



Pinetree Capital Ltd. Management's Discussion and Analysis

For the Year Ended: December 31, 2006

Date of Report: March 21, 2007

Nature of the Business:

Pinetree Capital Ltd. ("Pinetree" or the "Company") was incorporated under the laws of the Province of Ontario and is publicly traded on the Toronto Stock Exchange (the "TSX") under the symbol "PNP". Pinetree is a diversified investment, financial advisory and merchant banking firm focused on the small cap market. Pinetree's investments are primarily in the following resource sectors: Uranium, Oil & Gas, 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 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 by issuing a stock dividend of one common share for every common share outstanding on the close of business on July 19, 2006. All current figures and comparative figures reflect the stock split, retroactively.

Caution Regarding Forward-Looking Statements:

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

Critical Accounting Estimates And Policies:

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 Limited., 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 years ended December 31, 2006 and 2005. Accounting policies followed in the preparation of the annual consolidated financial statements are disclosed in note 2 of the Notes to the audited consolidated financial statements for the years ended December 31, 2006 and 2005.

The following are critical accounting policies:

- Investments:

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

- (i) Publicly-traded investments:

1. Securities, 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.
3. In determining the discount for such investments, the Company considers the nature and length of the restriction, business risk of the investee company, relative trading volume and price volatility and any other factors that may be relevant to the ongoing and realizable value of the investments.
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 may differ from values that would be realized had a ready market existed. The amounts at which the Company's publicly-traded investments could be disposed of currently may differ from carrying value based on market quotes, as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity. The amounts at which the Company's privately-held investments could be disposed of currently may differ from the carrying value assigned, as a substantial period of time may have elapsed since the latest third party equity financing.

- Stock-based compensation plans – The Company has stock-based compensation plans which are described in note 7(g) of the Notes to the audited consolidated financial statements for the years ended December 31, 2006 and 2005. Any consideration received on the exercise of stock options or sale of stock is credited to share capital. The Company records compensation expense and credits contributed surplus for all stock options granted. Stock options granted during the year are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value for these options is estimated at the date of grant using the Black-Scholes option pricing model.
- Revenue recognition - 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 security 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.

- Income taxes - The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.
- Use of estimates - The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

For all accounting policies, refer to note 2 of the Notes to the audited consolidated financial statements for the years ended December 31, 2006 and 2005.

Change in accounting policy:

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. Publicly-traded securities are fair valued based on their closing bid prices on the consolidated balance sheet dates and all transaction costs are immediately recorded into income. As permitted under the new rules, the prior year's consolidated financial statements have not been restated. The cumulative effect of this change as of January 1, 2006 was to decrease retained earnings by \$2,490,984.

Overall Performance:

- For the year ended December 31, 2006, the Company realized net gains on disposal of investments of \$94,251,399 as compared to \$18,219,425 last year, a 417.3% increase.
- For the year ended December 31, 2006, the Company had net income of \$183,127,553 (\$4.63 per basic share) as compared to \$51,686,497 (\$1.85 per basic share) last year, a 254.3% increase in net income and 150.2% increase in earnings per share.
- As at December 31, 2006, the Company held investments with a fair value of \$552,376,814 as compared to \$176,142,271 at the end of last year, a 213.6% increase.

- During the year, the Company completed two private placement financings for total net proceeds of \$64,025,034. The proceeds were used to purchase investments and reduce the margin used.

The Company continues to focus on acquisitions of investments in the resource sector. As at December 31, 2006, \$479,698,606 (86.8%) of the investments were in resource companies as compared to \$122,575,784 (69.6%) as at December 31, 2005.

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 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.

Investments:

As at December 31, 2006, the Company held investments with a fair value of \$552,376,814 as compared to \$176,142,271 at the end of last year, a 213.6% increase. The cost base of the Company's portfolio was \$290,068,820 as at December 31, 2006 as compared to \$107,615,176 as at December 31, 2005. As such, the excess of fair value over cost stood at \$262,307,994 as at December 31, 2006 versus an excess of \$68,527,095 as at December 31, 2005, an increase of 282.8%.

Investments consist of the following:

| Sectors: | December 31, 2006 | | December 31, 2005 | |
|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Resources: | | | | |
| Uranium | \$ 82,162,536 | \$ 187,881,198 | \$ 19,036,306 | \$ 28,936,824 |
| Oil & gas | 52,036,379 | 77,847,632 | 22,029,954 | 40,169,596 |
| Precious metals | 94,392,217 | 179,075,956 | 28,638,580 | 38,238,604 |
| Base metals | 23,804,192 | 34,893,820 | 11,418,937 | 15,230,760 |
| Biotechnology | 11,099,279 | 10,958,129 | 6,974,403 | 5,937,810 |
| Energy related technology | 6,438,047 | 20,283,901 | 4,958,623 | 19,372,657 |
| Technology and other | 20,136,170 | 41,436,178 | 14,558,373 | 28,256,020 |
| Total investments | \$ 290,068,820 | \$ 552,376,814 | \$ 107,615,176 | \$ 176,142,271 |

Refer to note 4 of the Notes to the Consolidated Financial Statements for years ended December 31, 2006 and 2005 for details of the Company's investment portfolio.

Results of Operations:

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

| | 2006 | 2005 | 2004 |
|---|-----------------------|---------------|----------------|
| Net investment gains (losses) | \$ 291,207,713 | \$ 71,369,959 | \$ (6,526,108) |
| Income (loss) before extraordinary gain | 183,127,553 | 51,686,497 | (4,740,633) |
| Net income (loss) for the year | 183,127,553 | 51,686,497 | (3,985,721) |
| Earnings (loss) per share before extraordinary gain – basic | 4.63 | 1.85 | (0.19) |
| Earnings (loss) per share before extraordinary gain – diluted | 4.36 | 1.71 | (0.19) |
| Earnings (loss) per share – basic | 4.63 | 1.85 | (0.16) |
| Earnings (loss) per share – diluted | 4.36 | 1.71 | (0.16) |
| Total assets | 553,827,914 | 176,337,752 | 83,786,615 |
| Total liabilities | 185,997,483 | 65,552,286 | 27,465,105 |
| Shareholder's equity | 367,830,431 | 110,785,466 | 56,321,510 |

Financial highlights for the periods ending December 31, 2006 with comparatives:

| Operating Results | Three months ended December 31, | | Year ended December 30, | |
|--|------------------------------------|--------------|----------------------------|---------------|
| | 2006 | 2005 | 2006 | 2005 |
| Gains on disposal of investments, net | \$ 40,330,157 | \$ 7,078,957 | \$ 94,251,399 | \$ 18,219,425 |
| Unrealized gains on investments, net | 116,092,746 | 31,337,141 | 196,956,314 | 53,150,534 |
| Net investment gains | 156,422,903 | 38,416,098 | 291,207,713 | 71,369,959 |
| Net income for the period | 97,707,547 | 26,075,780 | 183,127,553 | 51,686,497 |
| Earnings per common share – basic | 2.25 | 0.91 | 4.63 | 1.85 |
| Earnings per common share - diluted | 2.11 | 0.83 | 4.36 | 1.71 |

Three months ended December 31, 2006 and 2005:

For the three months ended December 31, 2006, the Company generated a realized net gain on disposal of investments of \$40,330,157, an increase of 469.7% as compared to a realized net gain on disposal of investments of \$7,078,957 in Q4 of 2005.

The Company had net unrealized gains on investments of \$116,092,746 for the three months ended December 31, 2006, an increase of 270.4% as compared to unrealized net gains on investments of \$31,337,141 for the same period last year. Of the unrealized net gains in Q4 of 2006, \$142,608,720 was from the write-up to market on the Company's investments offset by \$26,515,974 from the reversal of unrealized net gains on the disposal of investments. Of the unrealized net gains in Q4 of 2005, \$35,774,460 was from the write-up to market on the Company's investments offset by \$4,437,319 from the reversal of unrealized net gains on the disposal of investments.

For the three months ended December 31, 2006, Other Revenue totaled \$289,157 as compared to \$754,608 for the three months ended December 31, 2005. Other Revenue in the current quarter decreased from the prior year. This was primarily due to \$405,385 of advances to an affiliated company with unrecorded accrued interest that was written off prior to the quarter ended December 31, 2005 but which was settled and recognized as revenue in the three months ended December 31, 2005.

Operating, general and administrative expenses in the three months ended December, 2006 increased to \$5,217,966 from \$1,997,201 in the three months ended December 31, 2005. The increase in the current period primarily resulted from an annual bonus accrual of \$4,196,219 (plus GST) in the current period as compared to \$1,012,401 (plus GST) 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. Excluding the bonus, operating, general and administrative expenses in the three months ended December 31, 2006 decreased by 15.8% from \$913,932 to \$769,974.

The Company recorded a provision for income taxes in the three months ended December 31, 2006 of \$48,976,840 as compared to a provision for income taxes of \$8,822,889 in Q4 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 December 31, 2006 was \$97,707,547 (\$2.25 per share), an increase of 274.7% over the net income for the three months ended December 31, 2005 of \$26,075,780 (\$0.91 per share), and an increase of 150.0% on an earnings per share basis.

Years ended December 31, 2006 and 2005:

For the year ended December 31, 2006, the Company generated a realized net gain on disposal of investments of \$94,251,399 compared to a realized net gain on disposal of investments of \$18,219,425 in the same period of 2005, a 417.3% increase.

The Company had unrealized net gains on investments of \$196,956,314 for the year ended December 31, 2006, an increase of 270.6% as compared to unrealized net gains on investments of \$53,150,534 last year. Of the unrealized net gains in 2006, \$270,702,114 was from the write-up to market on the Company's investments offset against \$73,745,800 from the reversal of unrealized net gains on the disposal of investments. Of the unrealized net gains in 2005, \$65,627,132 was due to the write-up to market on the Company's investments offset against \$12,476,598 from the reversal of unrealized net gains on the disposal of investments.

The Company had a net investment gain of \$291,207,713 compared to net investment gain of \$71,369,959 in the year ended December 31, 2005, a 308.0% increase.

Other Revenue totalled \$3,474,088 in the year ended December 31, 2006 as compared to \$1,961,344 last year. Other revenue is comprised of \$3,224,866 (2005 – \$1,636,571) from

consulting fees, and rental and services income and \$249,222 (2005 - \$324,773) of interest and dividend income received from certain of the Company's investments.

Operating, general and administrative expenses in the year ended December 31, 2006 increased to \$14,218,869 from \$4,742,725 in the year ended December 31, 2005. The increase in the current year resulted from an annual bonus accrual of \$10,561,589 (plus GST) in the current year as compared to \$1,981,128 (plus GST) 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 any limited market dealer's business' net realized profit. The Company also paid a special bonus of \$285,000 to officers of the Company. Excluding the bonuses, operating, general and administrative expenses in the year ended December 31, 2006 increased by 4.1% from \$2,622,918 to \$2,731,284. The increase is primarily due to increases in general corporate expenses such as professional fees, filing fees, and insurance, resulting from the growth of the business.

During the year, the Company expensed \$1,418,925 in transaction costs as compared to nil last year. The Company now recognizes transaction costs on purchases and sales of investments through the statement of operations as result of the adoption of CICA Handbook Section 3855 during the year. In previous years, transaction costs were included in the cost or proceeds from the investments.

Stock-based compensation expense increased to \$5,355,331 from \$1,855,685 in the year ended December 31, 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 period which is usually six quarters.

During the year ended December 31, 2006, the Company experienced an unrealized foreign exchange loss of \$812,764 on its foreign denominated net liabilities versus an unrealized foreign exchange gain of \$11,606 last year. The net loss primarily arose due to the significant decline through the year in the value of the Canadian versus the Australian dollar, which reduced the Canadian dollar value of Australian dollar amounts due to brokers, resulting in a foreign exchange loss.

Interest expense increased to \$3,718,071 in the year ended December 31, 2006 as compared to \$1,392,991 last year. During the current year, the Company increased its amounts due to brokers for purchases of investments as compared to last year, and interest rates rose through the year.

The Company recorded a provision for income taxes in the year ended December 31, 2006 of \$86,023,086 as compared to a provision for income taxes of \$13,662,329 in the year ended December 31, 2005. The provision for income taxes in the current year 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 year.

Net income for the year ended December 31, 2006 was \$183,127,553 (\$4.63 per share), as compared to net income for the year ended December 31, 2005 of \$51,686,497 (\$1.85 per share), an increase of 254.3%.

Summary of Quarterly Results:

| | Quarter ended (unaudited) | | | |
|--|----------------------------------|---------------------------|----------------------|-----------------------|
| | December 31, 2006 | September 30, 2006 | June 30, 2006 | March 31, 2006 |
| Net investment gains (losses) | 156,422,903 | 54,389,188 | (18,102,431) | 98,498,053 |
| Net income (loss) for the period | 97,707,547 | 37,390,818 | (18,324,172) | 66,353,360 |
| Earnings (loss) per common share - basic | 2.25 | 0.87 | (0.45) | 2.14 |
| Earnings (loss) per common share - diluted | 2.11 | 0.82 | (0.45) | 2.00 |

| | December 31, 2005 | September 30, 2005 | June 30, 2005 | March 31, 2005 |
|-------------------------------------|--------------------------|---------------------------|----------------------|-----------------------|
| | Net investment gains | 38,416,098 | 29,185,137 | 22,796 |
| Net income for the period | 26,075,780 | 22,802,285 | 420,006 | 2,388,426 |
| Earnings per common share - basic | 0.91 | 0.82 | 0.02 | 0.09 |
| Earnings per common share - diluted | 0.83 | 0.75 | 0.01 | 0.09 |

Cash Flows:

For the year ended December 31, 2006, net cash used in operating activities was \$13,865,544 as compared to net cash used in operating activities of \$3,729,299 last year, a 271.8% increase.

For the year ended December 31, 2006, cash generated from financing activities was \$68,139,330, made up primarily from net proceeds of \$64,025,034 from two private placement financings and \$7,028,031 received from the exercise of stock options and broker warrants. The Company repaid \$1,976,485 of an outstanding loan from an officer and \$937,250 of advances from an affiliated company. Last year, the Company generated cash in financing activities of \$3,651,387 primarily from the exercise of stock options of \$2,378,360 and a loan of \$1,976,485 from an officer of the Company, while \$1,456,586 was used to purchase the Company's common shares on the open market under a normal course issuer bid.

For the year ended December 31, 2006, net cash used from investing activities was \$51,780,432 as compared to cash used of \$2,334,166 last year. During the current year, the Company purchased \$272,380,609 of investments, an increase of \$182,771,640 as compared to \$89,608,969 in the year ended December 31, 2005. During the current year, the Company realized proceeds on disposition of investments of \$203,219,891, an increase of \$135,956,291 as compared to \$67,263,600 last year. Both of the increases reflect the significantly increased size of the Company's investment pool and investing activity. During 2006, the Company used an additional \$20,333,497 of broker's margin as compared to an increase of \$19,730,837 in the previous year. The Company uses amounts from brokers primarily to purchase investments. In the current year, the Company repaid \$2,600,000 in short-term loans and purchased net capital assets of \$353,211.

For the year ended December 31, 2006, the Company had a net increase in cash and cash equivalents of \$2,493,354 as compared to a net decrease of \$2,412,078 during the year ended December 31, 2005, leaving a cash and cash equivalents balance of \$175,407 as at December 31, 2006 as compared to a bank indebtedness balance of \$2,317,947 as at December 31, 2005.

Liquidity and Capital Resources

| Balance Sheet Highlights | December 31, 2006 | December 31, 2005 |
|--|-------------------|-------------------|
| Investments, at fair value | \$ 552,376,814 | \$ 176,142,271 |
| Total assets | 553,827,914 | 176,337,752 |
| Total liabilities | 185,997,483 | 65,552,286 |
| Share capital and contributed surplus | 103,749,846 | 27,341,450 |
| Retained earnings | 264,080,585 | 83,444,016 |
| Net asset value per share – Basic | 8.47 | 3.73 |
| Net asset value per share – Diluted | 7.93 | 3.42 |

The fair value of the Company's portfolio increased to \$552,376,814 from \$176,142,271 as at December 31, 2005, an increase of 213.6%. The net asset value per basic share increased 127.1% to \$8.47 per share from \$3.73 per share.

As at December 31, 2006, the Company had accrued future tax liabilities of \$87,121,863 as compared to \$17,177,760 as at December 31, 2005. The future tax liability is primarily attributable to applying the expected tax rate to the excess of fair value over tax cost on marketable securities at 36.12% and long-term assets at 17.25%, held at the end of the year. The Company has also accrued income taxes payable of \$14,094,826 as compared to \$177,650 as at December 31, 2005.

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

Commitments:

As at December 31, 2006, the Company has material commitments for cash resources of \$79,604,432: \$57,570,900 due to brokers; \$7,860,956 accounts payable and accrued liabilities; and \$77,750 due to affiliated company, all of which are due on demand; and income taxes payable of \$14,094,826 due on February 28, 2007. The Company also has a promissory note due to an affiliated company for \$19,271,188 (includes \$146,188 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 \$641,000 until December 31, 2010 and optional premises lease payments of approximately \$681,000 from January 1, 2011 to December 31, 2013.

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

| | | |
|------|----|-----------|
| 2007 | \$ | 649,100 |
| 2008 | | 649,100 |
| 2009 | | 649,100 |
| 2010 | | 648,400 |
| 2011 | | 681,000 |
| 2012 | | 681,000 |
| 2013 | | 681,000 |
| | \$ | 4,638,700 |

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 December 31, 2006, Genevest had a potential amount owing of approximately \$1,319,000 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:

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 year ended December 31:

| Type of service | Nature of relationship | 2006 | 2005 |
|------------------------|--------------------------------------|------------|------------|
| Consulting fees | Director, shareholders, and officers | \$ 455,901 | \$ 376,761 |
| Consulting bonuses (a) | Director, shareholders, and officers | 10,846,589 | 1,981,128 |
| Director fees | Directors | 38,049 | 33,057 |
| Interest expense | Affiliated companies | 642,594 | 96,181 |
| Dividend income | Affiliated company | 128,000 | — |
| Other income (b) | Affiliated companies | 2,206,500 | 1,360,579 |
| Other receivables (c) | Shareholder and officer | 86,000 | 86,000 |

- (a) Included in the consulting agreement for the Chairman and Chief Executive Officer of the Company is an annual bonus equal to 10% of the realized pre-tax profit on the Company's non-limited market dealer business plus a bonus equal to 10% of any of the limited market dealer's business' net realized profit. Included in operating, general and administrative expenses is \$10,561,589 (2005 - \$1,981,128) relating to this bonus.

- (b) Other income includes consulting, sublease, and services agreements of approximately \$2,206,500 (2005 - \$950,645) 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. In fiscal 2005, other income included \$428,979 relating to advances which were previously written off but which have since been settled.
- (c) The Company has promissory notes totaling \$86,000 owing from an officer of the Company. The promissory notes are unsecured and interest free.
- (d) Included in prepaids and other receivables is \$152,048 (2005 - \$851) owing from related parties.
- (e) Included in accounts payable and accrued liabilities is \$6,608,941 (2005 - \$1,714,880) owing to related parties.
- (f) As at December 31, 2005, the Company had a loan from a director and officer of the Company of \$1,976,485 which was unsecured and interest free. The loan was fully repaid in January 2006.
- (g) As at December 31, 2005, the Company had advances from an affiliated company, PowerOne Capital Markets Limited ("PowerOne") of \$1,015,000. The Company has a 50% interest in PowerOne, an Ontario limited market dealer. These unsecured advances bear no interest and are due on demand. As at December 31, 2006, the Company had advances of \$77,750 from PowerOne.

Disclosure Controls:

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting for the Company. They are assisted in this responsibility by the Company's senior management team.

Through the evaluation of the design of its internal controls the Company has identified certain pre-existing internal control weaknesses in the financial reporting process due to the small size of the financial team, and weaknesses that may be caused by the large number of investment transactions that took place during fiscal year 2006.

Management believes it has remediated these control weaknesses through the requirement for two senior management signatures on all cash disbursements; by reconciling broker statements each month; and by enhancing the consolidation review process. As well, the Company will be expanding the size of its financial staff.

The broad scope of senior management's oversight and the strong entity level control is expected to compensate for any individual weaknesses. As such, the Company's Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and

procedures are effective to provide reasonable assurance that all material or potentially material information about the activities of the Company is made known to them by others within the Company. However, management does not expect that the Company's disclosure controls and procedures will prevent all errors or fraud. Management believes that any system of internal controls over financial reporting, no matter how well designed or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Risk Factors:

This MD&A contains forward-looking statements that involve risks and uncertainties (see Caution Regarding Forward-Looking Statements at the beginning of this MD&A). There are also various risks associated with our activities, which could affect our business and results of operations. Certain of those risks are described below but they are not the only ones facing the Company. Additional risks not currently known to us or that we currently deem immaterial may also impair our business. Economic conditions and market factors such as volatility in the Canadian and international markets, foreign exchange rates, interest rates, commodity prices, market prices, trading volumes and liquidity can have a significant impact on Pinetree's business, financial condition, and profitability. Also, the trading price of the Common Shares could decline due to any of these risks. Additionally, the Company's business can experience considerable variations in revenue and net income from quarter to quarter, and year to year, due to the risk factors discussed below. These factors are beyond the Company's control and, as a result, revenue and net income will fluctuate, as they have historically.

- **Dependence on Management** - 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. Additionally, employee errors or misconduct could result in regulatory sanctions or harm to the Company's reputation, which could materially adversely affect our business.
- **Regulatory Investigations** - In December 2006, the Company was advised by staff of the Ontario Securities Commission that it and its Chief Executive Officer were the subjects of investigations involving manipulative trading and insider trading of securities of certain issuers in which the Company has portfolio investments. The Company has received requests for information and is co-operating with the Ontario Securities Commission in their investigations. While both the Company and the Chief Executive Officer believe that they have acted appropriately, management is unable to determine the impact, if any, that these investigations may have on the Company, or its financial position, or how or when they will be concluded.
- **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. Pinetree does not hedge its foreign currency operations.
- **Economic Conditions** - Unfavourable economic conditions may negatively impact new business origination volume and the credit quality of any loans made by Pinetree. A negative impact in the value of Pinetree's portfolio would likely have a negative impact on

the market price of the Common Shares. Unfavourable economic conditions could also increase Pinetree's financing costs, decrease net income, limit access to capital markets and negatively impact any credit facilities extended to Pinetree.

- **Portfolio Exposure** – Given the nature of the Company's activities, our results of operations and financial condition are dependant upon the market value of the securities that comprise our portfolio. Market value can be reflective of the actual or anticipated operating results of our portfolio companies and the general market conditions that affect the sectors in which we invest. 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. While these sectors have performed well recently, there are various factors which could have a negative impact on our portfolio companies and thereby have an adverse affect on our business. Macro factors such as fluctuations in commodity prices and global political and economical conditions could have an adverse effect on one or more sectors to which we are exposed, thereby negatively impacting one or more of our 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 our portfolio companies at any point in time. Company-specific and industry-specific risks which materially adversely affect our portfolio investments may have a materially adverse impact on our operating results.
- **Cash Flow/Revenue** – The Company generates revenues and 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 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. Our 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 our investments decline resulting in capital losses upon disposition.

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 (a):

| | # of Shares | Amount |
|--|-------------------|----------------------|
| Balance, December 31, 2004 | 27,060,272 | \$ 17,539,298 |
| Purchased for cash under normal course issuer bid | (1,032,000) | (1,456,586) |
| Issued pursuant to exercise of stock options | 3,673,428 | 3,256,973 |
| Adjustment to retained earnings for cancellation of shares (e) | — | 6,093,771 |
| Balance, December 31, 2005 | 29,701,700 | \$ 25,433,456 |
| Issued pursuant to exercise of stock options (b) | 1,584,996 | 6,643,886 |
| Issued pursuant to exercise of Broker Warrants (f) | 453,960 | 2,729,700 |
| Issued pursuant to private placement financing, net (c) | 7,111,200 | 31,336,299 |
| Issued pursuant to private placement financing, net (d) | 4,600,000 | 32,688,735 |
| Balance, December 31, 2006 | 43,451,856 | \$ 98,832,076 |

- (a) On July 31, 2006, the Company effected a two-for-one stock split through a stock dividend of one common share for every common share outstanding on the close of business on July 19, 2006. All figures and comparative figures reflect the stock split, retroactively.
- (b) During the year ended December 31, 2006, 1,584,996 stock options were exercised at prices between \$0.60 and \$4.59 per share for total proceeds of \$4,298,331. Pursuant to the exercise of stock options, amounts in contributed surplus were reallocated to share capital by \$2,345,555.
- (c) On March 15, 2006, the Company completed a non-brokered private placement financing of 7,111,200 common shares of the Company at a price of \$4.50 per share for aggregate gross proceeds of \$32,000,400. A cash commission of \$593,542 and 300,000 Broker Warrants were issued as finders' fees in connection with the financing. Each Broker Warrant will entitle the holder to acquire one common share of Pinetree at a price of \$4.50 per share, expiring September 14, 2007. The Company also paid other expenses of \$70,559 related to the financing.
- (d) On April 27, 2006, the Company completed a brokered private placement financing of 4,600,000 common shares of the Company at a price of \$7.50 per share for aggregate gross proceeds of \$34,500,000. A cash commission of \$1,725,000 and 230,000 Broker Warrants were issued as agency fees in connection with the financing. Each Broker Warrant will entitle the holder to acquire one common share of Pinetree at a price of \$7.50 per share, expiring October 27, 2007. The Company also paid other expenses of \$86,265 related to this financing.
- (e) Adjustment to share capital and retained earnings:

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

(f) Broker Warrants:

A summary of the status of the Company's Broker Warrants as at December 31, 2006 and changes during the year is presented below:

| | 2006 | |
|-----------------------------------|---------------|---------------------------------|
| | # of Warrants | Weighted average exercise price |
| Outstanding, at beginning of year | — | \$ — |
| Issued | 530,000 | 5.80 |
| Exercised | (453,960) | (6.01) |
| Outstanding, at end of year | 76,040 | \$ 4.54 |

The following table summarizes the Broker Warrants outstanding as at December 31, 2006:

| Number of warrants | Exercise price | Expiry date |
|--------------------|----------------|--------------------|
| 75,000 | \$ 4.50 | September 14, 2007 |
| 1,040 | 7.50 | October 27, 2007 |
| 76,040 | | |

(g) Stock option plans:

The Company has two stock option plans in place for directors, officers, key employees and consultants to enable them to purchase common shares of the Company, as administered by the Board of Directors. The plans are referred to as the "2000 Plan" and the "2005 Plan". The number of common shares authorized to be issued was 2,000,000 for the 2000 Plan and 2,750,000 for the 2005 Plan. On May 27, 2004, an amendment to the 2000 Plan was approved by shareholders to increase the maximum issue to 5,250,000 options, being 3,000,000 options after giving effect to the 1.75 share consolidation that took place on June 1, 2004. An individual can receive grants of no more than 5% of the outstanding common shares of the Company on a yearly basis and options are exercisable over a period not exceeding five years. The 2000 Plan options have a vesting period of eight quarters and the 2005 Plan options have a vesting period of six quarters. The exercise prices for purchasing these shares cannot be less than the minimum exercise price as provided by the TSX rules.

(h) Stock options granted:

| Date granted | Options granted | Exercise price | Expiry |
|------------------|-----------------|----------------|------------------|
| January 3, 2006 | 350,000 | \$ 3.50 | January 2, 2011 |
| January 30, 2006 | 700,000 | 4.59 | January 29, 2011 |
| March 22, 2006 | 600,000 | 7.63 | March 21, 2011 |
| June 20, 2006 | 28,000 | 7.98 | June 19, 2011 |
| October 16, 2006 | 25,000 | 10.49 | October 15, 2011 |
| Total granted | 1,703,000 | | |

In accordance with CICA Handbook Section 3870, options granted are accounted for by the fair value method of accounting for stock-based compensation. The Company records compensation expense and credits contributed surplus for all options granted.

The fair value of the options granted during the year ended December 31, 2006 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | |
|---|---------------|
| Black-Scholes assumptions used | |
| Expected volatility | 77.8% - 85.3% |
| Expected dividend yield | n/a |
| Risk-free interest rate | 3.75% - 4.25% |
| Expected option life in years | 3 - 3.5 |
| Fair value per stock option granted on January 3, 2006 | \$ 1.78 |
| Fair value per stock option granted on January 30, 2006 | \$ 2.59 |
| Fair value per stock option granted on March 22, 2006 | \$ 4.32 |
| Fair value per stock option granted on June 20, 2006 | \$ 4.52 |
| Fair value per stock option granted on October 16, 2006 | \$ 5.95 |

For the year ended December 31, 2006, included in stock-based compensation is \$4,883,449 (2005 - \$1,827,604) relating to stock options granted during the year and \$471,882 (2005 - \$28,081) relating to stock options granted in the prior years to directors, officers, employees and consultants of the Company.

- (i) Contributed surplus transactions for the respective years are as follows:

| | Amount |
|-----------------------------------|---------------------|
| Balance, December 31, 2004 | \$ 930,922 |
| Stock-based compensation | 1,855,685 |
| Exercise of stock options | (878,613) |
| Balance, December 31, 2005 | 1,907,994 |
| Stock-based compensation | 5,355,331 |
| Exercise of stock options | (2,345,555) |
| Balance, December 31, 2006 | \$ 4,917,770 |

(j) A summary of the status of the Company's stock option plans as at December 31, 2006 and 2005 and changes during the years ended on those dates is presented below:

| Stock Options | 2006 | | 2005 | |
|-----------------------------------|-------------|---------------------------------|-------------|---------------------------------|
| | # of Shares | Weighted average exercise price | # of Shares | Weighted average exercise price |
| Outstanding, at beginning of year | 2,745,274 | \$ 1.70 | 3,798,214 | \$ 0.70 |
| Granted | 1,703,000 | 5.58 | 2,000,000 | 2.31 |
| Exercised/forfeited | (1,630,708) | (2.66) | (3,052,940) | (0.68) |
| Outstanding, at end of year | 2,817,566 | \$ 3.50 | 2,745,274 | \$ 1.70 |
| Exercisable, at end of year | 2,218,226 | \$ 2.35 | 2,148,774 | \$ 1.68 |

The following table summarizes information about stock options outstanding as at December 31, 2006:

| Number of options outstanding | Number of options exercisable | Exercise price | Expiry date |
|-------------------------------|-------------------------------|----------------|--------------------|
| 15,142 | 15,142 | \$ 0.60 | April 6, 2008 |
| 198,570 | 198,570 | 0.88 | June 10, 2008 |
| 5,714 | 5,714 | 1.18 | January 20, 2009 |
| 12,570 | 12,570 | 1.24 | January 20, 2009 |
| 5,400 | 5,400 | 1.03 | November 16, 2009 |
| 100,000 | 100,000 | 1.20 | January 2, 2010 |
| 216,000 | 216,000 | 1.05 | June 15, 2010 |
| 16,800 | 16,800 | 1.75 | September 29, 2010 |
| 85,000 | 84,170 | 1.78 | October 2, 2010 |
| 500,000 | 500,000 | 1.68 | October 10, 2010 |
| 85,000 | 85,000 | 2.20 | November 16, 2010 |
| 675,100 | 675,100 | 3.23 | December 5, 2010 |
| 250,100 | 250,100 | 3.50 | January 2, 2011 |
| 600,000 | 53,660 | 7.63 | March 21, 2011 |
| 27,170 | Nil | 7.98 | June 19, 2011 |
| 25,000 | Nil | 10.49 | October 15, 2011 |
| 2,817,566 | 2,218,226 | | |

Subsequent to December 31, 2006, 40,900 options were exercised at prices between \$1.05 and \$3.50 per share for total proceeds of \$89,250.

Subsequent to December 31, 2006, 55,000 Broker Warrants were exercised at \$4.50 per share and 268 Broker Warrants were exercised at \$7.50 per share for total proceeds of \$249,510.

Subsequent to December 31, 2006, the Company granted 95,000 options exercisable at \$19.48 per share and expiring on February 4, 2012.

As at March 21, 2007, the Company had 43,548,024 common shares and 2,871,666 stock options outstanding exercisable at prices ranging from \$0.60 to \$19.48 per share and expiring between December 3, 2006 and February 4, 2012. The Company also had outstanding 20,000 Broker Warrants exercisable at \$4.50 per share expiring September 14, 2007 and 772 Broker Warrants exercisable at \$7.50 per share expiring October 27, 2007.

Additional Information:

Other additional information relating to Pinetree Capital Ltd. may be found on the Company's website at www.pinetreecapital.com or on SEDAR at www.sedar.com.