# Management's Discussion and Analysis

**For the Year Ended:** **December 31, 2014**

**Date of Report:** **March 29, 2015**

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 annual audited consolidated financial statements and notes thereto as at and for the years ended December 31, 2014 and 2013. See "Changes in Accounting Policies" elsewhere in this MD&A.

Except as otherwise indicated (see "Use of Non-GAAP Financial Measures" elsewhere in this MD&A), all financial data in this MD&A has been prepared, 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 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 our ability to comply with our obligations under the forbearance agreement and the indenture, repay amounts which may become due and payable on our convertible debentures, and continue as a going concern, anticipated investment activities and results and financing activities, 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 our ability to realize sufficient proceeds from the disposition of our investments (which will be based upon market conditions beyond our control) or otherwise raise capital in order to fund our obligations as they become due, 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.

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.

## About Pinetree:

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, with early-stage investments in resource, biotechnology and technology companies.

## Overall Performance:

As at December 31, 2014, the Company held investments at fair value totalling $106,760 as compared to $133,965 as at December 31, 2013, a 27% decrease primarily attributable to net investment losses of $33,630.

As at December 31, 2014, net asset value per share ("NAV per share") was $0.25 as compared to $0.65 as at December 31, 2013, a 61% decrease (See "Use of Non-GAAP Financial Measures" elsewhere in this MD&A).

The following is Pinetree's NAV per share for the eight most recently completed interim financial periods:

| | NAV per share* |
|---|---|
| December 31, 2014 | **$ 0.25** |
| September 30, 2014 | **0.63** |
| June 30, 2014 | **0.78** |
| March 31, 2014 | **0.85** |
| December 31, 2013 | 0.65 |
| September 30, 2013 | 0.85 |
| June 30, 2013 | 0.76 |
| March 31, 2013 | 1.20 |

*See "Use of Non-GAAP Financial Measures".

During the year ended December 31, 2014, the Company reduced its outstanding convertible debt by approximately 10% (2013 - 19%) through the repurchase for cancellation of $6,042 (2013 - $14,136) principal amount of its 10% convertible debentures due May 31, 2016 ("Debentures") pursuant to normal course issuer bids ("NCIB"). An aggregate of $54,822 principal amount of Debentures remains outstanding.

As at October 31, 2014, the Company's debt-to-assets ratio was 38.8% and the Company was not in compliance with one of the debt covenants contained in the indenture governing its Debentures. In November 2014, the Company received written notice of default from the trustee under the indenture requiring the Company to cure or obtain a waiver for the default by January 23, 2015. As at December 31, 2014, the Company's debt-to-assets ratio was 50.8% and the Company believed it would not cure the default by January 23, 2015. As a result, the Company has accelerated the accretion of discount on the Debentures by $6,655.

Subsequent to the year end, the Company's default of the debt covenant became an Event of Default under the indenture. The Company entered into a forbearance agreement with the trustee, on behalf of the holders of the Debentures ("Debentureholders"), whereby the trustee and the Debentureholders agreed to refrain from exercising their rights in respect of the Event of Default, and subsequent defaults of the debt covenant, including the right to accelerate payment of the principal amount of the Debentures, until October 31, 2015, subject to certain conditions.

See "Going Concern Uncertainty" and "Liabilities" section elsewhere in this MD&A for additional information concerning the Debentures and the Company's agreement with the Debentureholders.

## Going Concern Uncertainty

As of December 31, 2014, the Company was in default of a restrictive debt covenant contained in the indenture governing its Debentures, which prohibits Pinetree's debt-to-assets ratio from exceeding 33% as at the end of each month (the "Debenture Covenant"). On January 23, 2015, the default became an "Event of Default" under the indenture when it was neither cured nor waived by that date. Following the occurrence of an Event of Default under the indenture, the trustee and the holders of the Debentures ("Debentureholders") have certain rights, including the right to declare the principal amount of the Debentures and accrued interest thereon

immediately due and payable. However, on February 13, 2015, the Company entered into a forbearance agreement with Equity Financial Trust Company, as trustee on behalf of the Debentureholders, whereby the trustee and the Debentureholders agreed to refrain from exercising their rights under the indenture or otherwise in respect of the existing Event of Default or a subsequent default of the Debenture Covenant until October 31, 2015, unless the Company breaches the forbearance agreement.

Under the terms of the forbearance agreement, the Company is required by July 31, 2015, among other things, to reduce the outstanding principal amount of the Debentures by $20,000 and will be subject to a covenant that limits its debt-to-assets ratio to 50% (as at month-end) for the three-month period of July through to September 2015 (the "Forbearance Covenant"). The Company also granted security over its consolidated assets to the Debentureholders to secure its obligations under the Debentures.

The Company's ability to comply with the terms and conditions of the forbearance agreement is dependent primarily upon its ability to generate the necessary funds to satisfy its commitment to purchase Debentures and to otherwise manage its debt-to-assets ratio at or below the 50% ratio permitted in the Forbearance Covenant during the period of July to September. In addition, the Company's ability to comply with the terms and conditions of the indenture is dependent primarily upon its ability to manage its debt-to-assets ratio at or below the 33% ratio permitted in the Debenture Covenant during the period of October 2015 to maturity of the Debentures in May 2016.

As at March 29, 2015, the Company had accumulated approximately $14,300 in cash and cash equivalents which can be used partly for debt reduction and anticipates being able to generate the balance of funds required for its commitment. To a certain extent, Pinetree's ability to manage its debt-to-assets ratio (beyond managing its debt level) remains outside of the Company's control given the nature of Pinetree's assets, which can experience sudden and significant changes in value, and the uncertainty of the Company's ability to access external sources of capital to expand the portfolio or to otherwise increase its asset base. Accordingly, there is no certainty that the Company will be able to comply with the Forbearance Covenant or return to being in compliance with the Debenture Covenant when required to do so, the effect of which creates significant doubt about the Company's ability to continue as a going concern.

As the year progresses, the Company may look to reducing the principal amount of the Debentures outstanding beyond its forbearance commitment, and to expanding its asset base through portfolio investments or other forms of acquisitions, depending on the availability of funds and of alternative uses of the funds existing at the applicable time, and the opportunities that may present themselves. The Company's access to capital will be dependent upon the performance of its investments over time and its ability to raise funds through equity-based transactions, factors which are outside of Pinetree's control.

If the Company breaches the forbearance agreement or the indenture, the trustee or the Debentureholders may declare the principal amount of the Debentures (and accrued interest) immediately due and payable by the Company. It is uncertain whether the Company could generate sufficient funds from proceeds of dispositions of its investments, or otherwise, to repay the total amount owing to Debentureholders, if and when required to do so. Furthermore, because the Debentures are secured by all of the Company's assets, including its investments, if

the Debentureholders realize on their security, the Company may not have sufficient assets, or any assets remaining following repayment of its Debenture obligations to enable it to continue as a going concern. If the proceeds of realization are insufficient to pay off all of the Company's obligations to the Debentureholders, the Company would remain liable for the balance owing and would not be able to continue as a going concern.

The consolidated financial statements as at and for the year ended December 31, 2014 and this MD&A, do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not used, the liquidation value of the Company's investment portfolio could be significantly less than its carrying value as at December 31, 2014. Such an adjustment could have a material impact on the Company's reported total assets and net loss for the year.

## Investments:

Investments at cost and fair value consist of the following as at December 31:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| **Sectors:** | **Cost** | **Fair Value** | Cost | Fair Value |
| Resources: | | | | |
| Precious metals | **$ 49,308** | **$ 8,690** | $ 281,309 | $ 52,802 |
| Potash, lithium and rare earths | **19,041** | **6,642** | 43,864 | 12,299 |
| Uranium | **14,169** | **5,762** | 72,023 | 11,909 |
| Oil and gas | **13,220** | **3,950** | 47,209 | 16,647 |
| Base metals | **23,966** | **1,662** | 116,041 | 14,103 |
| Coal | **769** | **233** | 5,181 | 595 |
| Technology and other | **80,924** | **79,821** | 39,917 | 25,610 |
| **Total investments** | **$ 201,397** | **$ 106,760** | $ 605,544 | $ 133,965 |

The following is the number of investments (which had a fair value) in each sector as at December 31:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| Resources: | **Number** | **% of Total** | Number | % of Total |
| Precious metals | **24** | **28.6** | 182 | 48.6 |
| Base metals | **12** | **14.3** | 74 | 19.8 |
| Potash, lithium and rare earths | **8** | **9.5** | 22 | 5.9 |
| Oil and gas | **6** | **7.1** | 31 | 8.3 |
| Uranium | **4** | **4.8** | 22 | 5.9 |
| Coal | **1** | **1.2** | 6 | 1.6 |
| Technology and other | **29** | **34.5** | 37 | 9.9 |
| | **84** | **100.0** | 374 | 100.0 |

Overall, the total number of investments held by the Company has been significantly reduced (by 78%) from December 31, 2013. The decrease in the number of investments was primarily due to the Company's shift away from the resource sector to a portfolio of technology and other.

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 December 31, 2014, included in total investments were securities of private companies with a fair value totalling $19,944 (19% of total fair value of the Company's investments; cost of $36,245). As at December 31, 2013, included in total investments were securities of private companies with a fair value totalling $25,253 (19% of total fair value of the Company's investments; cost of $29,663). The fair value of the private companies decreased due to net unrealized losses on investments of $11,892 and by dispositions and other investments being reclassified as publicly-traded as a result of becoming listed on a stock exchange. 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.

Refer to note 5 of the Notes to the consolidated financial statements as at and for the year ended December 31, 2014 for other details about the Company's investments.

### Results of Operations:

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

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Net investment losses | **$ 33,630** | $ 106,751 | $ 133,931 |
| Net loss for the year | **70,590** | 123,375 | 145,937 |
| Total comprehensive loss for the year | **70,589** | 123,372 | 145,954 |
| Loss per share based on loss for the year – basic and diluted | **0.39** | 0.85 | 1.07 |
| Total assets | **108,748** | 151,276 | 294,550 |
| Total liabilities | **57,587** | 52,262 | 82,400 |
| Total equity | **51,161** | 99,014 | 212,150 |

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

| | Quarter ended (unaudited) | | | |
|---|---|---|---|---|
| | **December 31, 2014** | **September 30, 2014** | **June 30, 2014** | **March 31, 2014** |
| Net investment gains (losses) | **$ (52,626)** | **$ (22,499)** | **$ 6,775** | **$ 34,720** |
| Net profit (loss) for the period | **(77,073)** | **(26,501)** | **2,708** | **30,276** |
| Total comprehensive income (loss) for the period | **(77,072)** | **(26,501)** | **2,708** | **30,276** |
| Earnings (loss) per share based on net profit (loss) for the period – basic | **(0.38)** | **(0.13)** | **0.02** | **0.20** |
| Earnings (loss) per share based on net profit (loss) for the period – diluted | **(0.38)** | **(0.13)** | **0.02** | **0.16** |
| | December 31, 2013 | September 30, 2013 | June 30, 2013 | March 31, 2013 |
| Net investment gains (losses) | $ (11,883) | $ 9,029 | $ (61,555) | $ (42,342) |
| Net profit (loss) for the period | (26,280) | 12,828 | (62,937) | (46,986) |
| Total comprehensive income (loss) for the period | (26,279) | 12,827 | (62,936) | (46,984) |
| Earnings (loss) per share based on net profit (loss) for the period – basic | (0.18) | 0.09 | (0.44) | (0.33) |
| Earnings (loss) per share based on net profit (loss) for the period – diluted | (0.18) | 0.04 | (0.44) | (0.33) |

### Three Months Ended December 31, 2014 and 2013

The net investment losses for the three months ended December 31, 2014 was $52,626 (three months ended December 31, 2013 - $11,883) as a result of net realized losses offset by a net change in unrealized gains on investments as described below.

For the three months ended December 31, 2014, the Company generated net realized losses on disposal of investments of $76,103, as compared to $34,646 for the three months ended December 31, 2013.

For the three months ended December 31, 2014, the Company had a net change in unrealized gains on investments of $23,477 as compared to $33,578 for the three months ended December 31, 2013. Net change in unrealized gains for the three months ended December 31, 2014 was comprised of $61,595 from the reversal of previously recognized net unrealized losses on the disposal of investments offset by the write-down to market on the Company's investments of $38,118. Of the net change in unrealized gains for the three months ended December 31, 2013, $34,000 was from the write-down to market on the Company's investments offset by $11,237 from the reversal of previously recognized net unrealized gains on the disposal of investments during the three months ended December 31, 2013.

For the three months ended December 31, 2014, other income totalled $126 as compared to $207 for the three months ended December 31, 2013. Other income is comprised of interest and dividend income of $44 (three months ended December 31, 2013 - $119) and $81 (three

months ended December 31, 2013 – $81) from consulting fees, rental income, and other fees and $1 from securities lending revenue (three months ended December 31, 2013 - $7).

Operating, general and administrative expenses for the three months ended December 31, 2014 increased to $2,453 from $2,262 for the three months ended December 31, 2013. A breakdown of operating, general and administrative expenses for the indicated three month periods ended December 31 is set out below. Details of the changes between periods follow the table:

| | **2014** | 2013 |
|---|---|---|
| Salaries (a) | **$ 614** | $ 527 |
| Professional fees (b) | **429** | 671 |
| Impairment of property, plant, and equipment (c) | **380** | - |
| Transaction costs (d) | **204** | 156 |
| Stock-based compensation expense (e) | **176** | 267 |
| Operating lease payments | **149** | 148 |
| Consulting and directors' fees | **141** | 128 |
| Transfer agent, filing fees and other information systems | **70** | 98 |
| Travel and other | **67** | 64 |
| Employee benefits | **37** | 34 |
| Other office and general | **161** | 147 |
| Amortization | **25** | 68 |
| Foreign exchange loss (gain) (f) | **15** | (46) |
| | **$ 2,453** | $ 2,262 |

(a) Salaries increased by $87 as compared to the three months ended December 31, 2013. The increase was primarily due to severance payments made to two departing employees.

(b) Professional fees decreased by $242 as compared to the three months ended December 31, 2013. Fees were higher in 2013 primarily due to legal fees incurred in connection with the Debentures and out of the ordinary course legal fees incurred in connection with one of the Company's investments.

(c) For the three months ended December 31, 2014, the Company recorded an impairment of property, plant, and equipment totaling $380, primarily with respect to the Company's leasehold improvements. The impairment was recognized upon a review of the Company's use of property, plant, and equipment and the Company's long-term plans relating to its office space which is now available for sublet through a realtor. The Company impaired its property, plant, and equipment based on what it believes the assets could be sold in a comparable arm's length transaction, less estimated costs to sell.

(d) Transaction costs increased by $48 as compared to the three months ended December 31, 2013, due to an increase 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.

(e) Stock-based compensation expense decreased by $91 as compared to the three months ended December 31, 2013. 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 decrease in the current period resulted from a fewer number of stock options granted.

(f) Foreign exchange loss increased by $61 as compared to the three months ended December 31, 2013. The foreign exchange expense was due to the decrease in the value of the Canadian dollar versus the US dollar during the quarter, which increased the Canadian dollar value of the Company's US dollar denominated monetary liabilities.

Finance expense increased to $9,253 in the three months ended December 31, 2014 as compared to $2,459 in the three months ended December 31, 2013. The increase was primarily attributable to an increase in the accretion of discount on the outstanding Debentures due to the debt covenant default as previously discussed.

The Company recorded an income tax expense in the three months ended December 31, 2014 of $12,997 as compared to $9,883 in the three months ended December 31, 2013. The income tax expense in the current period was a result of a reduction of the deferred income tax asset to nil. As at December 31, 2014, management has determined, based upon the Company's current debt covenant default and the current realized losses, that it will be probable that the Company will not generate sufficient profit to realize the tax benefits of the temporary tax deductible differences during the next several years. Management has reduced the value of the deferred tax assets to nil (2013 - $13,000). See "Critical Accounting Estimates" elsewhere in this MD&A.

Net loss for the three months ended December 31, 2014 was $77,073 ($0.38 per share) as compared to $26,280 ($0.18 per share) for the three months ended December 31, 2013.
For the three months ended December 31, 2014, the Company had an exchange gain on translation of foreign operations of $1 as compared to $1 for the three months ended December 31, 2013. As a result, total comprehensive loss for the three months ended December 31, 2014 was $77,072 as compared to $26,279 for the three months ended December 31, 2013.

### Year ended December 31, 2014 and 2013:

The net investment losses for the year ended December 31, 2014 was $33,630 (2013 - $106,751) as a result of net realized losses offset by a net change in unrealized gains on investments as described below.

For the year ended December 31, 2014, the Company generated net realized losses on disposal of investments of $410,515, as compared to $49,567 for the year ended December 31, 2013, due to significant dispositions of its resource sector investments.

For the year ended December 31, 2014, the Company had a net change in unrealized gains on investments of $376,885 as compared to a net change in unrealized losses on investments of $57,184 for the year ended December 31, 2013. Net change in unrealized gains for the year ended December 31, 2014 was comprised of $387,416 from the reversal of previously recognized net unrealized losses on the disposal of investments offset by $10,531 from the write-down to market on the Company's investments. Of the net change in unrealized losses for the year ended December 31, 2013, $100,483 was from the write-down to market on the

Company's investments offset by $43,299 from the reversal of previously recognized net unrealized losses on the disposal of investments. For the year ended December 31, 2013, the net change in unrealized losses included an unrealized gain of $9,274 on the adoption of IFRS 13, *Fair Value Measurement*. IFRS 13 provides guidance on fair value measurements of an asset or liability based on assumptions that market participants would use when pricing that asset or liability under current market conditions. Starting in 2013, the Company has fair valued its investments in publicly-traded investments based on the closing trade price (previously, it was based on the closing bid price) at the consolidated statement of financial position date. Management views that this policy provides a more indicative fair value price to sell its publicly-traded investments in an orderly transaction in the principal market at the consolidated statement of financial position date.

For the year ended December 31, 2014, other income totalled $858 as compared to $13,331 for the year ended December 31, 2013. Other income is comprised of interest and dividend income of $505 (2013 - $876) and $324 (2013 – $520) from consulting fees, rental income, and other fees and $29 from securities lending revenue (2013 - $69). Also included in other income for the year ended December 31, 2013 is a gain of $9,522 recognized in respect of the Debentures as a result of the amendments made to the Debentures in the prior year (see "Liabilities" section) and a $2,344 gain from the repurchase of Debentures under the NCIBs. Interest and dividend income is earned on certain of the Company's investments.

Operating, general and administrative expenses for the year ended December 31, 2014 increased to $8,395 from $8,248 for the year ended December 31, 2013. A breakdown of operating, general and administrative expenses for the indicated year ended December 31 is set out below. Details of the changes between periods follow the table:

| | **2014** | 2013 |
|---|---|---|
| Salaries (a) | **$ 2,226** | $ 2,172 |
| Transaction costs (b) | **1,416** | 776 |
| Stock-based compensation expense (c) | **823** | 1,236 |
| Other office and general | **664** | 651 |
| Professional fees (d) | **611** | 1,006 |
| Operating lease payments | **597** | 591 |
| Consulting and directors' fees | **574** | 529 |
| Travel and other (e) | **491** | 405 |
| Impairments of property, plant and equipment (f) | **380** | - |
| Transfer agent, filing fees and other information systems | **359** | 393 |
| Other employee benefits | **175** | 173 |
| Amortization | **101** | 270 |
| Exploration and evaluation expenditures (g) | **-** | 50 |
| Foreign exchange gain | **(22)** | (4) |
| | **$ 8,395** | $ 8,248 |

(a) Salaries increased by $54 as compared to the year ended December 31, 2013. The increase was primarily due to severance payments made to two departing employees offset by a reduction of the number of employees' salary costs earlier in the year.

(b) Transaction costs increased by $640 as compared to the year ended December 31, 2013, due to an increase in the volume of trading conducted by the Company (primarily

dispositions of investments in the resources sector). 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) Stock-based compensation expense decreased by $413 as compared to the year ended December 31, 2013. 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 decrease in the current year resulted from decrease in the fair value of the options which vested and were granted during the year.

(d) Professional fees decreased by $395 as compared to the year ended December 31, 2013. Fees were higher in 2013 primarily due to legal fees incurred in connection with the Debentures and out of the ordinary course legal fees incurred in connection with one of the Company's investments.

(e) Travel and other increased by $86 as compared to the year ended December 31, 2013, as a result of an increase in travel relating to the Company's investment activities in the technology sector.

(f) For the year ended December 31, 2014, the Company record an impairment of property, plant, and equipment totaling $380, primarily with respect to the Company's leasehold improvements. The impairment was recognized upon a review of the Company's use of property, plant, and equipment and the Company's long-term plans relating to its office space which is now available for sublet through a realtor. The Company impaired its property, plant, and equipment based on what it believes the assets could be sold in a comparable arm's length transaction, less estimated costs to sell.

(g) In June 2010, the Company, through a consortium, was awarded a petroleum license offshore Israel (the "Samuel License"). Pinetree had a 10% interest in the Samuel License, which expired on July 31, 2013 and in October 2013, the Company and the other license holders relinquished their interests back to the State of Israel.

Finance expense increased to $16,800 in the year ended December 31, 2014 as compared to $11,309 in the year ended December 31, 2013. The increase was primarily attributable to an increase in the accretion of discount on the outstanding Debentures from the debt covenant default as previously discussed, in the amount of $6,655. In the prior year the finance expense included a consent fee of $3,056 for the Debenture Amendment (see "Liabilities" section) and a $600 increase in the accretion of discount and interest expense on the Debentures.

The Company recorded an income tax expense in the year ended December 31, 2014 of $12,623 as compared to $10,398 in the year ended December 31, 2013. The income tax expense in the current year was a result of a reduction of the deferred tax assets (as previously discuss for the three months ended December 31, 2014) offset by the reversal of an accrual of income tax payable for corporate minimum tax payable for the year ended December 31, 2013. See "Critical Accounting Estimates" elsewhere in this MD&A.

Net loss for the year ended December 31, 2014 was $70,590 ($0.39 per share) as compared to $123,375 ($0.85 per share) for the year ended December 31, 2013.

For the year ended December 31, 2014, the Company had an exchange gain on translation of foreign operations of $1 as compared to $3 for the year ended December 31, 2013. As a result, total comprehensive loss for the year ended December 31, 2014 was $70,589 as compared to $123,372 for the year ended December 31, 2013.

**Cash Flow:**

Net cash used in operating activities was $8,729 in the year ended December 31, 2014 as compared to net cash generated of $10,476 in the year ended December 31, 2013. During the year ended December 31, 2014, the Company had proceeds from disposition of investments of $130,360, an increase of $35,487, when compared to $94,873 of proceeds from dispositions in the year ended December 31, 2013. In the year ended December 31, 2014, the Company purchased $128,749 of investments, an increase of $69,741 as compared to $59,008 of investment purchased in the year ended December 31, 2013. The proceeds from the disposition of investments in the current year were primarily used to purchase investments in the Technology and other sector.

In the year ended December 31, 2014, the Company generated cash of $8,726 in financing activities as compared to cash used of $10,381 in the year ended December 31, 2013. In the current year, the Company had net proceeds of $13,915 from private placement financings (2013 - $893) and used cash of $5,152 to purchase $6,042 principal amount of its Debentures under its NCIB while in the prior year, $11,234 was used to purchase $14,136 principal amount of its Debentures. The proceeds from private placement financings were used to purchase investments and for working capital purposes.

In the year ended December 31, 2014, net cash used in investing activities was $34 as compared to $85 in the year ended December 31, 2013. In the year ended December 31, 2014 and 2013, the investing activities related to the purchases of property, plant and equipment.

For the year ended December 31, 2014, the Company had a net decrease in cash and cash equivalents of $37 as compared to a net increase in cash and cash equivalents of $10 for the year ended December 31, 2013. For the year ended December 31, 2014, the Company also had a gain from the exchange difference on the translation of foreign operations of $1 as compared to $3 for the year ended December 31, 2013. As a result, as at December 31, 2014, the Company had a cash and cash equivalents balance of $213 as compared to $249 as at December 31, 2013.

**Liquidity and Capital Resources:**

| Consolidated Statements of financial position Highlights | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Investments at fair value | **$ 106,760** | $ 133,965 |
| Total assets | **108,748** | 151,276 |
| Total liabilities | **57,587** | 52,262 |
| Share capital, warrants, contributed surplus, equity component of convertible debentures and foreign currency translation reserve | **416,352** | 393,615 |
| Deficit | **(365,191)** | (294,601) |
| **NAV per share – Basic (i)** | **$ 0.25** | $ 0.65 |
| **NAV per share – Diluted(i)** | **$ 0.21** | $ 0.55 |

(i) See Use of Non-GAAP Financial Measures elsewhere in this MD&A

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 equity financings.

In April 2014, the Company completed a non-brokered private placement of 819,672 common shares of the Company at a price of $0.61 per share resulting in aggregate gross proceeds to the Company of $500. The share issuance costs were $6.

In May 2014, the Company completed a non-brokered private placement of 23,333,333 units of the Company at a price of $0.45 per unit, resulting in aggregate gross proceeds of $10,500 to the Company. Each unit was comprised of one common share of Pinetree and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of $0.75 per share until expiry on May 26, 2017. In connection with the private placement, the Company paid finders' fees in the form of an aggregate of 1,331,557 units of the Company at a deemed price of $0.45 per unit for a total cost of $599. The units have the same terms and conditions as the units sold in the private placements. The share issuance costs were $68.

In July 2014, the Company issued an aggregate of 6,666,667 common shares of the Company (at a price of $0.45 per share) as consideration for a $3,000 investment in securities of Kerr Mines Inc, a publicly traded company on the TSXV under the symbol "KER". The share issuance costs were $11.

The Company's publicly-traded investments are listed on various stock exchanges (or quotation systems), including those in Canada, the United States, Australia, and England, thereby offering potential sources of liquidity and cash flow for Pinetree.

Since October 31, 2014, the Company has been in default of the Debenture Covenant (see "Going Concern Uncertainty" and "Liabilities" section). The Company is in the process of selectively liquidating certain of its investments to meet the repayment requirements of reducing the principal amount of the outstanding Debentures by at least $20,000 by July 31, 2015.

Subsequent to December 31, 2014, the Company announced that it will exercise its right to partially redeem the Debentures, in accordance with the terms of the trust indenture governing the Debentures. On April 30, 2015 (the "Redemption Date"), Pinetree will redeem $10,000 of the $54,822 aggregate principal amount of Debentures currently outstanding. The Debentures will be redeemed on a *pro rata* basis at par, together with all accrued and unpaid interest thereon up to but excluding the Redemption Date, for a total redemption amount equal to $1.04137 for each $1 principal amount of Debentures redeemed (less any applicable taxes required to be withheld. Under the forbearance agreement, the Company is required to repay $20,000 of the outstanding principal of the Debentures by July 31, 2015. The Company believes it can raise the remaining $10,000 through the disposition of investments to repay the Debentures under the forbearance agreement. If the market remains stable, the Company will be able to comply with its Forbearance Covenants.

If the Company breaches the forbearance agreement, the principal amount of the Debentures (and accrued interest) could become immediately due and payable by Pinetree. The Company's management does not believe it can generate sufficient proceeds from the disposal of its investments to repay principal and interest on Debentures if required to do so immediately, however, over a period of time, subject to market volatilities and demand for its investments, the Company believes that it could generate sufficient funds to settle the full amount of the Debentures from dispositions of its investments.

**Liabilities:**

As at December 31, 2014, the carrying value of total liabilities was $57,587 as compared to $52,262 as at December 31, 2013, a 10% increase attributable to the accelerated accretion of discount on the Debentures offset by the retiring of a portion of the Debentures (discussed below).

As at December 31, 2014, included in accounts payable and accrued liabilities are Class C preferred share liabilities of $239 (2013 - $240). The Class C preferred shares ("Class C Shares") were issued in 2009 by Pinetree's wholly-owned subsidiary, PCIC, are non-voting, redeemable and retractable at any time, and entitle the holders thereof to receive cumulative dividends at a rate of 8% per annum, payable semi-annual.

The Class C Shares' redemption and retraction prices are linked to the market price of the Company's common shares subject to a minimum redemption price of $10 per share. As at December 31, 2014, the redemption price was $10 per share and the retraction price in effect was $0.62 per share (2013 - $1.48 per share). During the year ended December 31, 2014, 100 Class C Shares were cancelled by PCIC following their retraction by the holders at $2.36 per share plus accrued and unpaid dividends. As at December 31, 2014, 23,900 Class C Shares (2013 – 24,000 Class C Shares) were issued and outstanding.

As at December 31, 2014, the Company had recorded an estimated income tax payable (including interest) of $1,700 (2013 - $1,998) relating to corporate minimum tax payable. The income tax payable recorded for the year ended December 31, 2014 may differ from the actual amount due for the year ended December 31, 2014 when the Company files its tax returns.

As at December 31, 2014, included in accounts payable and accrued liabilities was $466 (2013 - $517) of accrued interest in respect of the Debentures. The Debentures bear interest at a rate of 10% per annum, payable semi-annually and are convertible, at the option of the holders, into common shares of the Company on the basis of a conversion price of $4.25 per share, subject to adjustment under certain circumstances. As previously discussed, the Debentures are subject to debt incurrence and maintenance covenants, among other covenants.

Effective September 12, 2013, the terms of the Debentures were amended with the written consent of Debenture holders to: (1) increase the interest rate payable to 10% per annum effective as of November 30, 2013; and (2) amend one of the debt covenants (the "Covenant") in the indenture governing the Debentures to provide that, for a period of nine months, Pinetree's debt-to-assets ratio could not exceed 50% (an increase from 33%).

Debenture holders (the "Consenting Debentureholders") representing an aggregate of approximately $51,933 principal amount of Debentures (the "Consenting Debentures") consented in writing to the Debenture amendments acted above. The Company paid a consent fee equal to $0.06 for each $1 principal amount of Consenting Debentures held to each Consenting Debentureholder who completed and submitted the proper documentation by November 30, 2013.

The consent fee was payable in cash or, alternatively, common shares of Pinetree, on the basis of 180 common shares for every $1 principal amount of Consenting Debentures, to the eligible Consenting Debentureholders who properly elected to receive common shares in lieu of cash within the prescribed period. In satisfaction of its consent fee obligations, the Company paid cash of $1,300 and issued 5,321,700 common shares to Consenting Debentureholders.

For accounting purposes, the Company determined that the amended terms of the Debentures were substantially different from the original terms and, in accordance with IFRS 9, the Company extinguished the carrying value of the Debentures and recorded a new liability of $47,486, which represents the fair value (based on the closing trade price of the Debentures which are listed on the TSX under the symbol "PNP.DB") of the amended Debentures as at September 12, 2013, with the difference of $9,522 recognized in other income on the statement of comprehensive loss. The effective interest rate of the amended Debentures is 20.40% (originally 9.47%). The prepayment option for Pinetree to redeem the amended Debentures based on terms described in note 8(b) of the Notes to the consolidated financial statements as at and for the years ended December 31, 2014 and 2013, is an embedded derivative that required bifurcation in accordance with IFRS 9. The fair value of the embedded derivative as at December 31, 2014 and 2013 is nil.

Since October 31, 2014, the Company was not in compliance with a debt covenant contained in the indenture governing its Debentures, which prohibits Pinetree's debt-to-assets ratio from exceeding 33% as at the end of each month. The Company's debt-to-assets ratio was 50.8% as at December 31, 2014. Under the terms of the indenture governing its Debentures, the Company received written notice of default from the trustee to cure or obtain a waiver for the covenant default by January 23, 2015. As at December 31, 2014, the Company believed it would not cure the covenant default by January 23, 2015 and as a result has accelerated the accretion of discount on the Debentures by $6,655.

As at December 31, 2014, the fair value of the Debentures was $42,761 (2013 - $42,039) based on the closing trade price of the Debentures, which are listed on the TSX under the symbol "PNP.DB".

On January 23, 2015, the default of the Debenture Covenant became an "Event of Default" under the indenture governing the Debentures when the default was neither cured nor waived by that date. On February 13, 2015, the Company entered into a forbearance agreement with Equity Financial Trust Company, as trustee on behalf of the Debentureholders, in connection with the Event of Default. Pursuant to the terms of the forbearance agreement, until October 31, 2015, the Debentureholders will refrain from exercising any rights or remedies that they may have under the indenture or otherwise in respect of the Event of Default and any subsequent default of the Debenture Covenant, unless a breach of the forbearance agreement occurs. As a result of the agreement reached with Debentureholders:

- The Company's obligations in respect of the Debentures are now secured by its consolidated assets.
- By July 31, 2015, the Company is required to reduce the aggregate principal amount of the outstanding Debentures by at least $20,000.
- For the three-month period of July through September 2015, the Company will be subject to a covenant that limits its debt-to-assets ratio to 50% and reverts back to 33% as of October 1, 2015.
- The Company can redeem the Debentures at par at any time.

If the Company breaches the forbearance agreement, the principal amount of the Debentures (and accrued interest) could become immediately due and payable by Pinetree. The Company's management does not believe it can generate sufficient proceeds from the disposal of its investments to repay principal and interest on Debentures if required to do so immediately, however, over a period of time, subject to market volatilities and demand for its investments, the Company believes that it could generate sufficient funds to settle the full amount of the Debentures from dispositions of its investments.

In these circumstances, the liquidation value of the Company's portfolio may be significantly less than its carrying value as at December 31, 2014. The accelerated repayment of the Debentures under the forbearance agreement would significantly reduce the Company's investments and the reduction of these assets would be material.

## Commitments:

As at December 31, 2014 the Company had material commitments for cash resources of $67,735 (2013 - $85,002), a decrease of $17,267, 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 December 31, 2014 is as follows:

| **Liabilities and obligations** | **Payments due by period** | | | | |
|---|---|---|---|---|---|
| | **Total** | **Less than 1 year** | **1 – 3 years** | **4 – 5 years** | **After 5 years** |
| Accounts payable and accrued liabilities | **$ 901** | **$ 901** | **$ -** | **$ -** | **$ -** |
| Income taxes payable | **1,700** | **1,700** | **-** | **-** | **-** |
| Debentures (principal amount) (i) | **54,822** | **54,822** | **-** | **-** | **-** |
| Interest on Debentures (i) | **4,857** | **4,857** | **-** | **-** | **-** |
| Lease commitments | **5,455** | **590** | **1,800** | **1,226** | **1,839** |
| | **$ 67,735** | **$ 62,870** | **$ 1,800** | **$ 1,226** | **$ 1,839** |

(i) Assumes the Debentures will be repaid within one year.

A breakdown of the Company's liabilities and obligations as at December 31, 2013 is as follows:

| Liabilities and obligations | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1 – 3 years | 4 – 5 years | After 5 years |
| Accounts payable and accrued liabilities | $ 879 | $ 879 | $ - | $ - | $ - |
| Income taxes payable | 1,998 | 1,998 | - | - | - |
| Debentures (principal amount) | 60,864 | - | 60,864 | - | - |
| Interest on Debentures | 15,216 | 6,086 | 9,130 | - | - |
| Lease commitments | 6,045 | 590 | 1,777 | 1,226 | 2,452 |
| | $ 85,002 | $ 9,553 | $ 71,771 | $ 1,226 | $ 2,452 |

As at December 31, 2014, included in accounts payable and accrued liabilities are $239 of Class C Shares (2013 - $240). The Class C Shares are redeemable and/or retractable at any time. PCIC does not intend to redeem the Class C Shares in the foreseeable future.

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 fees payable of approximately $34 per month. The Company currently is seeking a subtenant for its office space to reduce its ongoing lease obligation.

**Related Party Transactions:**

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

(a) Related party transactions included in the statement of comprehensive loss were as follows during the year ended December 31:

| **Type of service** | **Nature of relationship** | **2014** | 2013 |
|---|---|---|---|
| Salaries, consulting fees and other benefits | Officers | **$ 1,029** | $ 1,359 |
| Director fees (i) | Directors | **119** | 116 |
| Stock-based compensation expense (ii) | Directors and officers | **598** | 888 |

(i) Non-management directors of the Company are entitled to remuneration for their services at rates recommended by the corporate governance and nominating committee and approved by the board. In addition, directors are reimbursed for reasonable travelling, hotel and other incidental expenses in respect of attending meetings of the directors. During the ended December 31, 2014 and 2013, each non-management director received an annual retainer of $15 (other than the chair of the audit committee, who received an annual retainer of $20) and a fee of $1 per board or committee meeting attended in person or by telephone. Effective February 13, 2015, each non-management director will receive an annual retainer of $30 (other than the chair of the audit committee, who will receive an annual retainer of $35) and no meeting fees will be payable.

(ii) Reflects the costs recorded during each year of stock option grants which vests during the year-end. See (c) below for grants made during each year.

(b) In October 2013, the Company issued 72,360 common shares to a director and officers of the Company who were Consenting Debentureholders, in satisfaction of the consent fee payable to them.

(c) During the year ended December 31, 2014, the Company granted to directors and officers the following options:

| **Date Granted** | **Options Granted** | **Exercise Price** | **Expiry** |
|---|---|---|---|
| March 31, 2014 | 1,250,000 | $ 0.50 | March 30, 2019 |
| May 30, 2014 | 500,000 | 0.42 | May 29, 2019 |
| August 29, 2014 | 250,000 | 0.33 | August 28, 2019 |
| November 28, 2014 | 3,550,000 | 0.16 | November 27, 2019 |
| Total granted | 5,550,000 | | |

During the year ended December 31, 2013, the Company granted to directors and officers the following options:

| **Date Granted** | **Options Granted** | **Exercise Price** | **Expiry** |
|---|---|---|---|
| March 28, 2013 | 1,050,000 | $ 0.62 | March 27, 2018 |
| August 29, 2013 | 1,450,000 | 0.43 | August 28, 2018 |
| November 29, 2013 | 250,000 | 0.27 | November 28, 2018 |
| Total granted | 2,750,000 | | |

(d) Investments in associates:

The Company's directors and officers may have investments in and hold management and/or director and officer positions in some of the Company's investments. The Company makes minority investments (less than 50%) in the equity of companies (including convertible securities) by way of open market transactions and private placement financings. It is presumed that it is possible to exert significant influence when an equity holding is greater than 20% on a partially diluted basis. However, the Company also considers other factors when determining if it has significant influence such as board

representations and officers and directors involvement with the investee. These investments are not equity accounted for (as permitted by IAS 28) but are related party transactions. Furthermore, the Company has certain regulatory trading restrictions on investments with an equity holding of greater than 20%.

The total amounts included in the consolidated statements of financial position for investments in associates are as follows as at December 31:

| | **2014** | 2013 |
|---|---|---|
| Investments at fair value | **$ 20,400** | $ 11,490 |
| Cost of investments | **39,629** | 53,770 |

The total amounts included in the consolidated statements of comprehensive loss for investments in associates are as follows for the years ended December 31:

| | **2014** | 2013 |
|---|---|---|
| Net change in unrealized gains (losses) on investments | **$ 2,141** | $ (9,800) |
| Interest earned on promissory notes | **47** | 42 |

In June 2014, the Company acquired securities of Sviral Inc. ("Sviral"), a private company, for total consideration of $5,488 (US$5,000) by paying US$500 cash and issuing 10,975,610 common shares of the Company to Sviral at deemed value of $0.45 per share. The Sviral investment was undertaken in the normal course of the Company's investment activities.

In July 2014, the Company acquired securities of Latin American Minerals Inc. ("Latin"), a publicly traded company on the TSXV under the symbol "LAT", for total consideration of $1,000 by issuing 2,000,000 common shares of the Company to Latin at deemed value of $0.50 per share. The Latin investment was undertaken in the normal course of the Company's investment activities.

In November 2014, the Company acquired a $3,000 12% secured promissory note and 1,000 warrants of Keek Inc. ("Keek"), a publicly traded company on the TSXV under the symbol "KEK", at a total cost of $3,000. Each warrant is exercisable at $3.00 per share expiring on November 5, 2017. In January 2014, the Company acquired a $250 secured 12% convertible debentures (convertible at $3.00 per share) of Keek. The Keek investments was undertaken in the normal course of the Company's investment activities.

In December 2013, the Company acquired securities of Augusta Industries Inc. ("Augusta"), a publicly traded company on the TSXV under the symbol "AAO", at a total cost of $900 and issued 3,000,000 common shares of the Company to Augusta for gross proceeds of $900 to Pinetree. The Augusta investment was undertaken in the normal course of the Company's investment activities.

## Off-Balance Sheet Arrangements:

As at December 31, 2014, 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, except as follows:

As previously discussed, on February 13, 2015, the Company entered into a forbearance agreement in respect with its Debentures which among other things requires the Company to reduce the aggregate principal amount of the outstanding Debentures by at least $20,000 by July 31, 2015. If the Company breaches the forbearance agreement, the principal amount of the Debentures (and accrued interest) could become immediately due and payable by Pinetree. In these circumstances, the liquidation value of the Company's portfolio may be significantly less than its carrying value as at December 31, 2014. The accelerated repayment of the Debentures under the forbearance agreement would significantly reduce the Company's investments and the reduction of these assets would be material.

## Internal Controls over Financial Reporting:

Disclosure Controls and Procedures

The Company is required annually to review and report on the effectiveness of its disclosure controls and procedures ("DC&P") in accordance with National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", ("NI 52-109") issued by the Canadian Securities Administrators. NI 52-109 requires a Chief Executive Officer and a Chief Financial Officer ("CFO") to certify that they are responsible for establishing and maintaining DC&P for the issuer, that DC&P have been designed and are effective in providing reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's DC&P, and that their conclusions about the effectiveness of those DC&P at the end of the period covered by the relevant annual filings have been disclosed by the issuer.
The CEO and CFO have evaluated the design of the Company's DC&P as at December 31, 2014 and have concluded that the DC&P were effective in ensuring that information required to be disclosed by the Company in its corporate filings is recorded, processed, summarized and reported within the required time period for the year then ended.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Accordingly, the Company's DC&P are effective in providing reasonable, not absolute, assurance that the objectives of our disclosure control system have been met.

Internal Controls over Financial Reporting

NI 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting ("ICFR") for the issuer, that the ICFR have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS, and that the issuer has disclosed any changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its ICFR.

The design and operating effectiveness of the Company's ICFR were evaluated by the CEO and CFO in accordance with criteria established in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and NI 52-109, as at December 31, 2014. The CEO and CFO have evaluated the ICFR as at December 31, 2014. The CEO and CFO have not identified in their review any weaknesses that have materially affected or are reasonably likely to materially affect Pinetree's ICFR. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective in providing reasonable assurance that its financial reporting is reliable and its consolidated financial statements were prepared in accordance with IFRS.

There were no changes in the Company's ICFR that occurred during the three months and year ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

**Management of Capital:**

The Company includes the following items in its managed capital as at December 31:

| | **2014** | 2013 |
|---|---|---|
| Convertible debentures | **$ 54,520** | $ 48,868 |
| Equity comprises of: | | |
| Share capital | **306,103** | 285,797 |
| Warrants | **1,607** | - |
| Contributed surplus | **105,839** | 105,016 |
| Equity component of convertible debentures | **2,838** | 2,838 |
| Foreign currency translation reserve | **(35)** | (36) |
| Deficit | **(365,191)** | (294,601) |
| | **$ 105,681** | $ 147,882 |

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 and the debt incurrence and maintenance covenants, among other covenants, to which it is subject in connection with the Debentures. During the year ended December 31, 2013, the Company was in default of one of its debt-to-assets maintenance covenants and subsequently cured to the default. Effective September 12, 2013, the covenant was amended to permit a debt-to-assets ratio of up to 50% (previously 33%) for the following nine months. Thereafter, the Company was required to maintain a debt-to-assets ratio of 33%. Since October 31, 2014, the Company has been in default of the covenant.

The Company has changed its objectives in managing and maintaining capital subsequent to the year ended December 31, 2014.

The Company's objectives when managing capital are:

(a) to ensure that the Company maintains the level of capital and debt ratios necessary to comply with the forbearance agreement and the indenture governing the Debentures (as discussed elsewhere in this MD&A); and

(b) to maintain a flexible capital structure that optimizes the cost of capital at acceptable levels of risk.

The Company maintains or adjusts its capital level to enable it to meet its objectives by:

(a) realizing proceeds from the disposition of its investments; and

(b) raising capital through equity financings.

The Company is not subject to any capital requirements imposed by a regulator.

The payment of cash dividends does not form part of Pinetree's current capital management program and, to date, the Company has not declared any cash dividends on its common shares. Under the forbearance agreement, the Company cannot pay dividends on its common shares until the Debentures are fully repaid. However, the holders of the Class C Shares issued by PCIC are entitled to receive cumulative dividends at a rate of 8% per annum. During the year ended December 31, 2014, PCIC declared and paid to Class C shareholders dividends totaling $19 (2013 - $19).

**Risk Management:**

Financial Instrument Risk:

The Company's financial instruments primarily consistent of investments, refer to the "Investments" section of this MD&A.

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 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. See Note 2(b) to the notes of the consolidated financial statements as at and for the year ended December 31, 2014.

The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet financial obligations as they become due, as well as ensuring funds exist to support business strategies and operating growth.

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. In addition, 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.

There were no changes to the way that the Company manages liquidity risk since December 31, 2013. The Company's liquidity risk is limited to exposure to trade payables and interest and principal on the Debentures.

As at December 31, 2014 and 2013, the Company was not using any margin.

The following table shows the Company's contractual undiscounted cash flows, including expected interest payments, which are payable under financial liabilities on the consolidated statement of financial position as at December 31, 2014. As at December 31, 2014, interest on the Debentures was based on the assumption of contractual default on the Debentures on January 23, 2015.

| | **Payments due by period** | | | | |
|---|---|---|---|---|---|
| **Liabilities and obligations** | **Total** | **Less than 1 year** | **1 – 3 years** | **4 – 5 years** | **After 5 years** |
| Accounts payable and accrued liabilities | **$ 901** | **$ 901** | **$ -** | **$ -** | **$ -** |
| Convertible debentures | **54,822** | **54,822** | **-** | **-** | **-** |
| Interest on convertible debentures | **811** | **811** | **-** | **-** | **-** |
| | **$ 56,534** | **$ 56,534** | **$ -** | **$ -** | **$ -** |

The following table shows the Company's contractual undiscounted cash flows, including expected interest payments, which are payable under financial liabilities on the consolidated statement of financial position as at December 31, 2013:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| Liabilities and obligations | Total | Less than 1 year | 1 – 3 years | 4 – 5 years | After 5 years |
| Accounts payable and accrued liabilities | $ 879 | $ 879 | $ - | $ - | $ - |
| Convertible debentures | 60,864 | - | 60,864 | - | - |
| Interest on convertible debentures | 15,216 | 6,086 | 9,130 | - | - |
| | $ 76,959 | $ 6,965 | $ 69,994 | $ - | $ - |

(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.

Additionally, in accordance with IFRS 9, Pinetree is required to fair value its investments at the end of each reporting period. This process could result in significant write-downs of the Company's investments over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavourable effect on Pinetree's financial position.

There has been certain changes to the way that the Company manages market risk since December 31, 2013. The Company has reduced the number of investments during the year from 374 to 84 investments as at December 31, 2014 and reduced its exposure to resource sector investments and increased its exposure to the technology sector. The Company manages market risk by having a portfolio that is not singularly exposed to any one issuer or class of issuers, although Pinetree's investment activities are currently concentrated primarily in the technology sector (refer to (f)).

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 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 year ended December 31, 2014 from a change in the closing trade price of the Company's investments with all other variables held constant as at December 31, 2014:

| Percentage of change in closing trade price | Decrease in loss from % increase in closing trade price | Increase in loss from % decrease in closing trade price |
|---|---|---|
| 2% | **$ 1,852** | **$ (1,852)** |
| 4% | **3,705** | **(3,705)** |
| 6% | **5,557** | **(5,557)** |
| 8% | **7,409** | **(7,409)** |
| 10% | **9,261** | **(9,261)** |

The following table shows the estimated sensitivity of the Company's after-tax loss for the year ended December 31, 2013 from a change in the closing trade price of the Company's investments with all other variables held constant as at December 31, 2013:

| Percentage of change in closing trade price | Decrease in loss from % increase in closing trade price | Increase in loss from % decrease in closing trade price |
|---|---|---|
| 2% | $ 2,324 | $ (2,324) |
| 4% | 4,649 | (4,649) |
| 6% | 6,973 | (6,973) |
| 8% | 9,297 | (9,297) |
| 10% | 11,621 | (11,621) |

(c) Interest rate risk:

Interest rate risk is the impact that changes in interest rates could have on the Company's profit and losses. As at December 31, 2014 and 2013, the Company did not have any significant interest rate risk. The Company's obligations under the Debentures bear interest at a fixed rate of 10%. There were no changes to the way that the Company manages interest rate risk since December 31, 2013. Pinetree does not hedge against any interest rate risk.

(d) Currency risk:

Currency risk is the risk that the fair value or future cash flows of 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 financial instruments denominated in U.S. dollars, Australian dollars and British pounds. 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 that the Company manages currency risk since December 31, 2013. The Company believes that it is exposed to foreign exchange risk (U.S. dollar) but 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 as at December 31:

| | **2014** | 2013 |
|---|---|---|
| Denominated in U.S. dollars: | | |
| Investments | **$ 28,650** | $ 12,720 |
| Cash and cash equivalents | **12** | 17 |
| Due from brokers | **70** | 334 |
| Prepaids and other receivables | **-** | 1 |
| Accounts payable and accrued liabilities | **(13)** | (18) |
| Net assets denominated in U.S. dollars | **$ 28,719** | $ 13,054 |
| Denominated in Australian dollars: | | |
| Investments | **$ 19** | $ 2,601 |
| Due from brokers | **-** | 100 |
| Net assets denominated in Australian dollars | **$ 19** | $ 2,701 |
| Denominated in British pounds: | | |
| Investments | **$ 271** | $ 872 |
| Due from brokers | **-** | 484 |
| Net assets denominated in British pounds | **$ 271** | $ 1,356 |

The following table shows the estimated sensitivity of the Company's after-tax loss for the year ended December 31, 2014 from a change in the U.S. dollar exchange rate in which the Company has exposure with all other variables held constant as at December 31, 2014:

| **Percentage of change in U.S. dollar** | **Decrease in loss from an increase in % in the U.S. dollar exchange rate** | **Increase in loss from a decrease in % in the U.S. dollar exchange rate** |
|---|---|---|
| 2% | **$ 422** | **$ (422)** |
| 4% | **844** | **(844)** |
| 6% | **1,267** | **(1,267)** |
| 8% | **1,689** | **(1,689)** |
| 10% | **2,111** | **(2,111)** |

The following table shows the estimated sensitivity of the Company's after-tax loss for the year ended December 31, 2013 from a change in the U.S. dollar exchange rate in which the Company has exposure with all other variables held constant as at December 31, 2013:

| Percentage of change in U.S. dollar | Decrease in loss from an increase in % in the U.S. dollar exchange rate | Increase in loss from a decrease in % in the U.S. dollar exchange rate |
|---|---|---|
| 2% | $ 192 | $ (192) |
| 4% | 384 | (384) |
| 6% | 576 | (576) |
| 8% | 768 | (768) |
| 10% | 960 | (960) |

(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 (convertible or debt securities, for example) will not perform their underlying obligations. There were no changes to the way that the Company manages credit risk since December 31, 2013.

As at December 31, 2014, the total fair value of the Company's investments in convertible debentures, convertible notes, and promissory notes was $4,274 (2013 - $6,187). The Company believes that it is not significantly exposed to credit risk, as these investments comprise 4.0% (2013 - 4.6%) 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 statements of comprehensive loss. The Company receives collateral in an amount equal to the percentage of the market value of the loaned securities as agreed with the prime broker. The securities on loan continue to be included in investments on the consolidated statements of financial position. The Company believes that 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. There were no securities loaned as at December 31, 2014. As at December 31, 2013, the total fair value of investments loaned to third parties was $322, which comprise 0.2% of the Company's total investments. Subsequent to December 31, 2014, the Company granted security over its assets, including its investments, in favour of the Debentureholders and is precluded from undertaking any securities lending activities.

(f) Concentration risk in the Company's investment portfolio:

Concentration risk is the risk that any single investment or group of investments will have the potential to materially affect the operating results of the Company. Subject to board approval for investments in excess of a pre-determined threshold, there are no restrictions on the proportion of Pinetree's funds and no limit on the amount of funds that may be allocated to any particular investment, industry or sector. Accordingly, the Company's investment activities may be highly concentrated in a limited number of investments or industry sectors and the Company's financial results may be substantially adversely affected by the unfavourable performance in those investments or industry sectors.

As at December 31, 2014, the Company's top five investments had a fair value of $59,474 in the technology sector representing 55.7% of the fair value of the Company's total portfolio, all of which are publicly traded companies. As at December 31, 2013, the Company's top five investments had a fair value of $25,704 in the resource and technology sectors representing 13.1% and 6.1%, respectively, of the fair value of the Company's total portfolio.

**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.

Some risks are described below. Additional risks not currently known to us, or that we currently believe to be immaterial, may also affect and negatively impact our business.

(a) Portfolio Exposure:

Given the nature of the Company's activities, its results of operations and financial condition are dependent upon the market value of the securities that comprise the Company's portfolio. Market value can be reflective of the actual or anticipated operating results of our portfolio companies and/or the general market conditions that affect the sectors in which Pinetree invests. The Company's investment activities are currently concentrated primarily in the technology sector. There are various factors that could affect this sector which could have a negative impact on Pinetree's portfolio companies and thereby have an adverse effect on our business. Additionally, Pinetree's investments are mostly in small-cap businesses which the Company believes exhibit potential for growth and sustainable cash flows but which may not ever mature or generate the returns the Company expects or may require a number of years to do so. Junior exploration, biotechnology and technology companies may never achieve commercial discoveries and production. This may create an irregular pattern in the Company's revenues (if any). Additionally, macro factors such as fluctuations in commodity prices and global political, economic and market conditions could have an adverse effect on one or more sectors to which the Company is exposed, and a disproportionate effect on the sectors as compared to the overall market, thereby negatively impacting one or more of the portfolio companies concurrently. Company-specific risks, such as the risks associated with mining operations generally, could have an adverse effect on one or more of the Company's portfolio companies at any point in time. Company-specific and industry-specific risks which materially adversely affect Pinetree's portfolio investments may have a materially adverse impact on our operating results.

(b) Restrictive Debt Covenants:

The convertible debenture indenture which governs our outstanding Debentures contains certain restrictions which limit our ability to incur additional indebtedness and require that we maintain existing indebtedness at levels not in excess of a fixed percentage of the value of our consolidated assets. These restrictions may limit our ability to take advantage of business opportunities as they arise. More importantly, our ability to comply with the covenants has been and may continue to be affected by changes in economic or business conditions or other events beyond our control. We have previously breached and are currently in default of one of the debt maintenance covenants, some of the existing and

potential effects of which are also discussed in the risk factors that precede this one. We are also subject to a debt maintenance covenant under the forbearance agreement from July through September 2015. A breach of these covenants by us and a corresponding default under the indenture or the forbearance agreement in circumstances may result in the aggregate amount of the principal and interest on the debentures becoming due and payable by us. Our ability to make these accelerated payments will be dependent upon our cash resources at the time, our ability to generate sufficient proceeds from our investment portfolio and our access to alternative sources of funds. The Debentures are secured by all of our assets and our inability to pay the accelerated amount owing on the debentures in full would allow the trustee to take control of and liquidate our assets for the purpose of satisfying our obligations. Accordingly, our inability to comply with the Debenture Covenants could have a materially adverse effect on us and our financial condition.

(c) Cash Flows/Revenue:

Pinetree generates revenue and cash flows primarily from its proceeds from the disposition of its investments, in addition to interest and dividend income earned on the Company's investments. The availability of these sources of funds and the amount of funds generated from these sources are dependent upon various factors, most of which are outside of the Company's direct control.

(d) Private Issuers and Illiquid Securities:

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

(e) Share Prices of Investments:

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

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

(f) Dependence on Management:

Pinetree is dependent upon the efforts, skill and business contacts of key members of management, for among other things, the information and deal flow they generate during the normal course of their activities and the synergies which exist amongst their various fields of expertise and knowledge. Accordingly, the Company's continued success will depend upon the continued service of these individuals who are not obligated to remain employed with Pinetree. A loss of key personnel - members of management in particular - could impair our ability to execute our strategy and implement our operational objectives, all of which would have a material adverse effect on the company.

(g) Additional Financing Requirements (Access to Capital/Liquidity):

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

In addition, for so long as our debt-to-assets ratio remains above 33%, we are prohibited under the terms of the convertible debenture indenture governing our convertible debentures from incurring any additional debt. We will need to finance our ongoing working capital requirements, including our contractual commitment to reduce the outstanding principal amount of our convertible debentures by $20 million by July 31, 2015, through portfolio dispositions and, to the extent necessary, desirable or possible, equity financings, both of which are dependent upon certain factors outside of our control. Consequently, there can be no assurance that we will be able to generate sufficient cash to fund our operations and satisfy our commitments, and the failure to do so will have a material adverse effect on our operations.

(h) Non-controlling Interests:

Our investments include debt instruments and equity securities of companies that we do not control. These instruments and securities may be acquired by us in the secondary

market or through purchases of securities from the issuer. Any such investment is subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of our investments could decrease and our financial condition, results of operations and cash flow could suffer as a result.

(i) Exchange Rate Fluctuations:

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

## Outstanding Share Data:

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

As at March 29, 2015, 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:

| | |
|---|---|
| Common shares outstanding | **201,929,155** |
| Stock options outstanding to purchase common shares | **17,975,910** |
| Warrants to purchase common shares | **12,332,451** |
| Debentures convertible to common shares (i) | **12,899,294** |
| Fully diluted common shares outstanding | **245,136,810** |

(i) Based on the conversion price of $4.25 per share (235.2941 common shares per $1 principal amount).

Additional information about the Company's share capital can be found in note 11 of the Notes to the consolidated financial statements as at and for the year ended December 31, 2014.

## 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.

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 during the year ended December 31, 2014.

**Changes in Accounting Policies:**

Details of the Company's significant accounting policies can be found in note 3 and future accounting changes can be found in note 19 to the Company's annual consolidated financial statements as at and for the year ended December 31, 2014. The Company is currently assessing what impact, if any, the application of the new standards or amendments (as disclosed in note 19 to the Company's annual consolidated financial statements as at and for the year ended December 31, 2014) will have on the consolidated financial statements.

Effective January 1, 2014, the Company has adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with the applicable transitional provisions.

(a) *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) - These amendments are effective for annual periods beginning on or after January 1, 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The Company has assessed and determined that the amendments to IFRS 10, IFRS 12 and IAS 27 did not result in any change in the accounting or disclosures for its subsidiaries.

The Company intends to adopt these standards, if applicable, when the standards become effective:

(b) IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), was issued in May 2014, which replaced IAS 11, *Construction Contracts*, IAS 18, *Revenue Recognition*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 provides a single, principles based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17; financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, *Consolidated Financial Statements* and IFRS 11, *Joint Arrangements*. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs.

The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some nonfinancial assets that are not an output of the entity's ordinary activities. IFRS 15 is required for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

(c) In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 introduces a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, such that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. IFRS 9 also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Company is in the process of evaluating the impact of adopting these amendments on the Company's consolidated financial statements.

**Critical Accounting Estimates:**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Critical accounting estimates used in the preparation of the Company's consolidated financial statements are the fair value of its investments in securities not quoted in an active market (its privately-held investments), the recognition of the Company's deferred tax assets ("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 trends in general market conditions and the share performance of comparable publicly-traded companies that may affect the fair value of either a particular private investment or a group, segment or complete portfolio of private investments.

Within Level 3 of the financial instruments hierarchy, the valuation of the Company's private company investments and other investment instruments such as loans to investees and convertible debentures, which are not quoted on an exchange, involve the key assumptions including the value at which a recent financing was done by the investee, trends in comparable publicly-traded companies and significant changes in general market conditions. Changes in the fair value of our private investments for company-specific reasons have tended to be infrequent. Changes as a result of trends in comparable publicly-traded companies and general market conditions may be more frequent from period to period during times of significant volatility; however, given the size of our private investment portfolio, such changes may have a significant impact on our financial condition or operating results.

The following table presents the fair value, categorized by key valuation techniques and the unobservable inputs used within Level 3 as at December 31:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| **Valuation technique** | **Fair Value** | **Unobservable inputs** | Fair Value | Unobservable inputs |
| Recent financing | **$ 3,489** | Transaction price | $ 20,639 | Transaction price |
| Trends in comparable publicly-traded companies and general market conditions | **16,455** | Adjustment range (-68% to -10%) | 5,670 | Adjustment range (-63% to 27%) |
| Discounted cash flows | **3,491** | Discount rate (15%-19%) | 2,000 | Discount rate (face value) |
| | **$ 23,435** | | $ 28,309 | |

For those investments valued based on recent financing, management has determined that there are no reasonably possible alternative assumptions that would change the fair value significantly as at December 31, 2014 and 2013. For those investments valued based on trends in comparable publicly-traded companies and general market conditions, the inputs used can be highly judgmental. A +/- 25% change on the fair value of these investments will result in a corresponding +/- $4,114 (2013 - $1,418) change to the total fair value of the investments. While this illustrates the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions, and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of these investments. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Company's view of expected future changes in the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

Recognition of 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 December 31, 2014, management determined, based upon the Company's historical level of profit, historical market trends of a comparable market index and the Company's current debt default, management believes it is not probable that the Company will generate sufficient profit to realize the tax benefits of these deductible differences during the next several years. As such, the Company has recorded deferred tax assets of nil as at December 31, 2014 (2013 - $13,000). The full deferred tax assets was $51,207 (2013 - $56,959).

Stock-based Compensation Expense and Warrants:

The Company uses the Black-Scholes option pricing model ("B-S") to calculate stock-based compensation expense and the value of 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 year ended December 31, 2014:

| **Date Granted** | **Options Granted** | **Exercise Price** | **Expiry** |
|---|---|---|---|
| March 31, 2014 | 2,015,000 | $ 0.50 | March 30, 2019 |
| May 30, 2014 | 500,000 | 0.42 | May 29, 2019 |
| August 29, 2014 | 350,000 | 0.33 | August 28, 2019 |
| November 28, 2014 | 4,445,000 | 0.16 | November 27, 2019 |
| Total granted | 7,310,000 | | |

The fair value of the options granted during the year ended December 31, 2014 was estimated at the date of grant using the following assumptions:

| Black-Scholes option valuation model assumptions used | |
|---|---|
| Expected volatility | **63.8%** |
| Expected dividend yield | **0.0%** |
| Risk-free interest rate | **1.2%** |
| Expected option life in years | **3.4** |
| Expected forfeiture rate | **3.3%** |
| Fair value per stock option granted on March 31, 2014 | **$ 0.23** |
| Fair value per stock option granted on May 30, 2014 | **$ 0.19** |
| Fair value per stock option granted on August 29, 2014 | **$ 0.16** |
| Fair value per stock option granted on November 28, 2014 | **$ 0.07** |

The expected volatility is based on the historical volatility over the life of the option at Pinetree's share price. The Company has not paid any cash dividends historically and has no plans to pay cash dividends in the foreseeable future. The risk-free interest rate is based on the yield of Canadian Benchmark Bonds with equivalent terms. The expected option life in years represents the period of time that options granted are expected to be outstanding based on historical options granted.

During the year ended December 31, 2014, the Company issued a total of 12,332,451 warrants which were valued using the Black-Scholes option pricing model with the following assumptions: expected volatility of 64.3%; dividend yield of 0%; risk-free interest rate of 1.1%; and an expected life of 3.0 years. The total value assigned to the warrants was $1,607.

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 loss.

Effective September 12, 2013, the terms of the Debentures were amended with the written consent of Debenture holders and as at that date, the fair value of the Debentures was $47,486 (see "Liabilities" section). The fair value of the Debentures would be accreted to the principal amount using an effective interest rate of 20.40%.

During the year ended December 31, 2014, the Company purchased and cancelled an aggregate of $6,042 principal amount of Debentures under the NCIB at an average price of $85.17 per $100.00 principal amount, for total consideration of $5,152, including commissions of $7. For accounting purposes, repurchased Debentures were separated into their liability and equity components using the effective interest rate method similar to when they were issued. The fair value of the liability component at the time of repurchase, which was calculated using an average effective interest rate of 19.36% (the rate attributable to a comparable debt instrument without a conversion feature), is the amount reflected as the total consideration paid for the repurchased Debentures. Accordingly, the entire repurchase was accounted for as a reduction of the liability.

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 are no reliable observable and 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.

As at December 31, 2014, the Company has valued all non-tradable warrants using intrinsic value for a total fair value of $7,188 (2013 - $1,648), which is consistent with prior periods and with the Company's accounting policy for valuing non-tradable warrants.

## Use of Non-GAAP Financial Measures:

This MD&A contains references to "net asset value per share" (basic and diluted) ("NAV") which is a non-GAAP financial 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 financial 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.