



## Management's Discussion and Analysis

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**For the Quarter Ended:**                      **March 31, 2012**

**Date of Report:**                                **May 10, 2012**

This management's discussion and analysis of the financial condition and results of operation ("MD&A") of Pinetree Capital Ltd. ("Pinetree" or the "Company") should be read in conjunction with Pinetree's unaudited interim condensed consolidated financial statements ("interim consolidated statements") and notes thereto as at and for the three months ended March 31, 2012. The same accounting policies and methods of computation were followed in the preparation of the interim consolidated statements as were followed in the preparation and described in note 3 of the annual consolidated financial statements as at and for the year ended December 31, 2011.

All financial data in this MD&A has been prepared consistently with the financial data prepared in the MD&A for the year ended December 31, 2011, in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

All dollar amounts in this MD&A are reported in thousands of Canadian dollars, except for securities and per share amounts.

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

Certain information contained in this MD&A constitutes forward-looking information, which is information regarding possible events, conditions or results of operations of the Company that is based upon assumptions about future economic conditions and courses of action and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is 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 information contained in this MD&A includes, without limitation, our expectations regarding anticipated investment activities and results and financing activities, our ability to utilize our deferred tax assets, the impact of changes in accounting policies and other factors on our operating results, and the performance of global capital markets and interest rates.

Forward-looking information involves 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 information. The Company believes the expectations reflected in the forward-looking information 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 information 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 information contained in

this MD&A include, but are not limited to: risks relating to investment performance and our ability to generate taxable income from operations, market fluctuations, fluctuations in prices of commodities underlying our interests and equity investments, the strength of the Canadian, U.S. and other economies, foreign exchange fluctuations, political and economic conditions in the countries in which the interests of the Company's portfolio investments are located, and other risks included elsewhere in this MD&A under the headings "Risk Factors" and "Financial Instruments" and in the Company's current annual information form and other public disclosure documents filed with certain Canadian securities regulatory authorities and available under Pinetree's profile 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 information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. The forward-looking information contained in this MD&A is provided as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law. All of the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

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

Pinetree was incorporated in 1962 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". The Company is domiciled in the Province of Ontario, Canada and its registered office address is at 130 King St. West, Suite 2500, Toronto, Ontario, Canada, M5X 2A2.

Pinetree is a diversified investment and merchant banking firm focused on the small-cap market. Pinetree's investments are primarily in the following resource sectors: Precious Metals, Base Metals, Oil and Gas, Potash, Lithium and Rare Earths, Uranium and Coal. Pinetree's investment approach is to develop a macro view of a sector, build a position consistent with the view by identifying micro-cap opportunities within that sector, and devise an exit strategy designed to maximize the Company's relative return in light of changing fundamentals and opportunities.

### **Overall Performance:**

Selected financial information for the Company for the indicated periods is provided below:

<b>Operating Results</b>	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net realized gains on disposal of investments	<b>\$ 5,848</b>	\$ 59,645
Net change in unrealized losses on investments	<b>(6,495)</b>	(72,439)
Net investment losses	<b>(647)</b>	(12,794)
Loss for the period	<b>(4,821)</b>	(11,200)
<b>Loss per common share based on loss for the period – basic and diluted</b>	<b>(0.04)</b>	(0.08)

For the three months ended March 31, 2012, the Company had a net loss of \$4,821 (\$0.04 per basic share) as compared to \$11,200 (\$0.08 per basic share) for the three months ended March 31, 2011. In the current period, the net loss was primarily attributable to the net change in unrealized losses on investments of \$6,495 as compared to \$72,439 in the prior year period.

As at March 31, 2012, the Company held investments at fair value totalling \$413,533 as compared to \$427,669 as at December 31, 2011 (a 3.3% decrease), a decrease primarily attributable to the net proceeds on disposal of investments.

As at March 31, 2012, total assets less total liabilities was \$351,873 as compared to \$355,632 as at December 31, 2011 (a 1.1% decrease). As at March 31, 2012, net asset value per share ("NAV per share") was \$2.58 as compared to \$2.61 as at December 31, 2011, a 1.1% decrease (See "Use of Non-GAAP Measures" elsewhere in this MD&A).

The following is Pinetree's NAV per share for the eight most recently completed interim financial periods which are derived from financial statements prepared under IFRS:

	<b>NAV per share</b>
March 31, 2012	<b>\$ 2.58</b>
December 31, 2011	2.61
September 30, 2011	2.64
June 30, 2011	3.63
March 31, 2011	4.66
December 31, 2010	4.74
September 30, 2010	3.05
June 30, 2010	2.20

## Investments:

Investments at cost and fair value consist of the following as at March 31, 2012 and December 31, 2011:

	<b>March 31, 2012</b>		December 31, 2011	
	<b>Cost</b>	<b>Fair Value</b>	Cost	Fair Value
<b>Sectors:</b>				
Resources:				
Precious metals	<b>\$ 309,837</b>	<b>\$ 218,700</b>	\$ 309,378	\$ 233,771
Base metals	<b>140,857</b>	<b>62,483</b>	149,180	61,050
Potash, lithium and rare earths	<b>58,559</b>	<b>42,134</b>	52,479	38,840
Oil and gas	<b>73,953</b>	<b>39,281</b>	73,923	43,125
Uranium	<b>113,634</b>	<b>32,969</b>	113,142	28,272
Coal	<b>5,276</b>	<b>4,280</b>	5,927	5,320
Technology and other	<b>37,186</b>	<b>13,686</b>	42,740	17,291
<b>Total investments</b>	<b>\$ 739,302</b>	<b>\$ 413,533</b>	\$ 746,769	\$ 427,669

The following is the number of investments in each sector as at March 31, 2012 and December 31, 2011:

Resources:	March 31, 2012		December 31, 2011	
		<u>% of Total</u>		<u>% of Total</u>
Precious metals	193	46.1	200	46.1
Base metals	92	21.9	93	21.4
Oil and gas	44	10.5	46	10.6
Uranium	28	6.7	28	6.5
Potash, lithium and rare earths	24	5.7	26	6.0
Coal	7	1.7	7	1.6
Technology and other	31	7.4	34	7.8
	<b>419</b>	<b>100.0</b>	434	100.0

The total number of investments held by the Company remained relatively constant. As at March 31, 2012, 388 out of 419, or 92.6% (December 31, 2011 – 92.2%), of the investments were in the resources sector. As at March 31, 2012, resource companies represented \$399,847 (96.7%) of the fair value of the investments as compared to \$410,378 (96.0%) as at December 31, 2011.

The fair value of the investments held by the Company as at March 31, 2012 decreased by 3.3% to \$413,533 from \$427,669 as at December 31, 2011. The cost base of the Company's portfolio was \$739,302 as at March 31, 2012, as compared to \$746,769 as at December 31, 2011. As such, as at March 31, 2012, the cost of investments exceeded fair value by \$325,769 as compared to \$319,100 as at December 31, 2011, an increase of \$6,669.

The fair value of Pinetree's publicly-traded investments is determined in accordance with the Company's accounting policy. The amounts at which the Company's publicly-traded investments could be disposed of currently may differ from their 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, and current market prices may differ significantly from the historical prices used to calculate fair value for the purposes of the Company's consolidated financial statements.

As at March 31, 2012, included in total investments were securities of private companies with a fair value totalling \$28,937 (7.0% of total fair value of the Company's investments; cost of \$32,276). As at December 31, 2011, included in total investments were securities of private companies with a fair value totalling \$29,076 (6.8% of total fair value of the Company's investments; cost of \$32,996). The fair value was determined in accordance with the Company's accounting policy for private company investments. The amounts at which the Company's private company investments could be disposed of currently may differ from their carrying values since there is no active market to dispose of these investments.

A detailed list of Pinetree's investments as at March 31, 2012 can be found on Pinetree's website at [www.pinetreetrecapital.com](http://www.pinetreetrecapital.com).

## Results of Operations:

The Company's selected quarterly results for the eight most recently completed interim financial periods are as follows.

	Quarter ended (unaudited)			
	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Net investment losses	\$ (647)	\$ (1,947)	\$ (154,038)	\$ (162,139)
Loss for the period	(4,821)	(6,091)	(136,394)	(144,656)
Total comprehensive loss for the period	(4,821)	(6,082)	(136,392)	(144,654)
Loss per share based on loss for the period – basic and diluted	(0.04)	(0.04)	(1.00)	(1.06)

  

	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Net investment gains (losses)	\$ (12,794)	\$ 294,416	\$ 142,180	\$ (73,099)
Profit (loss) for the period	(11,200)	231,654	114,628	(62,117)
Total comprehensive income (loss) for the period	(11,213)	231,633	114,628	(62,115)
Earnings (loss) per share based on profit (loss) for the period – basic	(0.08)	1.70	0.84	(0.46)
Earnings (loss) per share based on profit (loss) for the period – diluted	(0.08)	1.67	0.84	(0.46)

### Three Months Ended March 31, 2012 and 2011:

For the three months ended March 31, 2012, the Company generated net realized gains on disposal of investments of \$5,848, as compared to \$59,645 for the three months ended March 31, 2011.

For the three months ended March 31, 2012, the Company had a net change in unrealized losses on investments of \$6,495 as compared to \$72,439 for the three months ended March 31, 2011. Net change in unrealized losses for the three months ended March 31, 2012, was comprised of \$12,886 from the write-down to market on the Company's investments offset by \$6,391 from the reversal of previously recognized net unrealized losses on the disposal of investments. Of the net unrealized losses for the three months ended March 31, 2011, \$7,805 arose from the write-down to market on the Company's investments and by \$64,634 from the reversal of previously recognized net unrealized gains on the disposal of investments during the three months ended March 31, 2011.

For the three months ended March 31, 2012, other income totalled \$389 as compared to \$300 for the three months ended March 31, 2011. Other income is comprised of interest and dividend income of \$16 (three months ended March 31, 2011 - \$8) and \$281 (three months ended March 31, 2011 - \$146) from consulting fees, rental income, and other fees and \$92 from securities lending revenue (three months ended March 31, 2011 - \$146).

Operating, general and administrative expenses for the three months ended March 31, 2012 increased to \$3,602 from \$2,387 in the three months ended March 31, 2011. Following is the

breakdown of operating, general and administrative expenses for the indicated three month periods ended March 31. Details of the changes between periods follow the table:

	2012	2011
Stock-based compensation expense (a)	\$ 1,062	\$ 468
Transaction costs (b)	791	984
Salaries, bonuses, and other employment benefits	681	584
Transfer agent, filing fees, and other information systems	221	291
Consulting and directors' fees	214	170
Other office and general	205	289
Travel and promotion	139	104
Operating lease payments	120	115
Professional fees (c)	69	181
Amortization	62	53
Foreign exchange loss (gain) (d)	38	(771)
Change in fair value of Class C preferred shares	-	(81)
	<b>\$ 3,602</b>	<b>\$ 2,387</b>

- (a) Stock-based compensation expense increased by \$594 as compared to the three months ended March 31, 2011. Stock-based compensation expense will vary from period to period depending upon the number of options granted and vested during a period and the fair value of the options calculated as at the grant date. The increase in the current period resulted from a greater number of stock options granted during the previous year which have not been fully expensed.
- (b) Transaction costs decreased by \$193 to \$791 for the three months ended March 31, 2012, due to an decrease in the volume of trading conducted by the Company. Transaction costs arise from purchases and dispositions of investments through brokers, which are expensed immediately in accordance with the Company's accounting policy for investments. The Company evaluates its commission structure with its brokers on an on-going basis to minimize its transaction costs.
- (c) Professional fees decreased by \$112 as compared to the three months ended March 31, 2011. The decrease relates to legal fees relating to certain investees, paid in the three months ended March 31, 2011 which did not occur in the three months ended March 31, 2012.
- (d) Foreign exchange loss increased by \$809 on foreign denominated net assets as compared to the three months ended March 31, 2011. The net foreign exchange loss for current period arose due to the decrease in the value of the Canadian dollar versus the U.S. and Australian dollar, which decreased the Canadian dollar equivalent value of the Company's foreign currency denominated assets.

Finance expense increased to \$1,928 in the three months ended March 31, 2012 as compared to \$284 in the three months ended March 31, 2011. The increase was primarily attributable to \$1,629 of interest expense accrued and \$191 of amortized finance costs in respect of the \$75,000 principal amount of 8% convertible unsecured subordinated debentures ("Debentures") which were issued in May 2011.

The Company recorded an income tax benefit in the three months ended March 31, 2012 of \$967 as compared to \$3,965 in the three months ended March 31, 2011. The income tax benefit in the both periods was primarily due to an increase in the excess of tax cost over fair value of investments held at the end of the respective period.

Loss for the three months ended March 31, 2012 was \$4,821 (\$0.04 per share) as compared to \$11,200 (\$0.08 per share) for the three months ended March 31, 2011.

For the three months ended March 31, 2012, the Company had an exchange loss on translation of foreign operations of nil as compared to \$13 for the three months ended March 31, 2011. As a result, total comprehensive loss for the three months ended March 31, 2012 was \$4,821 as compared to \$11,213 for the three months ended March 31, 2011.

### **Cash Flow:**

Net cash used in operating activities was \$2,405 in the three months ended March 31, 2012 as compared to \$4,573 in the three months ended March 31, 2011.

In the three months ended March 31, 2012, the Company used cash in financing activities totalling \$10,720 as compared to \$14,235 in the three months ended March 31, 2011. In the three months ended March 31, 2012, the Company repaid \$10,720 in margin borrowings from brokers. In the three months ended March 31, 2011, the Company repaid \$14,404 in margin borrowings from brokers and paid \$52 upon the retraction by certain holders of Class C preferred shares offset by total proceeds of \$221 from the exercise of stock options.

In the three months ended March 31, 2012, net cash generated in investing activities was \$13,472 as compared to \$18,720 in the three months ended March 31, 2011. During the three months ended March 31, 2012, the Company had proceeds from disposition of investments of \$82,327, a decrease of \$42,729, when compared to \$125,056 of proceeds from dispositions in the three months ended March 31, 2011. In the three months ended March 31, 2012, the Company purchased \$68,838 of investments, a decrease of \$37,429 as compared to \$106,267 of investment purchases in the three months ended March 31, 2011. In the three months ended March 31, 2012, the Company also purchased additional property, plant and equipment of \$17 as compared to \$69 in the three months ended March 31, 2011.

For the three months ended March 31, 2012, the Company had a net increase in cash and cash equivalents of \$347 as compared to a net decrease in cash and cash equivalents of \$88 for the three months ended March 31, 2011. For the three months ended March 31, 2011, the Company also had a gain from the exchange difference on the translation of foreign operations of \$13. As at March 31, 2012, the Company had a cash and cash equivalents balance of \$549 as compared to \$83 as at March 31, 2011.

## **Liquidity and Capital Resources:**

Pinetree relies upon various sources of funds for its ongoing operating and investing activities. These sources include proceeds from dispositions of investments, interest and dividend income from investments, consulting fees, capital raising activities such as private placement debt and equity financings, and corporate borrowings from the Company's bank, brokers (margin account) and the Company's Chairman and Chief Executive Officer ("CEO").

The Company's publicly-traded investments are listed on various stock exchanges (or quotation systems), including those in Canada, the United States, Australia, Israel, and England, thereby offering potential sources of liquidity and cash flow for Pinetree. During the three months ended March 31, 2012, the Company disposed of investments for proceeds of \$82,327, and purchased investments totaling \$68,838, as noted above in the Cash Flow section, the net proceeds were used to reduce amounts due to brokers (margin used).

Pinetree has a \$25,000 credit facility (the "Credit Facility") provided by the CEO. The Company allocates its borrowings between the Credit Facility and available margin from brokers, depending upon market conditions and other factors. The Credit Facility matures on December 31, 2012, bears interest at a rate of 1% per month on the outstanding principal amount and has a standby fee of 0.25% per annum on the undrawn portion of the Credit Facility calculated daily and payable monthly in arrears. The Credit Facility is secured under a General Security Agreement (the "GSA"), which covers all present and future tangible and intangible property of the Company subject to any security interests ranking in priority thereto, which would include the security interests underlying the Company's operating line of credit with Royal Bank of Canada ("RBC") and the Company's brokers in respect to its margin borrowings. As at March 31, 2012 and December 31, 2011, there was nil outstanding under the Credit Facility.

On May 17, 2011, the Company issued Debentures which mature on May 31, 2016. The Debentures are convertible into common shares of the Company on the basis of a conversion price of \$4.25 per share ("Conversion Price"), subject to adjustment under certain circumstances. After May 31, 2014, the Company may redeem the Debentures in whole or in part provided the weighted average trading price of the Company's common shares during a specified period prior to redemption is at least 125% of the Conversion Price. The Company may satisfy the payment of principal or interest in common shares under certain circumstances. The Debentures are subject to certain covenants, including maintenance of certain financial ratios, restrictions on redemption, and restrictions on the prepayment and payment of interest on the Debentures. As at March 31, 2012 and the date of this MD&A, the Company was in compliance with the terms of the Debentures.



Pinetree believes it will be able to generate sufficient cash to fund its operations through the normal course of sales of existing investments and from existing credit facilities.

<b>Consolidated Statements of financial position Highlights</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Investments at fair value	\$ 413,533	\$ 427,669
Total assets	433,976	443,619
Total liabilities	82,103	87,987
Share capital, warrants and broker warrants, contributed surplus, equity component of convertible debentures and foreign currency translation reserve	381,983	380,921
Deficit	(30,110)	(25,289)
<b>NAV per share – Basic</b>	<b>\$ 2.58</b>	<b>\$ 2.61</b>
<b>NAV per share – Diluted</b>	<b>\$ 1.87</b>	<b>\$ 1.89</b>

### Liabilities:

As at March 31, 2012, total liabilities decreased to \$82,103 as compared to \$87,987 as at December 31, 2011, a 6.7% decrease primarily due to a decrease in due to brokers offset by an increase in income taxes payable and accounts payable accrued liabilities.

As at March 31, 2012, the Company had due to brokers of \$8,058 as compared to \$18,778 as at December 31, 2011, a decrease of \$10,720. Due to brokers (margin accounts) consists of margin borrowings collateralized by the Company's investments held at brokers. 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 rate equal to the broker's overnight rate plus 0.40%.

As at March 31, 2012, the Company had recorded an income tax payable of \$3,043 (nil as at December 31, 2011). The income tax payable recorded as at March 31, 2012 may differ from the actual amount due for the year ended December 31, 2012 when the Company files its tax returns.

As at March 31, 2012, the Company has a carrying value of \$68,167 in Debentures (\$75,000 principal amount). As at March 31, 2012, included in accounts payable and accrued liabilities was \$2,001 of accrued interest in respect of the Debentures.

## Commitments:

As at March 31, 2012 the Company had material commitments for cash resources of \$118,805 (December 31, 2011 - \$130,391) which are detailed below. The disposition of the Company's investments in the normal course would be sufficient to pay these material commitments.

A breakdown of the Company's liabilities and obligations as at March 31, 2012 is as follows:

Liabilities and obligations	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Due to brokers	\$ 8,058	\$ 8,058	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	2,594	2,594	-	-	-
Investment commitments	885	885	-	-	-
Class C preferred share liabilities	241	241	-	-	-
Convertible debentures (principal amount)	75,000	-	-	75,000	-
Interest on convertible debentures	25,000	5,988	18,012	1,000	-
Lease commitments	7,027	590	1,770	1,142	3,525
	<b>\$ 118,805</b>	<b>\$ 18,356</b>	<b>\$ 19,782</b>	<b>\$ 77,142</b>	<b>\$ 3,525</b>

A breakdown of the Company's liabilities and obligations as at December 31, 2011 is as follows:

Liabilities and obligations	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Due to brokers	\$ 18,778	\$ 18,778	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	1,129	1,129	-	-	-
Investment commitments	1,017	1,017	-	-	-
Class C preferred share liabilities	241	241	-	-	-
Convertible debentures (principal amount)	75,000	-	-	75,000	-
Interest on convertible debentures	27,001	6,510	18,000	2,491	-
Lease commitments	7,225	590	1,770	1,187	3,678
	<b>\$ 130,391</b>	<b>\$ 28,265</b>	<b>\$ 19,770</b>	<b>\$ 78,678</b>	<b>\$ 3,678</b>

The Class C preferred shares are redeemable and/or retractable at any time. PCIC does not intend to redeem the Class C preferred shares in the foreseeable future.

The Company has \$75,000 principal amount of Debentures outstanding and interest at 8% per year is payable semi-annually with the next payment due on May 31, 2012. If there are no retractions or conversions of the Debentures, the Company will be required to pay approximately \$6,000 annually in interest expense to the holders.

During the year ended December 31, 2011, the Company renewed its lease commitment for its premises starting August 1, 2011 for annual payments of approximately \$583 (\$49 monthly) until July 31, 2017 and approximately \$613 (\$51 monthly) until December 31, 2023. The Company also has consulting agreements with officers representing approximately \$52 per month that are automatically renewed annually.

The Company has committed and is required to meet all of its cash calls related to the exploration and evaluation of the Israeli oil and gas property (the Samuel License) in which it has a 10% interest, as they become due, in order to maintain its interest. These expenditure obligations are not fixed and cannot be pre-determined with certainty. Failure to meet the obligations may result in the loss or reduction of the Company's ownership interest.

### **Related Party Transactions:**

All transactions with related parties have occurred in the normal course of operations.

During the three months ended March 31, 2012 and 2011, there were no significant related party transactions.

### **Off-Balance Sheet Arrangements:**

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of Pinetree.

### **Investor relations:**

During the three months ended March 31, 2012, Pinetree's management handled the Company's investor relations activities.

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

There was no change in the Company's internal controls over financial reporting ("ICFR") that occurred during the three months ended March 31, 2012 and which materially affected, or is reasonably likely to materially affect, the Company's ICFR.

### **Management of Capital:**

The Company includes the following items in its managed capital as at the following dates:

	<b>March 31, 2012</b>	December 31, 2011
Due to brokers	\$ 8,058	\$ 18,778
Class C preferred share liabilities, at fair value	241	241
Convertible debentures, due May 31, 2016	68,167	67,839
Shareholders' equity comprised of:		
Share capital	276,797	276,797
Warrants and broker warrants	66,524	66,524
Contributed surplus	35,802	34,740
Equity component of convertible debentures	2,882	2,882
Foreign currency translation reserve	(22)	(22)
Deficit	(30,110)	(25,289)
	<b>\$ 428,339</b>	<b>\$ 442,490</b>

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. There were no changes to the Company's objectives in managing and maintaining capital during the three months ended March 31, 2012.

The Company's management is responsible for the management of capital and monitors the Company's use of various forms of leverage on a daily basis. The Company expects that its current capital resources will be sufficient to discharge its liabilities as at March 31, 2012.

## **Risk Management:**

### Financial Instrument Risk

The investment operations of Pinetree's business involve the purchase and sale of securities and, accordingly, the majority of the Company's assets and liabilities are currently comprised of financial instruments. The use of financial instruments can expose the Company to several risks, including liquidity, market, interest rate, currency, and credit risks. A discussion of the Company's use of financial instruments and their associated risks is provided below.

#### (a) Liquidity risk:

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they become due. 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 stock market conditions generally or related to matters specific to the Company, or if the value of the Company's investments declines, resulting in lesser proceeds from disposition and 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. Pinetree invests significantly in securities of "junior" issuers, which can at times be relatively illiquid, and if the Company decides to dispose of securities of a particular issuer, it may not be able to do so at the time at favourable prices, or at all. Overall, 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, such that, absent overall market disruptions or extreme circumstances, liquidity risk can be minimized.

The Company uses varying levels of financial leverage (or "margin") when purchasing investments. Trading on margin allows the Company to borrow part of the purchase price of the investments (using marginable investments as collateral), rather than pay for them in full. Buying on margin allows the Company to increase its portfolio size by increasing the number and amount of investments through the use of leverage.

However, if the market moves against the Company's positions and the Company's investments decline in value, the Company may be required to provide additional funds to its brokers, which could be substantial. Given the nature of the Company's business, the

Company may not have sufficient cash on hand to meet margin calls and may be required to liquidate investments prematurely and/or at a loss, in order to generate funds needed to satisfy the Company's obligations. Furthermore, if the Company is unable to provide the necessary funds within the time required, the Company's marginable investments may be involuntarily liquidated at a loss by its brokers to meet the obligations (and the Company may still be required to make up any additional shortfall in funds thereafter).

The Company has at times borrowed funds from other sources to meet its obligations, but there can be no assurances that such funds will be available in the future, or available on reasonable terms, and the absence of available funding and/or the sale of the Company's investments in order to meet margin calls could have a materially adverse impact on the Company's operating results.

There were no changes to the way the Company manages liquidity risk since December 31, 2011. The Company manages liquidity risk by reviewing the amount of margin available on a daily basis, and managing its cash flow given its daily margin availability. The Company holds investments which can be converted into cash when required.

As at March 31, 2012, the Company had used margin of \$8,058 and had additional margin available of \$12,040. The following table shows the estimated sensitivity of the Company's available margin from a change in the closing bid price of the Company's investments with all other variables held constant as at March 31, 2012.

<b>Percentage of change in closing bid price</b>	<b>Margin available with a % increase in closing bid price</b>	<b>Margin available with a % decrease in closing bid price</b>
2%	\$ 12,442	\$ 11,638
4%	12,844	11,237
6%	13,246	10,835
8%	13,648	10,433
10%	14,050	10,031

The following table shows the Company's liabilities on the consolidated statement of financial position and potential due dates related to liquidity risk as at March 31, 2012:

<b>Liabilities and obligations</b>	<b>Payments due by period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>4 – 5 years</b>	<b>After 5 years</b>
Due to brokers	\$ 8,058	\$ 8,058	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	2,594	2,594	-	-	-
Class C preferred share liabilities	241	241	-	-	-
Income taxes payable	3,043	3,043	-	-	-
Convertible debentures, due May 16, 2016	68,167	-	-	68,167	-
	<b>\$ 82,103</b>	<b>\$ 13,936</b>	<b>\$ -</b>	<b>\$ 68,167</b>	<b>\$ -</b>

The following table shows the Company's source of liquidity by assets as at March 31, 2012:

Assets	Liquidity by period				
	Total	Less than 1 year	1 – 3 years	After 4 years	Non-liquid assets
Cash and cash equivalents	\$ 549	\$ 549	\$ -	\$ -	\$ -
Due from brokers	14	14	-	-	-
Prepays and other receivables	350	350	-	-	-
Investments at fair value	413,533	384,596	28,937	-	-
Property, plant and equipment	767	-	-	-	767
Deferred tax assets	18,763	-	-	-	18,763
	<b>\$ 433,976</b>	<b>\$ 385,509</b>	<b>\$ 28,937</b>	<b>\$ -</b>	<b>\$ 19,530</b>

(b) Market risk:

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices.

There were no changes to the way the Company manages market risk since December 31, 2011. The Company manages market risk by having a portfolio which is not singularly exposed to any one issuer or class of issuers, although Pinetree's investment activities are currently concentrated primarily across several sectors in the natural resource industry: precious metals, base metals, oil and gas, potash, lithium and rare earths, uranium, and coal.

The Company also has set thresholds on purchases of investments over which the approval of the Board of Directors is required. During periods of significantly broader market volatility or volatility experienced by the resource/commodity markets, the value of the Company's investment portfolio can be quite vulnerable to market fluctuations.

The following table shows the estimated sensitivity of the Company's after-tax loss for the three months ended March 31, 2012 from a change in the closing bid price of the Company's investments with all other variables held constant as at March 31, 2012:

Percentage of change in closing bid price	Decrease in loss from % increase in closing bid price	Increase in loss from % decrease in closing bid price
2%	\$ 7,185	\$ (7,185)
4%	14,370	(14,370)
6%	21,555	(21,555)
8%	28,741	(28,741)
10%	35,926	(35,926)

(c) Interest rate risk:

Interest rate risk is the impact that changes in interest rates could have on the Company's profit and liabilities. As at March 31, 2012, the Company had due to brokers (margin) which bears interest at rates fluctuating with the prime rate or overnight lending rate.

The Company's obligations under the Credit Facility and Debentures bear interest at a fixed rate.

Due to brokers and the Credit Facility (if any) can be repaid by the Company at any time, without notice or penalty, which provides the Company with some ability to manage and mitigate its interest rate risk. The Debentures are due May 31, 2016. There were no changes to the way the Company manages interest rate risk since December 31, 2011. Pinetree does not hedge against any interest rate risk.

The following table shows the estimated sensitivity of the Company's after-tax loss for the three months ended March 31, 2012 from a change in the interest rate on the average interest risk liabilities with all other variables held constant as at March 31, 2012:

<b>Change in interest rate</b>	<b>Increase in loss from an increase in interest rate</b>	<b>Decrease in loss from a decrease in interest rate</b>
0.25%	\$ (25)	\$ 25
0.50%	(49)	49
0.75%	(74)	74
1.00%	(99)	99

(d) Currency risk:

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company'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.

The Company may have margin borrowings or financial instruments denominated in U.S. dollars, Australian dollars, British pounds, and Israeli shekels. A change in the foreign exchange rate of the Canadian dollar versus another currency may increase or decrease the Company's obligations due to brokers and increase or decrease the value of its financial instruments.

There were no changes to the way the Company manages currency risk since December 31, 2011. The Company believes it is not significantly exposed to foreign exchange risk and does not actively hedge its foreign currency exposure, although Pinetree's foreign exchange risk is, to a certain extent, mitigated by the Company's foreign exchange denominated investments.

The following assets and liabilities were denominated in foreign currencies:

	<b>March 31, 2012</b>	December 31, 2011
Denominated in U.S. dollars:		
Investments	\$ 5,539	\$ 5,406
Cash and cash equivalents	313	11
Due from brokers	14	15
Prepays and other receivables	10	1
Due to brokers	(494)	(542)
Accounts payable and accrued liabilities	(14)	(21)
Net assets denominated in U.S. dollars	<b>5,368</b>	4,870
Denominated in Australian dollars:		
Investments	21,132	18,682
Due from brokers	5,788	64
Net assets denominated in Australian dollars	<b>26,920</b>	18,746
Denominated in British pounds:		
Investments	1,433	1,286
Due from brokers	332	329
Net assets denominated in British pounds	<b>1,765</b>	1,615
Denominated in Israeli shekels:		
Investments	8	18
Net assets denominated in Israeli shekels	<b>8</b>	18

The following table shows the estimated sensitivity of the Company's after-tax loss for the three months ended March 31, 2012 from a change in the U.S. dollar exchange rate in which the Company has exposure with all other variables held constant as at March 31, 2012:

<b>Percentage of change in U.S. dollar</b>	<b>Decrease in loss from an increase in % in the U.S. dollar exchange rate</b>	<b>Increase in loss from a decrease in % in the U.S. dollar exchange rate</b>
2%	\$ 79	\$ (79)
4%	158	(158)
6%	238	(238)
8%	317	(317)
10%	396	(396)



The following table shows the estimated sensitivity of the Company's after-tax loss for the three months ended March 31, 2012 from a change in the Australian dollar exchange rate in which the Company has exposure with all other variables held constant as at March 31, 2012:

Percentage of change in Australian dollar	Decrease in loss from an increase in % in the Australian dollar exchange rate	Increase in loss from a decrease in % in the Australian dollar exchange rate
2%	\$ 397	\$ (397)
4%	794	(794)
6%	1,191	(1,191)
8%	1,588	(1,588)
10%	1,985	(1,985)

(e) Credit risk:

Credit risk is the risk associated with the inability of a third party to fulfill its payment obligations. The Company is exposed to the risk that third parties that owe it money or securities (in connection with securities lending and convertible or debt securities, for example) will not perform their underlying obligations. There were no changes to the way the Company manages credit risk since December 31, 2011.

The Company's investments in convertible debentures, convertible notes, and promissory notes are carried as though converted to common shares. As at March 31, 2012, the total fair value of these investments was \$1,039 (December 31, 2011 - \$844). The Company believes it is not significantly exposed to credit risk as these investments comprise 0.3% (December 31, 2011 - 0.2%) of the Company's total investments.

The Company entered into a securities lending agreement with its prime broker in order to earn additional revenue, which is included in other income in the consolidated statement of comprehensive loss. The Company receives collateral in an amount equal to the percentage of the market value of the loaned securities as agreed upon with the prime broker. The securities on loan continue to be included in investments on the consolidated statement of financial position. The Company believes it is not significantly exposed to credit risk since the prime broker is required to pay the Company the fair value of the securities loaned if the securities are not returned upon the Company's request. As at March 31, 2011, the total fair value of investments loaned to third parties was \$5,092 (December 31, 2011 - \$5,860), which comprise 1.2% (December 31, 2011 - 1.4%) of the Company's total investments.

**Risk Factors:**

The Company's investing activities are, by their nature, subject to a number of inherent risks, including liquidity, market, interest rate, currency and credit risks associated with financial instruments, and certain other risks that are described in our annual information form for our most recently completed financial year, all of which can have, and have had over recent reporting periods, a significant impact on the Company's financial condition and results of

operations. Stock market volatility has resulted in and may continue to result in increased market risk and losses within our investment portfolio.

The Company's risks were described in its annual MD&A for the year ended December 31, 2011 which can be found on SEDAR ([www.sedar.com](http://www.sedar.com)). Additional risks not currently known to the Company or that are currently believe to be immaterial, may also affect and negatively impact the Company's business.

### **Outstanding Share Data:**

The Company is authorized to issue an unlimited number of common shares (no par value).

As at May 10, 2012, 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>136,447,273</b>
Issuable under options	<b>13,321,400</b>
Issuable under warrants	<b>15,513,650</b>
Issuable under conversion of Debentures	<b>17,647,059</b>
<b>Total diluted common shares</b>	<b>182,929,382</b>

Refer to note 5 of the Notes to the interim condensed consolidated financial statements as at and for the three months ended March 31, 2012 for other details about the Company's share capital.

Subsequent to March 31, 2012, the Company announced its intention to make a normal course issuer bid ("NCIB"), through the facilities of the TSX and on other alternative Canadian trading systems, to purchase up to \$3,750 principal amount of its unsecured 8% convertible debentures due May 31, 2016, representing up to 5% of the \$75,000 principal amount of the convertible debentures currently outstanding. Subject to regulatory approval, the NCIB will commence on May 18, 2012 and end on May 17, 2013.

### **Segmented Information:**

The management of the Company is responsible for the Company's entire portfolio and considers the business to have a single operating segment. The management's investment decisions are based on a single, integrated investment strategy, and the performance is evaluated on an overall basis.

The Company has a single reportable geographic segment, Canada, and all of the Company's property, plant and equipment are located in Canada, except for its exploration license in Israel.

The internal reporting provided to management of the Company's assets, liabilities, and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS. There were no changes in the reportable segments since December 31, 2011.

## **Significant Accounting Policies:**

There were no changes to the Company's accounting policies since December 31, 2011. Complete details of the Company's significant accounting policies can be found in Note 3 to the Company's annual consolidated financial statements as at and for the year ended December 31, 2011.

## **Critical Accounting Estimates:**

The preparation of the consolidated financial statements in conformity with IFRS 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.

Critical accounting estimates used in the preparation of the Company's consolidated financial statements include the Company's fair value of investment in securities not quoted in an active market (its privately-held investments), the valuation allowance related to the Company's deferred tax asset ("DTA"), the Company's estimate of inputs for the calculation of the value of stock-based compensation expense, the effective interest rate of convertible debentures, the valuation of unlisted warrants of public companies, and the fair value of the Company's own warrants and broker warrants.

### Fair value of investment in securities not quoted in an active market:

The valuation of privately-held investments ("private investments") requires management to assess the current financial status and prospects of private investments based upon potentially incomplete or unaudited financial information provided by the investee company, on management's general knowledge of the private investment's activities, and on any political, economic or other events that may impact upon the private investment specifically, and to attempt to quantify the impact of such events on the fair value of the investment. In addition to any events or circumstances that may affect the fair value of a particular private investment, management can consider general market conditions that may affect the fair value of either a particular private investment or a group, segment or complete portfolio of private investments.

Changes in the fair value of our private investments for company-specific reasons have tended to be infrequent. Changes as a result of general market conditions may be more frequent from period to period during times of significant volatility; however, given the relatively small size of our private investment portfolio, such changes are not expected to have a material impact on our financial condition or operating results.

### Allowance for Deferred Tax Assets:

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. As at March 31, 2012

and December 31, 2011, management determined, based upon the Company's historical level of taxable income and expectations for future taxable income, that it believed that it was more likely than not that the Company will realize the full tax benefits of the non-capital losses carried forward during the next several years. As such, the Company has recorded the full deferred tax assets as at those dates.

Stock-based Compensation Expense/Warrants and Broker Warrants:

The Company uses the Black-Scholes option pricing model ("B-S") to calculate stock-based compensation expense and the value of warrants and broker warrants issued as part of the Company's private placements. The B-S requires six key inputs to determine a value for an option, warrant or broker warrant: risk free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility. Certain of the inputs are estimates which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. For example, a longer expected life of the option or a higher volatility number used would result in an increase in stock-based compensation expense. The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of stock-based compensation expense.

The following table summarizes stock options granted during the three months ended March 31, 2012:

<b>Date Granted</b>	<b>Options Granted</b>	<b>Exercise Price</b>	<b>Expiry</b>
March 30, 2012	100,000	\$ 1.83	March 29, 2017
<b>Total granted</b>	<b>100,000</b>		

The fair value of the options granted during the three months ended March 31, 2012 was estimated at the date of grant using the following assumptions:

Black-Scholes assumptions used	
Expected volatility (i)	<b>80.5%</b>
Expected dividend yield	<b>0.0%</b>
Risk-free interest rate	<b>1.4%</b>
Expected option life in years	<b>3.2</b>
Expected forfeiture rate	<b>3.2%</b>
Fair value per stock option granted on March 30, 2012	<b>\$ 0.74</b>

(i) Based on the historical volatility of Pinetree's share price.

Effective interest rate of convertible debentures

Convertible debentures are separated into their liability and equity components on the statement of financial position. The liability component is initially recognized at fair value, calculated as the net present value of the liability, discounted at the interest rate of non-convertible debt issued by comparable issuers, and accounted for at amortized cost using the effective interest rate method.

The fair value of the liability component at the time of issue of the Debentures was calculated as the discounted cash flows for the debentures assuming a 9.47% effective interest rate, which was the interest rate estimated by management for comparable debentures without the conversion feature. The effective interest rate used by management will affect the amount of the liability reported on the statement of financial position, in so far as a higher rate will result in a lower recorded liability. Additionally, a higher interest rate will result in a higher interest expense recorded in statement of comprehensive income (loss).

#### Valuation of Unlisted Warrants of Public Companies:

The Company uses the B-S to calculate the fair value of unlisted warrants of public companies if there are sufficient and reliable observable market inputs. If there's no sufficient market inputs available, the warrants are valued using their intrinsic value. B-S requires six key inputs: risk free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility. The first four inputs are facts not estimates, while the expected life and expected volatility are based on the Company's estimates. For example, a longer expected life of the warrant or a higher volatility number used would result in an increase in fair value of the warrant. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

#### **Use of Non-GAAP Measures:**

This MD&A contains references to "net asset value per share" (basic and diluted) ("NAV") which is a non-GAAP measure. NAV is calculated as the value of total assets less the value of total liabilities divided by the total number of common shares outstanding as at a specific date. NAV (diluted) is calculated as total assets less total liabilities divided by the total number of common shares of the Company outstanding as at a specific date, calculated based upon the assumption that all outstanding securities of the Company that are convertible into or exercisable for common shares have been converted or exercised. The term NAV does not have any standardized meaning according to GAAP and therefore may not be comparable to similar measures presented by other companies. There is no comparable GAAP measure presented in Pinetree's consolidated financial statements and thus no applicable quantitative reconciliation for such non-GAAP financial measure. The Company has calculated NAV consistently for many years and believes that the measure provides information useful to its shareholders in understanding our performance, and may assist in the evaluation of the Company's business relative to that of its peers.

#### **Additional Information:**

Additional information relating to Pinetree Capital Ltd., including its annual information form for the Company's most recently completed financial year, is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).