



Pinetree Capital Corp. Management's Discussion and Analysis

For the year ended December 31, 2003:

Nature of the Business

Pinetree Capital Corp. ("Pinetree" or the "Company") was incorporated under the laws of the Province of Ontario and is publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "PNP". Pinetree's principal business is to fund emerging growth businesses with breakthrough proprietary products. Pinetree's interests are primarily in companies with application and platform software technologies, telecommunications and fibre optics technologies, and biomedical technologies. Pinetree also takes advantage of special situations, merchant banking opportunities, and makes investments in a variety of sectors. As at December 31, 2003, the Company held marketable securities with a quoted market value of approximately \$7.1 million (2002 - \$4.8 million), of which approximately \$5.1 million (2002 - \$3.7 million) represented investments in mineral resource companies.

Results of Operations

Effective January 1, 2003, the Company adopted CICA 3870, "Stock-based Compensation and Other Stock-based Payments". Under this new standard, companies are required to account for all stock options granted in accordance with the fair value method of accounting for stock-based compensation after January 1, 2004 and are required to apply this new standard retroactively if they adopt the new standard after January 1, 2004. As permitted by CICA 3870 the Company has applied this change prospectively for new awards granted on or after January 1, 2003. During the year ended December 31, 2003, the Company granted 112,500 options exercisable at \$1.00 per common share, expiring June 10, 2008. The Company also repriced 7,500 common shares to \$1.00 which were previously exercisable at prices ranging from \$2.00 to \$3.50. Accordingly, included in the operating, general and administrative expenses was \$14,953 relating to stock options granted and repriced during the year as a result of the application of the new standard.

For the year ended December 31, 2003, the Company generated realized net losses on disposal of investments of \$2,499,530 compared to net gains in 2002 of \$668,032. The net losses in the current year arose primarily from losses on sales of the Company's investments in NSI Global Inc. and a deemed sale of the Company's investment in iJoin Systems Inc., offset by a gain on the sale of some of the Company's holdings in Enghouse Systems Limited and a number of smaller gains on sales of marketable securities, primarily in the mineral resource sector. The net gains in the prior period arose primarily on the exchange of SoftQuad Software, Ltd. ("SoftQuad") common shares for Corel Corporation common shares, when Corel acquired SoftQuad in a share-for-share exchange, and the subsequent disposal of those Corel shares.

The Company had reversals of previously recorded unrealized net losses of \$2,827,619 compared to reversals of net gains of \$1,349,372 in the prior year. These reversals arise when investments are sold in the current period on which the Company previously recorded unrealized net losses or gains.

In the year ended December 31, 2003, Pinetree recorded unrealized net gains on investments of \$9,399,426 compared to unrealized net losses of \$6,492,525 in 2002. The unrealized net gains for the current year are due primarily to increased market values in Enghouse Systems Limited and Genevest Inc. of \$3,780,000 and \$3,396,069, respectively.

Interest and dividend income totalled \$16,601 in the year ended December 31, 2003 compared to \$24,963 in 2002 while other income increased slightly from the prior year, from \$214,064 to \$231,137 in 2003.

Operating, general and administrative expenses in the year ended December 31, 2003 decreased by 18%, from \$1,339,161 in the year ended December 31, 2002 to \$1,100,746 in the current year. The decrease in the current year is due to the Company's ongoing efforts to reduce operating costs.

The Company experienced an unrealized foreign exchange gain of \$1,031,225 on its US dollar denominated net assets versus a foreign exchange gain of \$68,570 in the year ended December 31, 2002. The large gain arose due to the significant improvement through the year in the value of the Canadian versus the U.S. dollar, reducing the Canadian dollar value of U.S. dollar advances from an affiliated company and amounts due to brokers. Interest expense decreased slightly to \$400,720 from \$464,101 in 2002, due primarily to a drop in interest rates and repayment of advances from an affiliated company throughout the year.

Net income for the year ended December 31, 2003 was \$9,425,430 (\$1.06 per share), arising primarily from net unrealized gains on investments and reversal of previously unrealized losses on disposal of investments. In the prior year, net loss for the year was \$8,757,859 (\$0.94 per share), primarily from net unrealized losses on investments.

The Company has no provision for income taxes due to its non-capital losses carried forward position at the beginning of the year.

Cash flows

Cash used from operating activities was \$1,877,438 in 2003, a net decrease of \$3,351,307 from net cash generated from operations of \$1,473,869 in 2002. Due to brokers increased by \$1,019,709 from \$1,055,724 in 2002 to \$2,075,433 in 2003 which positively impacted the cash flows from operating activities. The positive impact from the increase in due to brokers was reduced by a net repayment to an affiliated company, Genevest Inc. (a shareholder and reporting issuer trading on the TSX Venture Exchange under the symbol "GNV") of \$3,832,450.

For the year ended December 31, 2003, cash used in financing activities was \$291,709 in 2003, a net increase of \$197,311 from \$94,398 in 2002. The decrease was primarily a result of monies used to purchase the Company's common shares under an issuer buyback plan.

Cash flows from investing activities was \$1,981,878 in 2003 as compared to net cash used of \$1,234,552 in 2002. During the year, the Company purchased \$4,540,026 of investments, an decrease of \$11,189,488 as compared to \$15,729,514 in 2002. The Company had proceeds from its disposition of investments of \$6,532,493 as compared to \$14,152,144 in 2002.

For the year ended December 31, 2003, the Company had a net cash use of \$187,269 as compared to a increased of cash and cash equivalents of \$144,919 in 2002.

Investments

During the year ended December 31, 2003, the Company did not make any new strategic investments. However, Pinetree did make a number of new investments in, and dispositions of, marketable securities of a variety of mineral resource companies yielding net realized gains of approximately \$600,000.

The Company sold a small portion of its holding in Enghouse Systems Limited for a net gain of approximately \$380,000 and disposed of the remainder of its holdings of Lumenon Innovative Lightwave Technology Inc. and NSI Global Inc. for a realized loss of approximately \$490,000 and \$1,530,000 respectively.

During the year, the Company disposed of its investment in Quick Link Communications for a realized loss of approximately \$395,000 and received full payment from iTravel2000 for the debt investment of \$250,000 plus accrued interest.

Through its wholly owned subsidiary, Pinetree (Barbados) Inc., the Company invested a total of US\$440,000 in Fiber Optics Systems Technology Inc. through secured series "A" and "B" convertible debentures. Subsequent to December 31, 2003, the Company purchased an additional 10% secured B convertible debenture for US\$76,000. On February 16, 2004, all convertible debentures were converted to 1,529,541 common shares and 2,294,311 purchase warrants. Each purchase warrant can be exercised for one common share at a price of \$0.75 per share expiring February 27, 2006.

On February 17, 2003, Fiber Optics System Technology Inc. had a stock split on it's outstanding common shares prior to the conversion of the convertible debenture to common shares of 5.4493:1. As a result of the stock split, as at the date of this report the Company held 3,862,568 common shares and 2,294,322 purchase warrants with an exercise price of \$0.75 per common share expiring February 27, 2006 and 506,848 warrants with an exercise price of US\$0.75 per common share expiring on October 13, 2005.

During the year ended December 31, 2003, the Company wrote down its investment in Primacy Corporation to \$200,000 due to Primacy's financial position and market condition for Primacy's products.

Liquidity and Capital Resources

As at December 31, 2003, the fair value of Pinetree's portfolio increased to \$25,941,577 from \$18,206,529 at the end of fiscal 2002 due primarily to fair value adjustments of its holdings in Enghouse Systems Limited and Genevest Inc. The cost base of the Company's portfolio was \$15,251,081 as at December 31, 2003 (2002 - \$19,743,077). As such, the excess of fair value over cost stood at \$10,690,496 versus a deficit (excess of cost over fair value of \$1,536,548 as at December 31, 2002).

Cash and cash equivalents stood at \$48,837 on December 31, 2003 as compared to \$236,106 on December 31, 2002, a decrease of \$187,269. Advances from an affiliated company decreased by \$3,832,450, from \$6,626,047 at December 31, 2002 to \$2,793,597 at December 31, 2003. The decrease was due to significant repayments of amounts owing, and to a reduction in the Canadian dollar equivalent of U.S. dollar amounts owing because of the strengthening of the Canadian dollar. Amounts due to brokers increased by \$2,075,433 from \$2,518,957 as at December 31, 2002 to \$4,594,390 as at December 31, 2003.

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.

In fiscal 2002, the Company had planned to purchase up to 470,000 common shares through a normal course issuer bid (the "2002 NCIB"). The 2002 NCIB ran from May 16, 2002 to May 15, 2003. Purchase and payment for the common shares were made in accordance with TSX requirements. On June 27, 2003, the Company cancelled 312,000 common shares at an average acquisition price of \$0.68 per share pursuant to the 2002 NCIB.

During the year, the Company planned to purchase up to 455,000 common shares through a new normal course issuer bid (the "2003 NCIB"). The 2003 NCIB will run from May 26, 2003 to May 25, 2004. Purchase and payment for the common shares will be made in accordance with TSX requirements. As at December 31, 2003, pursuant to the 2003 NCIB, the Company had purchased 201,500 common shares of the Company at an average price of \$0.78 per share.

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

Caution Regarding Forward-Looking Statements

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