand. As at September 30, 2006, the Company had advances of \$77,750 from PowerOne.

Overall performance and trends

The Company’s financial performance has been, and is expected to continue to be, closely linked to the demand for and prices of the key resource sectors and commodities in which we invest, including uranium, gold, platinum and other precious metals, nickel, copper and other base metals, and oil and natural gas. Uranium in particular has continued to reach new price highs in 2006. As of the date hereof many commentators expect that the fundamentals that have given rise to the upward movement in uranium prices will stay in place for the remainder of 2006 and 2007.

Other commodity prices, especially those which are energy related, have also been strong in 2006. Again, due to global economic and political factors, as of the date hereof many commentators expect prices of energy related commodities to remain strong, although with intermittent price fluctuations due to underlying volatility in commodity pricing.

Disclosure controls

The Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective, based on their evaluation of the effectiveness of these controls and procedures as of the date of this MD&A.

Outstanding Share Data:

As at September 30, 2006, the Company had 43,060,638 common shares and 2,925,536 stock options outstanding exercisable at prices ranging from \$0.60 to \$7.98 and expiring between December 3, 2006 and June 20, 2011. The Company also has outstanding 225,000 warrants exercisable at \$4.50 expiring September 14, 2007 and 230,000 warrants exercisable at \$7.50 expiring October 27, 2007.

Subsequent to September 30, 2006, 70,658 stock options were exercised at prices ranging from \$0.60 to \$3.50 per common share for total proceeds of \$97,095.

Subsequent to September 30, 2006, 302,416 broker warrants were exercised at prices ranging from \$4.50 to \$7.50 per common share for total proceeds of \$2,043,120.

Subsequent to September 30, 2006, the Company granted 25,000 stock options exercisable at \$10.49 per common share and expiring on October 15, 2011.

As at November 14, 2006, the Company had 43,433,712 common shares and 2,879,878 stock options outstanding exercisable at prices ranging from \$0.60 to \$10.49 and expiring between December 3, 2006 and October 15, 2011. The Company also has outstanding 75,000 broker warrants exercisable at \$4.50 expiring September 14, 2007 and 2,584 warrants exercisable at \$7.50 expiring October 27, 2007.

For more details, refer to Note 6 of the Notes to the Consolidated Financial Statements for the three and nine months ended September 30, 2006 wherein share capital is described.

Additional Information:

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