



## **Pinetree Capital Ltd. Management's Discussion and Analysis**

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**For the Quarter Ended:** September 30, 2007

**Date of Report:** November 12, 2007

### **Nature of the Business:**

Pinetree Capital Ltd. ("Pinetree" or the "Company") was incorporated under the laws of the Province of Ontario and its shares are 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: Uranium, Oil & Gas, Molybdenum, Precious Metals, and Base Metals. As well, Pinetree has investments in the Biotechnology, Energy Related Technology, and Technology sectors. Pinetree's investment approach is to build a macro position in a sector, find the micro-cap opportunities within that sector, and work with those companies to build them to commercial production and create an exit.

The Company effected a two-for-one stock split by way of a stock dividend of one common share for every common share outstanding at the close of business on July 19, 2006. The Company effected another two-for-one stock split by way of a stock dividend of one common share for every common share outstanding at the close of business on April 5, 2007. All current and comparative figures herein have been adjusted to reflect both stock splits, retroactively.

### **Caution Regarding Forward-Looking Statements:**

Certain statements contained in this management's discussion and analysis of the Company's financial condition and results of operations (the "MD&A") constitute forward-looking statements, which are statements relating to future events or the Company's future performance and which are inherently uncertain. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking statements contained in this MD&A. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A include, but are not limited to: risks relating to investment performance, market

fluctuations, fluctuations in prices of commodities underlying our interests and equity investments, the strength of the Canadian and US economies, foreign exchange fluctuations, political and economic conditions in the countries in which the Company's investments' interests are located and other risks included elsewhere in this MD&A under the heading "Risks" and in the Company's annual information form for the year ended December 31, 2006 and other public disclosure documents filed with certain Canadian securities regulatory authorities and available at [www.sedar.com](http://www.sedar.com).

Readers are cautioned that the foregoing lists of factors are not exhaustive. Although the Company has attempted to identify important factors that could cause actual events and results to differ materially from those described in the forward-looking statements, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law. All of the forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

### **Critical Accounting Estimates and Significant Accounting Policies:**

This MD&A was prepared in Canadian dollars and includes the accounts of Pinetree and its wholly-owned subsidiaries: Genevest Inc. ("Genevest"), Pinetree Resource Partnership, Pinetree Income Partnership, Pinetree (Barbados) Inc., Pinetree Capital Markets Limited, and Emerald Capital Corp. All significant inter-company accounts and transactions have been eliminated on consolidation.

This MD&A should be read in conjunction with Pinetree's:

- audited consolidated financial statements and notes thereto as at and for the year ended December 31, 2006; and
- unaudited consolidated financial statements and notes thereto as at and for the three and nine months ended September 30, 2007.

Management prepared the related unaudited consolidated financial statements of the Company in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP 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, 2007 interim consolidated financial statements except for the following:

Effective January 1, 2007, the Company adopted The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1530, Comprehensive Income, Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. Section

3861 establishes standards for disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. As there are no comprehensive income items, comprehensive income is equal to net income. Also, the Company does not hold any derivative instruments for hedging purposes. Accordingly, adoption of Sections 1530 and 3865 had no effect on the Company's interim consolidated financial statements.

For all accounting policies, refer to note 2 of the Notes to the audited consolidated financial statements for the year ended December 31, 2006.

The following is additional note disclosure on financial instruments included in the September 30, 2007 interim consolidated financial statements:

(a) Risk management:

Dependence on key personnel - Pinetree is dependent upon the personal efforts and commitment of its existing and new management, who are responsible for risk management and the future development of Pinetree's business. To the extent that management's services would be unavailable for any reason, a disruption to the operations of Pinetree could result, and other persons would be required to manage and operate Pinetree.

Market risks - Unfavourable economic conditions may negatively impact the Company's ability to generate new investment opportunities. The Company manages market risk by having a diversified portfolio which is not singularly exposed to any one or class of issuers. The Company's investment activities are currently concentrated primarily in the natural resource industry which is focused among several sectors: uranium, oil and gas, molybdenum, base metals and precious metals sectors. To minimize over exposure, Pinetree has set thresholds on purchases of private placements which require the approval of the Board of directors.

Cash flow/revenue – The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in the market conditions generally or to matters specific to the Company, or if the value of the Company's investments decline resulting in capital losses upon disposition. The Company generates cash flow primarily from its financing activities and proceeds from the disposition of its investments, in addition to interest and dividend income earned on its investments. The Company has sufficient marketable securities which are freely tradable and relatively liquid to fund its obligations as they become due under normal operating conditions. The Company also has a line of credit with its bank and the use of margin accounts with its brokers.

Foreign exchange/currency of operations - Pinetree's operations are exposed to foreign exchange fluctuations, which could have a significant adverse effect on its consolidated results of operations from time to time. Pinetree may have margin borrowings or monetary assets denominated in U.S. dollars, Australian dollars, South African Rands, and Great Britain Pounds. A change in the foreign exchange rate of the Canadian dollar versus the foreign exchange currency would may increase the Company's obligations due to brokers or decrease the value of the monetary assets. The

Company believes it is not significantly exposed to foreign exchange risk and does not actively hedge its foreign currency borrowings. Pinetree's foreign exchange risk is, to a certain extent, mitigated by the Company's foreign exchange-denominated investments.

Interest and credit risk – Certain of the Company's investments are exposed to the risk of a financial loss occurring as a result of default of a counterparty on its obligations to the Company. The Company's investments in convertible debentures, convertible notes, and promissory notes are carried as though converted to common shares. The Company believes it is not significantly exposed to interest or credit risk as these investments are less than 1% of the Company's total investments.

(b) Fair value measurement and valuation methods:

At each financial reporting period, the Company's management estimates the fair value of investments which are held-for-trading, based on the criteria below, and reflects such valuations in the consolidated financial statements.

(i) Publicly-traded investments:

1. Securities, including shares, options, and warrants which are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at fair values based on quoted closing bid prices at the consolidated balance sheet dates or the closing bid 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 to a maximum of 10%.
3. In determining the discount for such investments, the Company considers the nature and length of the restriction.
4. Options and warrants of publicly-traded securities which do not have a quoted bid price are carried at the difference between the exercise price and the quoted closing bid price of the underlying securities, if the exercise price is lower than the quoted closing bid price. Otherwise, such 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 a 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 other than a temporary 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. Cumulative dividends expected to be received are included in the fair value of each investment.

The resulting values for non-publicly traded investments may differ from values that would be realized had a ready market existed. In addition, 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. The amounts at which the Company's publicly-traded investments could be disposed of currently may differ from carrying values 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.

(c) Revenue recognition:

Security transactions are recorded on a settlement basis. 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. All transaction costs are expensed as incurred. 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.

### Use of Non-GAAP Measures

This MD&A contains references to "net asset value per share" (basic and diluted). Net asset value per share is a non-GAAP measure defined as shareholders' equity divided by the total number of common shares of the Company outstanding, in the case of net asset value per

share (basic), and shareholders' equity divided by the total number of common shares of the Company outstanding, calculated based upon the assumption that all outstanding options, warrants, and broker warrants of the Company have been exercised, in the case of net asset value per share (diluted). The term net asset value per share does not have any standardized meaning according to GAAP and therefore may not be comparable to similar measures presented by other companies. We believe that the measure provides information useful to our shareholders in understanding our performance, facilitates the comparison of the quarterly and year-end results of our ongoing operations and provides a meaningful measure to evaluate our business relative to that of our peers.

### Overall Performance and Significant Events:

Selected financial highlights for the period ended September 30, 2007 with comparatives:

Operating Results (Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Gains (losses) on disposal of investments, net	\$ (2,998)	\$ 14,762	\$ 170,533	\$ 53,921
Unrealized gains (losses) on investments, net	(137,154)	39,627	(274,454)	80,864
Net investment gains (losses)	(140,152)	54,389	(103,921)	134,785
Net income (loss) for the period	(92,305)	37,391	(89,391)	85,420
<b>Earnings (loss) per common share - basic</b>	<b>(0.93)</b>	0.44	<b>(0.96)</b>	1.11
<b>Earnings (loss) per common share - diluted</b>	<b>(0.93)</b>	0.41	<b>(0.96)</b>	1.05

- For the nine months ended September 30, 2007, the Company realized net gains on disposal of investments of \$170,533 (\$1.82 per basic share) as compared to \$53,921 (\$0.70 per basic share) for the same period last year, a 216.3% increase (160% increase on a per share basis). For the three months ended September 30, 2007, the Company realized net losses on disposal of investments of \$2,998 as compared to a realized net gain of \$14,762 for the same period last year.
- For the nine months ended September 30, 2007, the Company had a net loss of \$89,391 (\$0.96 per basic share) as compared to net income of \$85,420 (\$1.11 per basic share) in the same period last year. For the three months ended September 30, 2007, the Company had a net loss of \$92,305 (\$0.93 per basic share) as compared to net income of \$37,391 (\$0.44 per basic share) for the same period last year. The decrease in net income for the three and nine months ended September 30, 2007, respectively, versus the same periods in the prior year are due to increases in unrealized losses and in operating expenses over the prior year.
- As at September 30, 2007, the Company held investments with a fair value of \$529,631 as compared to \$809,031 as at June 30, 2007, a 34.5% decrease and as compared to \$552,377 at the end of last year, a 4.1% decrease.
- As at September 30, 2007, Shareholder's Equity stood at \$404,266 as compared to \$494,833 as at June 30, 2007 (an 18.3% decrease) and \$367,830 as at December 31, 2006 (a 9.9% increase).

The Company continues to focus on acquisitions of investments in the resource sector. As at September 30, 2007, 408 out of 467, or 87.4%, of the investments were in the resource sector. During the quarter, the Company decreased its net number of resource company investments by 39. As at September 30, 2007, \$463,717 (87.6%) of the fair value of the investments were in resource companies as compared to \$721,019 (89.1%) as at June 30, 2007 and \$479,699 (86.8%) as at December 31, 2006.

Certain corporate events completed during the nine months ended September 30, 2007 are described below:

- Closing of a brokered private placement of 10,000,000 units of the Company at a price of \$12.13 per unit, resulting in aggregate gross proceeds to Pinetree of \$121,300.
- Appointment of Mr. Donato Sferra, as Pinetree's Vice President, Investments. Mr. Sferra was an analyst with the investment arm of a Canadian bank. Previously he had practiced as a Chartered Accountant for one of the top Global accounting firms.
- Appointment of Ms. Wendy D. Warhaft as Pinetree's General Counsel. Ms. Warhaft has extensive experience as a corporate and securities lawyer, including most recently as a partner with a top Canadian law firm, and has spent her career advising large and mid-size clients in the resource, technology, biotechnology, financial services and consumer products industries.
- Appointment of Mr. Andrew Fleming to Pinetree's board of directors. Mr. Fleming is a senior partner at the law firm Ogilvy Renault LLP with over 30 years of experience in corporate, commercial, securities and banking law. Mr. Fleming has advised clients in a variety of sectors in respect of corporate finance, project finance, mergers and acquisitions, regulatory and governance matters.
- Appointment of Mr. Marshall Auerback to Pinetree's board of directors. Mr. Auerback is an independent businessman with extensive international experience in portfolio management for hedge and other investment funds. He is currently providing consulting services to a UK-based hedge fund group, which specializes in the natural resource sector, and a U.S. bond fund manager.
- Appointment of Mr. Peter Harder to Pinetree's board of directors, following the retirement of Dr. Joseph Greenberg. Mr. Harder is presently Senior Policy Advisor to the law firm Fraser Milner Casgrain LLP, prior to which, he was the longest serving Deputy Minister in the Government of Canada.
- Announced the renewal of the Company's normal course issuer bid for its common shares (the "NCIB").

**Investments:**

Investments consist of the following:

Sectors:	September 30, 2007		June 30, 2007		December 31, 2006	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Resources:						
Uranium	\$ 152,120	\$ 131,674	\$ 181,919	\$ 211,118	\$ 82,163	\$ 187,881
Oil & gas	42,908	43,495	69,367	77,413	52,036	77,848
Molybdenum	33,054	24,780	42,809	42,604	---	---
Precious metals	181,176	193,943	238,484	281,610	94,392	179,076
Base metals	76,005	69,825	88,792	108,274	23,804	34,894
Biotechnology	13,957	11,452	18,798	18,554	11,100	10,958
Energy related technology	8,665	8,445	8,634	10,443	6,438	20,284
Technology and other	33,926	46,017	35,200	59,015	20,136	41,436
<b>Total investments</b>	<b>\$ 541,811</b>	<b>\$ 529,631</b>	<b>\$ 684,003</b>	<b>\$ 809,031</b>	<b>\$ 290,069</b>	<b>\$ 552,377</b>

As at September 30, 2007, the Company held investments with a fair value of \$529,631 as compared to \$552,377 at the end of last year, a 4.1% decrease. The cost base of the Company's portfolio was \$541,811 as at September 30, 2007 as compared to \$290,069 as at December 31, 2006. As such, the cost exceeded fair value by \$12,180 as at September 30, 2007 versus an excess of fair value over cost of \$262,308 as at December 31, 2006, a decrease of 104.6%. The decrease arose from significant gains realized in the first nine months of the year (\$170,533) along with the unrealized losses recorded in the same period (\$274,454). The large unrealized losses in the nine-month period were primarily a result of the overall correction in global stock markets during the latter portion of the current period and the decrease in the value of the U.S. and Australian dollars versus the Canadian dollar during the period, which reduced the Canadian dollar value of the Company's U.S. and Australian dollar investments (The Company reports in Canadian dollars).

Refer to note 3 of the notes to the unaudited consolidated financial statements for the period ended September 30, 2007 for additional details of the Company's investment portfolio as at September 30, 2007 and December 31, 2006.

**Summary of Quarterly Results:**

	Quarter ended (unaudited)			
	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006
Net investment gains (losses)	\$ (140,152)	\$ (51,146)	\$ 87,377	\$ 156,423
Net income (loss) for the period	(92,305)	(44,266)	47,180	97,708
Earnings (loss) per common share – basic	(0.93)	(0.47)	0.55	1.13
Earnings (loss) per common share – diluted	(0.93)	(0.47)	0.52	1.06

	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
	Net investment gains (losses)	\$ 54,389	\$ (18,102)	\$ 98,498
Net income (loss) for the period	37,391	(18,324)	66,353	26,076
Earnings (loss) per common share – basic	0.44	(0.22)	1.07	0.46
Earnings (loss) per common share – diluted	0.41	(0.22)	1.00	0.42

**Three Months Ended September 30, 2007:**

For the three months ended September 30, 2007, the Company generated a realized net loss on disposal of investments of \$2,998 as compared to a realized net gain on disposal of investments of \$14,762 for the same period in 2006. During the quarter, \$5,170 of the realized net losses were attributable to the sale of marketable securities offset by realized net gains of \$2,172 from the disposal of long term investments. In the same period last year, \$10,963 of the realized net gains were attributable to the disposal of marketable securities with the balance of the gain of \$3,799 attributable to the disposal of long-term investments.

The Company had net unrealized losses on investments of \$137,154 for the three months ended September 30, 2007 as compared to net unrealized gains on investments of \$39,627 for the same period in 2006. Of the unrealized net losses for the three months ended September 30, 2007, \$62,221 was due to the reversal of unrealized net gains on the disposal of investments and \$74,933 arose from the write-down to market on the Company's investments. Of the unrealized net gains for the same period in 2006, \$47,668 was due to the write up to market on the Company's investments, offset by \$8,041 in reversals of unrealized net gains on the disposal of investments.

Other revenue totalled \$8,159 in the three months ended September 30, 2007 compared to \$480 for the same period last year. Other revenue included \$8,008 (three months ended September 30, 2006 - \$13) of interest and dividend income earned from certain of the Company's investments, \$7,925 of which was dividend income received from PowerOne Capital Markets Limited ("PowerOne") in which the Company owns a 50% interest. Other revenue was also comprised of \$151 (three months ended September 30, 2006 - \$467) in consulting fees and rental income. In the prior period, the Company earned certain consulting fees which were not repeated in the current year.

Operating, general and administrative expenses in the three months ended September 30, 2007 decreased to \$1,470 from \$3,046 in the three months ended September 30, 2006. The decrease in the current period resulted primarily from an annual bonus accrual (including GST) of \$221 as compared to \$2,382 in the same period in 2006 to the Company's Chairman and Chief Executive Officer ("CEO"). The annual bonus payable 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. See "Related Party Transactions" for further discussion of this. The Company also paid a bonus of \$53 to another officer of the Company. Excluding the bonuses, operating, general and administrative expenses during the three months ended September 30, 2007 increased by 80.1% from \$664 to \$1,196, as described further below.

Following is the breakdown of operating, general and administrative expenses for the three months ended September 30. Details of the changes follow the table:

	<b>Three Months Ended September 30,</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Consulting bonuses (a)	\$ 274	\$ 2,382
Consulting fees and salaries expense (b)	463	270
Professional fees (c)	164	67
Shareholder relations, transfer agent and filing fees (d)	92	36
Travel, meals, and entertainment (e)	139	38
Rent and insurance expenses (f)	122	81
Office and general (g)	216	172
	<b>\$ 1,470</b>	<b>\$ 3,046</b>

- (a) Annual bonus to the Company's Chairman and CEO and bonus to another officer of the Company.
- (b) Consulting fees and salaries expense increased by \$193 during the quarter. The increase was primarily due to the addition of new staff and additional consulting agreements with senior management of the Company.
- (c) Professional fees increased by \$97 due to higher audit fee accruals and legal fees for general corporate purposes.
- (d) Shareholder relations, transfer agent and filing fees increased by \$56 during the quarter. The increase is primarily due to an increase in media corporate profiling, public relations training, marketing and regulatory filing fees such as for the Company's NCIB.
- (e) Travel, meals, and entertainment increased by \$101 due to an overall increase in corporate activities and marketing.
- (f) Rent and insurance expenses increased by \$41 due to the Company's move into a larger office space.
- (g) Office and general expenses increased by \$44. The increase was from an overall increase in the Company's expenses due to activities relating to the Company's investment activities and general corporate expenses.

Stock-based compensation expense increased to \$1,669 from \$238 in the three months ended September 30, 2006. The increase in the current quarter was a result of stock options granted during the current year. Stock options granted during the current period and last year vest at three-month intervals over 18 months and are accounted for in accordance with the fair value method of accounting for stock-based compensation, thus giving rise to an increased stock-based compensation expense. The fair value of these options is estimated at the date of grant using the Black-Scholes option pricing model, and expensed over the vesting periods.

During the three months ended September 30, 2007, the Company experienced an unrealized foreign exchange loss of \$384 on its foreign denominated net assets as compared to an unrealized foreign exchange gain of \$8 during the same period in 2006. The net loss primarily arose due to the increase in the value of the Canadian dollar versus the U.S. and Australian dollar, which decreased the Canadian dollar value of U.S. dollar amounts held at brokers, resulting in a foreign exchange loss. The increased loss was due to a combination of higher U.S. dollar amounts due from brokers and a continued increase in the value of the Canadian dollar versus the U.S. dollar.

Interest expense tripled to \$2,752 in the three months ended September 30, 2007 as compared to \$871 in the same period last year. Interest expense increased due to increased use of margin for purchases of investments on average during the quarter as compared to the same period in 2006.

The Company recorded a recovery of income taxes in the three months ended September 30, 2007 of \$47,644 as compared to a provision for income taxes of \$13,330 in Q3 of 2006. The recovery of income taxes in the current period was primarily due to the unrealized loss on investments in the current quarter which decreases the future tax liability arising from a decrease in the excess of fair value over tax cost on long-term assets and marketable securities held at the end of the period.

Net loss for the three months ended September 30, 2007 was \$92,305 (\$0.93 per share (basic)) versus net income for the three months ended September 30, 2006 of \$37,391 (\$0.44 per share (basic)). The net loss in the current period was primarily due to net unrealized losses, consisting of the reversal of unrealized gains recognized in prior periods on investments disposed of during the current period (a total of \$62,221) and the write down to fair value of the Company's investments of \$74,933 at September 30, 2007.

#### **Nine Months Ended September 30, 2007:**

For the nine months ended September 30, 2007, the Company generated a realized net gain on disposal of investments of \$170,533, an increase of 216.3% as compared to a realized net gain on disposal of investments of \$53,921 for the same period in 2006. During the period, \$160,711 of the realized net gains were attributable to the sale of marketable securities as compared to \$41,130 for the same period last year. The balance of \$9,822 (September 30, 2006 – \$12,791) was realized on the disposal of long-term investments.

The Company had net unrealized losses on investments of \$274,454 for the nine months ended September 30, 2007 as compared to net unrealized gains on investments of \$80,864 for the

**Pinetree Capital Ltd.**  
**Quarter ended September 30, 2007**  
**(All amounts in thousands of dollars, except for securities and per share amounts)**

same period last year. The unrealized losses in the current period were primarily from the reversal of the unrealized gains recorded in prior periods. Of the unrealized net losses of \$274,454 in 2007, \$199,494 was due to reversal of unrealized net gains on the disposal of investments while the net write down to fair value on the Company's investments was \$74,960. Of the unrealized net gains in the same period of 2006, \$128,094 was due to the write-up to market on the Company's investments offset by \$47,230 from the reversal of unrealized net gains on the disposal of investments in prior periods.

Other revenue totalled \$8,519 in the nine months ended September 30, 2007 compared to \$3,185 for the same period last year. Other revenue includes \$445 (nine months ended September 30, 2006 – \$2,973) from consulting fees and rental income. In the prior period, the Company earned certain consulting fees which were not repeated in the current period. Other revenue also includes \$8,074 (nine months ended September 30, 2006 - \$212) of interest and dividend income distributed from certain of the Company's investments, including \$7,925 of dividend income received from PowerOne.

Operating, general and administrative expenses in the nine months ended September 30, 2007 increased to \$23,409 from \$9,001 in the nine months ended September 30, 2006. The increase in the current period resulted primarily from an annual bonus accrual (including GST) of \$19,044 as compared to \$6,747 in the same period last year to the Company's Chairman and CEO. The annual bonus payable to the CEO 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. See "Related Party Transactions" for further discussion of this. Excluding the bonus, operating, general and administrative expenses in the nine months ended September 30, 2007 increased by \$2,111 (93.7%) from \$2,254 to \$4,365. The increase is primarily due to increases in general corporate expenses such as salaries and consulting fees related to additional staff, professional fees, filing fees, office premises rental, and travel costs commensurate with the increase in the Company's activities, as described further below.

Following is the breakdown of operating, general and administrative expenses for the nine months ended September 30. Details of the changes follow the table:

	<b>Nine months ended September 30,</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Consulting bonuses (a)	\$ 19,675	\$ 7,049
Consulting fees and salaries expense (b)	1,300	541
Professional fees (c)	565	261
Shareholder relations, transfer agent and filing fees (d)	465	177
Travel, meals, and entertainment (e)	336	196
Rent and insurance expenses (f)	366	262
Office and general (g)	702	515
	<b>\$ 23,409</b>	<b>\$ 9,001</b>

- (a) Annual bonus to the Company's Chairman and CEO as discussed above. The Company also paid bonuses (including GST) of \$631 to certain other officers of the Company as compared to \$302 last year.

- (b) Consulting fees and salaries expense increased by \$759. The increase was primarily due to the addition of new staff and consulting agreements with senior management of the Company.
- (c) Professional fees increased \$304 due to higher audit fee accruals and an increase in legal fees for general corporate purposes.
- (d) Shareholder relations, transfer agent and filing fees increased by \$288 during the quarter. The increase is primarily due to an increase in filing fees for media corporate profiling, public relations training, marketing and an increase in regulatory filing fees such as for the NCIB and establishment of the Company's new stock option plan.
- (e) Travel, meals, and entertainment increased by \$140 due to an overall increase in corporate activities and marketing.
- (f) Rent and insurance expenses increased by \$104 due to the Company's move into a larger office space.
- (g) Office and general expenses increased by \$187. The increase was from an overall increase in the Company's expenses due to activities relating to the Company's investment activities and general corporate expenses relating to additional staff and marketing.

Stock-based compensation expense decreased to \$3,203 from \$5,102 in the nine months ended September 30, 2006. The decrease in the current period was primarily a result of stock options granted in Q1 of 2006 which were fully vested and were therefore fully expensed in the prior year's period. Stock options granted during the current period vest at three-month intervals over 18 months and are accounted for in accordance with the fair value method of accounting for stock-based compensation, thus giving rise to less stock-based compensation expense. The fair value for these options is estimated at the date of grant using the Black-Scholes option pricing model, and expensed over the vesting period.

During the nine months ended September 30, 2007, the Company experienced an unrealized foreign exchange gain of \$810 on its foreign denominated net liabilities as compared to an unrealized foreign exchange gain of \$750 in the same period last year. The net gain primarily arose due to the increase in the value of the Canadian dollar versus the U.S. dollar and Australian dollar, which reduced the Canadian dollar value of the foreign dollar amounts due to brokers, resulting in a foreign exchange gain. The increased gain was due to a combination of higher U.S. dollar amounts due to brokers and a larger increase in the value of the Canadian dollar versus the U.S. dollar.

Interest expense increased by 174.0% to \$5,884 in the nine months ended September 30, 2007 as compared to \$2,148 in the same period last year. Interest expense increased due to increased use of margin for purchases of investments as compared to the same period last year and from interest on the Company's promissory note held by and advances to Brownstone Ventures Inc. ("Brownstone") and to interest paid on promissory notes to other related parties (see Related Party Transactions section).

The Company recorded a recovery of income taxes in the nine months ended September 30, 2007 of \$42,343 as compared to a provision for income taxes of \$37,046 in 2006. The decrease in the provision for income taxes in the current period is primarily a result of the decrease in the future tax liability arising from a decrease in the excess of fair value over tax cost on long-term assets and marketable securities held at the end of the period.

Net loss for the nine months ended September 30, 2007 was \$89,391 (\$0.96 per basic share) as compared to net income for the nine months ended September 30, 2006 of \$85,420 (\$1.11 per basic share). As previously discussed in this MD&A, for the nine months ended September 30, 2007, the reversal of prior periods' unrealized gains on the disposal of investments totalling \$199,494 and the write-down to fair value of the Company's investments of \$74,960 were the major contributors to the decline in net income in the nine months ended September 30, 2007.

**Cash Flows:**  
**Three Months Ended September 30, 2007**

Net cash used in operating activities was \$4,904 in the three months ended September 30, 2007, compared to net cash used in operating activities of \$1,849 in the same period last year, an increase of \$3,055.

During the three months ended September 30, 2007, the Company used cash in financing activities of \$41,730 as compared to generating cash from financing activities of \$1,728 in the same period of 2006. During the current period, the Company used cash to repay \$42,500 of promissory notes. During the same period last year, the Company received \$1,728 from the exercise of stock options and warrants.

Net cash generated in investing activities was \$47,635 in the three months ended September 30, 2007 as compared to cash used of \$83 in the same period last year. During the current period, the Company had proceeds from its disposition of investments of \$282,853, an increase of \$249,639, when compared to \$33,214 of dispositions in the same period last year. The Company purchased \$143,606 of new investments, an increase of \$77,933 as compared to \$65,673 of investment purchases in the three months ended September 30, 2006. During the current period, the Company repaid \$91,610 of margin to brokers as compared to using \$33,044 in additional margin in Q3 of 2006.

For the three months ended September 30, 2007, the Company had a net increase in cash and cash equivalents of \$1,001 as compared to a net decrease of \$204 during the three months ended September 30, 2006, leaving a cash and cash equivalents balance of \$40 as compared to a cash and cash equivalents balance of \$137 as at September 30, 2006.

**Cash Flows:**  
**Nine Months Ended September 30, 2007**

Net cash used in operating activities was \$40,105 in the nine months ended September 30, 2007, compared to net cash used in operating activities of \$4,949 in the same period last year, an increase of \$35,156. The increase in cash used in operating activities in the current period is

primarily due to income tax payments of \$18,369 and approximately \$20,800 in increased operating expenses versus the prior year.

During the nine months ended September 30, 2007, the Company generated cash from financing activities of \$112,053 as compared to \$65,935 in the same period of 2006. During the current period, the Company received net proceeds of \$114,367 from a brokered private placement and received \$8,257 from the exercise of stock options and warrants. The Company also received advances of \$8,700 from an affiliated company and repaid \$19,271 of promissory notes. During the same period last year, the Company received net proceeds of \$64,025 from two private placements, \$4,823 from the exercise of stock options and warrants and repaid \$937 in advances from affiliated companies.

Net cash used in investing activities was \$72,083 in the nine months ended September 30, 2007 as compared to cash used of \$58,531 in the same period last year. During the current period, the Company purchased \$734,981 of investments, an increase of \$521,339 as compared to \$213,642 in the nine months ended September 30, 2006. The Company had proceeds from disposition of investments of \$653,806, an increase of \$530,775, when compared to \$123,031 of dispositions in the same period last year. This all reflects the Company's significantly increased investing activities. During the current period, the Company borrowed an additional \$9,631 of margin from brokers as compared to \$35,351 in the same period in 2006.

For the nine months ended September 30, 2007, the Company had a net decrease in cash and cash equivalents of \$135 as compared to a net increase in cash and cash equivalents of \$2,455 during the nine months ended September 30, 2006, leaving a cash and cash equivalents balance of \$40 as compared to a cash and cash equivalents balance of \$137 as at September 30, 2006.

#### Liquidity and Capital Resources:

Balance Sheet Highlights (unaudited)	September 30, 2007	December 31, 2006
Investments, at fair value	\$ 529,631	\$ 552,377
Total assets	530,610	553,828
Total liabilities	126,344	185,998
Share capital, warrants and broker warrants and contributed surplus	229,577	103,750
Retained earnings	174,689	264,080
<b>Net asset value per share – Basic</b>	<b>\$ 4.05</b>	<b>\$ 4.24</b>
<b>Net asset value per share – Diluted</b>	<b>\$ 3.65</b>	<b>\$ 3.97</b>

The fair value of the Company's portfolio decreased to \$529,631 from \$552,377 as at December 31, 2006, a decrease of 4.1%. The net asset value per share (basic) decreased 4.5% to \$4.05 per share from \$4.24 per share. (See "Use of Non-GAAP Measures" elsewhere in this MD&A.) The decrease is a reflection of the significant downturn in market conditions in August 2007.

The Company's publicly traded investments trade on public stock exchanges in Canada, the United States and Australia, creating liquidity and cash flow. During the nine months ended

September 30, 2007, the Company disposed of investments for proceeds of \$653,806, and purchased investments of \$734,981, as noted in the Cash Flow section above. The excess of purchases over dispositions was primarily financed by cash generated from financing activities (\$112,053).

Robust market conditions have provided liquidity for most of our marketable securities. A significant and/or sustained downturn in the markets could result in a reduction of available capital for the Company since much of our short-term on-going financing comes from broker margin. However, our due to brokers is only 12.7% of the fair value of our investments as at September 30, 2007; therefore, we believe we would be able to meet our commitments even in a significant market downturn.

### Liabilities:

- (a) As at September 30, 2007, the Company had accrued future tax liabilities of \$30,716 as compared to \$87,122 as at December 31, 2006. The future tax liability is primarily attributable to applying the expected tax rate for the period (36.12%) and future periods (34%) to the excess of fair value over tax cost on long-term assets and marketable securities held at the end of the period. This amount was less at September 30, 2007 than the excess of fair value over tax cost as at December 31, 2006 which resulted in the decreased accrued future tax liability. The Company has also accrued income taxes payable of \$9,955 as compared to \$14,095 as at December 31, 2006, net of tax payments of \$18,369 made during the current period.
- (b) The Company has an operating line of credit with Royal Bank of Canada ("RBC") for \$1,000, and as at September 30, 2007, the Company had used nil. The operating line of credit bears interest at RBC prime plus 0.75% and is collateralized by the Company's assets giving preference to brokers.
- (c) As at September 30, 2007, the Company had used net margin of \$67,202 due to brokers. Due to brokers consists of margin borrowings collateralized by the Company's investments held at the broker. In the normal course of business, the Company utilizes the margin borrowings to finance its investment activities. Interest is charged on the daily outstanding balance at a tiered rate which fluctuates between the broker's overnight rate plus a percentage ranging from 0.15% to 1.25%, depending on the amount of margin used. Pinetree does not hedge against any interest rate increases.
- (d) As at September 30, 2007, the Company had advances from PowerOne of \$8,778 (December 31, 2006 - \$78). The Company owns a 50% interest in PowerOne, an Ontario limited market dealer. These advances bear no interest, are unsecured and are due on demand.

### Commitments:

As at September 30, 2007, the Company had material commitments for cash resources of \$95,628 which were comprised of: \$67,202 due to brokers; \$9,693 accounts payable and accrued liabilities; \$8,778 due to affiliated company, all of which are due on demand; the

Company also has accrued income taxes payable of \$9,955. The disposition of the Company's investments would be sufficient to pay these material commitments. A schedule of liabilities and obligations is as follows as at September 30, 2007:

Liabilities and Obligations	Payments Due by Period				
	Total	Less than 1 year	1 – 3 year	4 – 5 years	After 5 years
Due to brokers	\$ 67,202	\$ 67,202	\$ —	\$ —	\$ —
Accounts payable and accrued liabilities	9,693	9,693	—	—	—
Due to affiliated company	8,778	8,778	—	—	—
Income taxes payable	9,955	9,955	—	—	—
Lease commitments	4,151	162	1,946	1,362	681
	<b>\$ 99,779</b>	<b>\$ 95,790</b>	<b>\$ 1,946</b>	<b>\$ 1,362</b>	<b>\$ 681</b>

The Company continues to have no long-term debt; however, the Company made a lease commitment for its premises starting January 1, 2007 for annual payments of approximately \$641 (\$53 monthly) until December 31, 2010 and approximately \$681 (\$57 monthly) from January 1, 2011 to December 31, 2013. The Company also has consulting agreements with officers representing approximately \$76 per month that automatically renew 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, 2007, Genevest had an amount owing of approximately \$472 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:

All transactions with related parties have occurred in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Related party transactions were as follows during the nine months ended September 30:

Type of Service	Nature of Relationship	2007	2006
Consulting fees (a)	Director, shareholders, and officers	\$ 697	\$ 256
Consulting bonuses (b)	Director, shareholders, and officers	19,675	7,049
Director fees	Directors	24	28
Interest expense (note c)	Affiliated companies	710	67
Interest expense (d)	Director, shareholder, and officer	430	—
Dividend income (e)	Affiliated company	7,925	128
Other income (f)	Affiliated companies	445	2,070

- (a) Consulting agreements are with the Company's Chairman and CEO, Chief Financial Officer, Vice President, Investments and Vice President, Legal & Corporate Affairs. The costs (including GST) relating to these agreements are included in operating, general and administrative expenses.
- (b) Pursuant to the CEO's consulting agreement with the Company, he is entitled to receive 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 of the limited market dealer's business' net realized profit. Included in operating, general and administrative expenses (including GST) is \$19,044 (nine months ended September 30, 2006 - \$6,747) relating to this bonus. During the nine months ended September 30, 2007, the Company also paid other bonuses of \$631 (nine months ended September 30, 2006 - \$302) to officers of the Company.
- (c) As at December 31, 2006, the Company had a promissory note of \$19,271 outstanding and held by Brownstone. The Company has an investment in Brownstone which is a company with a common director and common officers of the Company and a reporting issuer trading on the TSX Venture Exchange under the symbol "BWN". The promissory note related to the purchase of 5,000,000 shares of Mega Uranium Ltd. ("Mega") at a total cost of \$21,250. The Company paid \$2,125 in cash and issued to Brownstone a promissory note for \$19,125 and bearing interest at a rate of 9% per annum. During the nine months ended September 30, 2007, the Company repaid in full the promissory note to Brownstone. The Company also had advances totaling \$23,518 from Brownstone during the nine months ended September 30, 2007 which have been repaid during the period. The advances were secured and bore interest at a rate of 7% per annum. Included in the consolidated statements of operations is \$464 of interest expense charged by Brownstone relating to the promissory note and advances during the current period.

During the nine months ended September 30, 2007, the Company had a loan payable to PowerOne of \$5,100 evidenced by way of a promissory note bearing interest at a rate of 9% per annum. The promissory note was repaid during the nine months ended September 30, 2007 and included in the consolidated statements of operations is \$76 of interest expense.

During the nine months ended September 30, 2007, the Company had advances totaling \$32,674 from Mega. The Company has an investment in Mega which is a company with a common director and common officers of the Company and a reporting issuer trading on the TSX under the symbol "MGA". The advances, which have been repaid during the current period were secured and bore interest at rate of 7% per annum. Included in the consolidated statements of operations is \$170 of interest expense charged by Mega relating to these advances during the current period.

- (d) During the nine months ended September 30, 2007, the Company had a loan payable, by way of a promissory note of \$76,938 to the Chairman and CEO. The promissory note was secured, due on demand and bore interest at a rate of 7%. The promissory

note was repaid during the current period and included in interest expense is \$430 related to this promissory note.

- (e) During the nine months ended September 30, 2007, the Company received dividend income of \$7,925 (nine months ended September 30, 2006 - \$128) from PowerOne.
- (f) Other income relates to consulting, sublease, and services agreements of approximately \$445 (nine months ended September 30, 2006 - \$2,070) from companies in which Pinetree has an investment interest. 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.
- (g) Included in accounts payable and accrued liabilities as at September 30, 2007 is \$8,526 (December 31, 2006 - \$6,609) owing to related parties of which \$8,517 (December 31, 2006 - \$6,588) relates to the annual bonus to the Chairman and CEO.
- (h) During the nine months ended September 30, 2007, the Company granted 3,725,000 options to officers and directors of the Company, exercisable at prices between \$5.45 and \$13.02 per share and expiring between February 4, 2012 and September 16, 2012.

### **Internal Controls Over Financial Reporting:**

There were no changes in the Company's internal controls over financial reporting that occurred during the nine months ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

### **Risk Factors:**

Pinetree's financial condition, results of operation and business are subject to certain risks which may negatively affect the Company. Certain of these risks are described below. Additional risks not currently known to us, or that we currently believe to be immaterial, may also affect and negatively impact our business.

#### **Portfolio Exposure:**

Given the nature of the Company's activities, the results of operations and financial condition are dependant upon the market value of the securities that comprise the Company's portfolio. Market value can be reflective of the actual or anticipated operating results of our portfolio companies and/or the general market conditions that affect the sectors in which Pinetree invests. The Company's investment activities are currently concentrated primarily in the natural resource industry, with a current focus on the uranium, oil and gas, base metals and precious metals sectors. There are various factors that could affect these sectors which could have a negative impact on Pinetree's portfolio companies and thereby have an adverse affect on our business. Additionally, Pinetree's investments are mostly in small-cap businesses which the Company believes exhibit potential for growth and sustainable cash flows but which may not

ever mature or generate the returns the Company expects or may require a number of years to do so. Junior exploration, biotechnology and technology companies may never achieve commercial discoveries and production. This may create an irregular pattern in the Company's revenues (if any). Macro factors such as fluctuations in commodity prices and global political and economic conditions could have an adverse effect on one or more sectors to which the Company is exposed, thereby negatively impacting one or more of the portfolio companies concurrently. Company-specific risks, such as the risks associated with mining operations generally, could have an adverse affect on one or more of the Company's portfolio companies at any point in time. Company-specific and industry-specific risks which materially adversely affect Pinetree's portfolio investments may have a materially adverse impact on our operating results.

#### Cash Flow/Revenue:

Pinetree generates revenue and cash flow primarily from the Company's financing activities and proceeds from the disposition of the Company's investments, in addition to interest and dividend income earned on the Company's investments. The availability of these sources of income and the amounts generated from these sources are dependant upon various factors, many of which are outside of the Company's direct control. The Company's liquidity and operating results may be adversely affected if access to the capital markets is hindered, whether as a result of a downturn in the market conditions generally or to matters specific to Pinetree, or if the value of the Company's investments decline, resulting in capital losses for Pinetree upon disposition.

#### Private Issuers and Illiquid Securities:

Pinetree invests in securities of private issuers. Investments in private issuers cannot be resold without a prospectus, an available exemption or an appropriate ruling under relevant securities legislation and there may not be any market for such securities. These limitations may impair Pinetree's ability to react quickly to market conditions or negotiate the most favourable terms for exiting such investments. Investments in private issuers may offer relatively high potential returns, but will also be subject to a relatively high degree of risk. There can be no assurance that a public market will develop for any of Pinetree's private company investments or that the Company will otherwise be able to realize a return on such investments. Pinetree also invests in illiquid securities of public issuers. A considerable period of time may elapse between the time a decision is made to sell such securities and the time the Company is able to do so, and the value of such securities could decline during such period. Illiquid investments are subject to various risks, particularly the risk that the Company will be unable to realize the Company's investment objectives by sale or other disposition at attractive prices or otherwise be unable to complete any exit strategy. In some cases, the Company may be prohibited by contract or by law from selling such securities for a period of time or otherwise be restricted from disposing of such securities. Furthermore, the types of investments made may require a substantial length of time to liquidate.

#### Share Prices of Investments:

Pinetree's investments in securities of public companies are subject to volatility in the share prices of the companies. There can be no assurance that an active trading market for any of the

subject shares is sustainable. The trading prices of the subject shares could be subject to wide fluctuations in response to various factors beyond our control of Pinetree, including, quarterly variations in the subject companies' results of operations, changes in earnings (if any), estimates by analysts, conditions in the industry of the subject companies and general market or economic conditions. In recent years equity markets have experienced extreme price and volume fluctuations. These fluctuations have had a substantial effect on market prices, often unrelated to the operating performance of the specific companies. Such market fluctuations could adversely affect the market price of the Company's investments.

#### Concentration of Investments:

There are no restrictions on the proportion of Pinetree's funds and no limit on the amount of funds that may be allocated to any particular investment, industry or sector. The Company may participate in a limited number of investments and, as a consequence, the Company's financial results may be substantially adversely affected by the unfavourable performance of a single investment, or sector. Completion of one or more investments may result in a highly concentrated investment by Pinetree in a particular company, business, industry or sector.

#### Dependence on Management:

Pinetree is dependent upon the efforts, skill and business contacts of key members of management, for among other things, the information and deal flow they generate during the normal course of their activities and the synergies which exist amongst their various fields of expertise and knowledge. Accordingly, the Company's continued success will depend upon the continued service of these individuals who are not obligated to remain employed with Pinetree. The loss of the services of any of these individuals could have a material adverse effect on the Company's revenues, net income and cash flows and could harm the Company's ability to maintain or grow existing assets and raise additional funds in the future.

#### Regulatory Investigations:

In December 2006, Pinetree was advised by staff of the Ontario Securities Commission that the Company and its CEO were the subjects of investigations involving manipulative trading and insider trading of securities of certain issuers in which we have portfolio investments. The Company has received requests for information and is co-operating with the Ontario Securities Commission in their investigations. While the Company and its CEO believes that it and he have acted appropriately, the Company is unable to determine the impact, if any, that these investigations may have on the Company, or on the financial position, or how or when the investigations will be concluded.

#### Additional Financing Requirements:

Pinetree anticipates ongoing requirements for funds to support the Company's growth and may seek to obtain additional funds for these purposes through public or private equity or debt financing. There are no assurances that additional funding will be available to the Company at all, on acceptable terms or at an acceptable level. Any additional equity financing may cause shareholders to experience dilution, and any additional debt financing may result in increased interest expense or restrictions on our operations or ability to incur additional debt. Any

limitations on the Company's ability access to the capital markets for additional funds could have a material adverse effect on the Company's ability to grow its investment portfolio.

Management of our Growth:

Significant growth in Pinetree's business, as a result of acquisitions or otherwise, could place a strain on the Company's managerial, operational and financial resources and information systems. Future operating results will depend on the ability of senior management to manage rapidly changing business conditions, and to implement and improve the Company's technical, administrative and financial controls and reporting systems. No assurance can be given that Pinetree will succeed in these efforts. The failure to effectively manage and improve these systems could increase the Company's costs, which could have a material adverse effect on Pinetree.

Exchange Rate Fluctuations:

A significant portion of Pinetree's portfolio is invested in U.S. dollar denominated investments as well as investments denominated in other foreign currencies. Changes in the value of the foreign currencies in which the Company investments are denominated could have a negative impact on the ultimate return on the Company's investments and overall financial performance.

**Off-Balance Sheet Arrangements:**

There are no such existing arrangements.

**Outstanding Share Data:**

Authorized: Unlimited number of common shares, no par value

Issued and outstanding common shares (a):

	# of Shares	Amount
<b>Balance, December 31, 2005</b>	59,403,400	\$ 25,433
Issued pursuant to exercise of stock options	3,169,992	6,644
Issued pursuant to exercise of broker warrants	907,920	2,730
Issued pursuant to private placement financing, net	14,222,400	31,336
Issued pursuant to private placement financing, net	9,200,000	32,689
<b>Balance, December 31, 2006</b>	86,903,712	\$ 98,832
Issued pursuant to exercise of stock options (b)	<b>3,968,468</b>	<b>12,450</b>
Issued pursuant to exercise of broker warrants (c)	<b>152,080</b>	<b>345</b>
Issued pursuant to private placement financing, net (d)	<b>10,000,000</b>	<b>73,824</b>
Cancellation of dissenting shares from Pinetree/Genevest merger in fiscal year 2004	<b>(1,309,028)</b>	---
<b>Balance, September 30, 2007</b>	<b>99,715,232</b>	<b>\$ 185,451</b>

(a) The Company effected a two-for-one stock split by way of a stock dividend of one common share for every common share outstanding at the close of business on July

19, 2006. The Company effected another two-for-one stock split by way of a stock dividend of one common share for every common share outstanding at the close of business on April 5, 2007. All current and comparative figures reflect both stock splits, retroactively.

- (b) During the nine months ended September 30, 2007, 3,968,468 stock options were exercised at prices of between \$0.44 and \$3.81 per share for total proceeds of \$7,912. Pursuant to the exercise of stock options, amounts totalling \$4,538 in contributed surplus were reallocated to share capital.
- (c) During the nine months ended September 30, 2007, 152,080 broker warrants were exercised at prices between \$2.25 and \$7.50 per share for total proceeds of \$345.
- (d) On April 16, 2007, the Company completed a brokered private placement of 10,000,000 units of the Company at a price of \$12.13 per unit for aggregate gross proceeds of \$121,300. Each unit was comprised of one common share of Pinetree and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$15.00 per share until expiry on April 16, 2012. A cash commission of \$6,671 was paid and 550,000 broker warrants were issued to agents as consideration for their services in connection with the financing. Each broker warrant entitles the holder to acquire one common share of Pinetree at a price of \$12.13 per share until expiry on April 16, 2009. The Company also paid other expenses of \$262 related to the private placement.

The warrants and broker warrants were valued using the Black-Scholes option pricing model with the following assumptions: expected volatility of 71%; dividend yield of 0%; risk-free interest rate of 4.50%; and an expected life of 3.5 years for the warrants and 1.75 years for the broker warrants. The values assigned to the warrants and broker warrants were \$37,100 and \$3,443, respectively.

- (e) Stock options granted:

<b>Date Granted</b>	<b>Options Granted</b>	<b>Exercise Price</b>	<b>Expiry</b>
February 5, 2007	190,000	\$ 9.74	February 4, 2012
April 27, 2007	1,017,500	13.02	April 26, 2012
July 3, 2007	50,000	9.50	July 2, 2012
September 4, 2007	25,000	4.08	September 3, 2012
September 17, 2007	2,582,000	5.45	September 16, 2012
Total granted	3,864,500		

Stock options granted during the nine months ended September 30, 2007 vest at the rate of 1/6<sup>th</sup> of the grant at the end of each three-month period over an 18-month period. 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 over the vesting period and credits contributed surplus for all options granted.

The fair value of the options granted during the nine months ended September 30, 2007 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Black-Scholes assumptions used:	
Expected volatility	71.0 – 91.5%
Expected dividend yield	0.0%
Risk-free interest rate	4.5 – 4.75%
Expected option life in years	3.5
Fair value per stock option granted on February 5, 2007	\$ 5.28
Fair value per stock option granted on April 27, 2007	\$ 6.93
Fair value per stock option granted on July 3, 2007	\$ 5.20
Fair value per stock option granted on September 4, 2007	\$ 2.61
Fair value per stock option granted on September 17, 2007	\$ 3.48

For the nine months ended September 30, 2007, included in stock-based compensation is \$2,728 (nine months ended September 30, 2006 - \$4,738) relating to the stock options granted during the period and \$475 (nine months ended September 30, 2006 - \$364) relating to stock options granted in prior years to directors, officers, employees, and consultants of the Company.

- (f) The following table summarizes information about warrants and broker warrants of the Company outstanding as at September 30, 2007:

Number of Warrants/ Broker Warrants	Exercise Price	Expiry Date	Warrant Value (\$)
550,000	\$ 12.13	April 16, 2009	\$ 3,443
5,000,000	15.00	April 16, 2012	37,100
<b>5,550,000</b>			<b>\$ 40,543</b>

- (g) Contributed surplus transactions for the respective periods are as follows:

	Amount
<b>Balance, December 31, 2005</b>	\$ 1,908
Stock-based compensation	5,355
Exercise of stock options	(2,345)
<b>Balance, December 31, 2006</b>	4,918
Stock-based compensation	3,203
Exercise of stock options	(4,538)
<b>Balance, September 30, 2007</b>	<b>\$ 3,583</b>

- (h) As at September 30, 2007, the Company had 5,531,164 stock options outstanding exercisable at prices ranging from \$0.44 to \$13.02 per share and expiring between June 10, 2008 and September 16, 2012.

- (i) Subsequent to September 30, 2007, 16,800 stock options were exercised at \$1.62 per share for total proceeds of \$27.
- (j) Subsequent to September 30, 2007, the Company completed a brokered private placement of 13,750,000 units of the Company at a price of \$5.25 per unit for aggregate gross proceeds to the Company of \$72,188. Each unit was comprised of one common share of Pinetree and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$6.50 per share until expiry on October 23, 2012. A cash commission of \$3,760 and 756,250 broker warrants were issued to agents as consideration for their services in connection with the financing. Each broker warrant entitles the holder to acquire one common share of Pinetree at a price of \$5.30 per share until expiry on October 23, 2009.

As at November 12, 2007, the number of common shares of the Company outstanding and the number of common shares issuable pursuant to other outstanding securities of Pinetree are as follows:

<b>Common shares</b>	<b>Number</b>
Outstanding	<b>113,482,032</b>
Issuable under options	<b>5,514,364</b>
Issuable under warrants	<b>11,875,000</b>
Issuable under broker warrants	<b>1,306,250</b>
<b>Total diluted common shares</b>	<b>132,177,646</b>

#### **Normal Course Issuer Bid:**

During the nine months ended September 30, 2007, Pinetree renewed its NCIB. Pursuant to the terms of the NCIB, and in accordance with the rules of the TSX, during the period commencing September 26, 2007 and ending September 25, 2008, Pinetree may purchase up to 4,500,000 common shares, representing approximately 4.5% of the common shares outstanding as at September 19, 2007. Purchases will be made in open market transactions through the facilities of the TSX at market prices prevailing at the time of acquisition. Daily purchases may not exceed 201,477 common shares, except pursuant to a particular exemption under the TSX rules. All common shares purchased under the NCIB will be cancelled.

Pinetree did not purchase any common shares of the Company during the 12-month period prior to commencement of the NCIB.

#### **Future Accounting Changes:**

- (a) Capital disclosures:

The CICA issued a new accounting standard, Section 1535, *Capital Disclosures*, which requires the disclosure of both qualitative and quantitative information that enables users

Pinetree Capital Ltd.

Quarter ended September 30, 2007

(All amounts in thousands of dollars, except for securities and per share amounts)

of financial statements to evaluate the entity's objectives, policies and processes for managing capital. This new standard will be effective for the Company effective January 1, 2008.

(b) Financial instruments:

The CICA issued two new accounting standards, Section 3862, *Financial Instruments – Disclosure* and Section 3863, *Financial Instruments – Presentation*, which apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company intends to adopt these new standards effective January 1, 2008.

**Additional Information:**

Other additional information relating to Pinetree Capital Ltd. may be found on the Company's website at [www.pinetreecapital.com](http://www.pinetreecapital.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).