

PLAINTREE SYSTEMS Inc.
Consolidated Financial Statements
Q2-2013




HYPERNETICS
A Division of Plaintree Systems Inc.



TRIODETTIC *

For the Six Months Ended
September 30, 2012
(UNAUDITED)

“Notice to Reader”

The accompanying unaudited interim consolidated financial statements of Plaintiff Systems Inc. for the six months ended September 30, 2012 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

Date: November XX, 2012

“David Watson”

David Watson
CEO

PLAINTREE SYSTEMS INC.

Condensed Interim Consolidated Statement of Financial Positions

(in Canadian dollars)

	September 30 2012	March 31 2012
	(unaudited)	
Assets		
Cash and cash equivalents	\$ 572,556	\$ 680,000
Trade receivables	1,503,285	1,816,301
Unbilled revenue	169,310	141,989
Inventories (Note 4)	1,870,997	1,723,292
Other assets	83,928	164,705
Due from related party (Note 5)	1,384,506	1,284,665
Assets held for sale (Note 6)	1,165,702	1,165,702
	<u>6,750,284</u>	<u>6,976,654</u>
Non-current assets		
PROPERTY, PLANT AND EQUIPMENT, NET (Note 7)	4,555,976	3,985,150
NOTE RECEIVABLE (Note 9)	446,509	446,509
INTANGIBLE ASSETS (Note 8)	1,251,061	1,324,912
	<u>\$ 13,003,830</u>	<u>\$ 12,733,225</u>
Current liabilities		
Trade and other payables	\$ 1,038,586	\$ 1,337,945
Deferred Revenue	1,190,410	462,877
Note payable (Note 10)	1,106,100	750,000
Deferred gain on sale of property, plant and equipment (Note 9)	59,022	59,022
Current portion of long-term debt (Note 12)	1,072,683	2,947,897
	<u>4,466,801</u>	<u>5,557,741</u>
LONG-TERM DEBT	2,320,097	-
DUE TO RELATED PARTIES (Note 11)	4,789,689	4,756,986
DEFERRED GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT (Note 9)	206,577	236,088
NOTE PAYABLE (Note 10)	-	750,000
	<u>7,316,363</u>	<u>5,743,074</u>
	11,783,164	11,300,815
Shareholders' equity		
Issued capital (Note 11)	2	2
Equity	1,220,664	1,432,408
	<u>1,220,666</u>	<u>1,432,410</u>
	<u>\$ 13,003,830</u>	<u>\$ 12,733,225</u>

APPROVED BY THE BOARD

"David Watson"

"Girvan Patterson"

PLAINTREE SYSTEMS INC.**Condensed Interim Consolidated Statements of Comprehensive Loss****(in Canadian dollars)**

	Three Months Ended September 30 2012	Three Months Ended September 30 2011	Six Months Ended September 30 2012	Six Months Ended September 30 2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$ 2,803,679	\$ 5,036,449	\$ 5,582,141	\$ 7,711,183
Cost of sales	2,071,030	3,676,561	4,175,334	5,581,563
Gross margin	732,650	1,359,888	1,406,808	2,129,620
Operating expenses				
Sales and marketing	138,741	128,906	305,981	307,292
Finance and administration	235,002	282,904	509,389	485,533
Research and development	334,412	405,136	696,949	824,403
Interest expense	59,073	41,474	110,439	83,690
(Gain) on disposal of asset	(29,511)	-	(29,511)	-
Loss (gain) on foreign exchange	29,877	(115,380)	25,306	(100,538)
	767,594	743,040	1,618,553	1,600,380
(Loss) profit from operations	\$ (34,945)	\$ 616,848	\$ (211,744)	\$ 529,240
Basic and diluted (loss) earnings per share	\$ (0.03)	\$ 0.02	\$ (0.07)	\$ (0.02)
Weighted average common shares outstanding	12,925,253	12,925,253	12,925,253	12,925,253

PLAINTREE SYSTEMS INC.**Condensed Interim Consolidated Statements of Cash Flows**

(in Canadian dollars)

	Six Months Ended September 30,	
	2012	2011
Cash flows from operating activities		
(Loss) profit for the period	\$ (211,744)	\$ 529,240
Depreciation of intangible assets	73,851	20,273
Depreciation of property, plant and equipment	294,546	153,569
Gain on sale of property, plant and equipment	(29,511)	-
Stock-based compensation expense	-	1,620
	<u>127,142</u>	<u>704,702</u>
Movements in working capital		
Decrease (increase) in trade and other receivables	313,016	(350,957)
(Increase) decrease in unbilled revenue	(27,321)	102,834
(Increase) in inventories	(147,705)	(267,820)
Decrease in other assets	80,777	(21,919)
(Decrease) in due from related parties	(99,841)	7,719
(Decrease) in trade and other payables	(299,359)	(53,603)
Increase (Decrease) in deferred revenue	727,533	(256,532)
Cash used (provided by) in operations	<u>547,100</u>	<u>(840,278)</u>
Interest paid on related party debt	81,753	72,218
Net cash provided by (used in) operating activities	<u>628,853</u>	<u>(768,060)</u>
Cash flows from investing activities		
Payments to acquire property, plant and equipment	(865,372)	(354,798)
Net cash (used in) investing activities	<u>(865,372)</u>	<u>(354,798)</u>
Cash flows from financing activities		
Borrowings to acquire financial assets	632,615	398,000
Repayment of borrowings	(581,632)	(83,318)
(Repayment) increase of borrowings - related party	(49,050)	150,765
Dividends paid on redeemable cumulative preference shares	-	(110,000)
Net cash from financing activities	<u>1,933</u>	<u>355,447</u>
Net (decrease) in cash and cash equivalents	<u>(107,444)</u>	<u>(62,709)</u>
Cash and cash equivalents at the beginning of the year	\$ 680,000	\$ 371,471
Cash and cash equivalents at the end of the period	<u>\$ 572,556</u>	<u>\$ 308,762</u>

PLAINTREE SYSTEMS INC.
Consolidated Statement of changes in equity
as at September 30, 2012 and September 30, 2011

	Common Shares		Preferred Shares ⁽¹⁾		Equity (Deficit)	Shareholders' Equity
	Number	Issued Capital	Number	Issued Capital		
Balances at September 30, 2011	12,925,253	\$ 1	18,325	\$ 1	\$ 2,593,481	\$ 2,593,483
Net loss	-	-	-	-	(1,161,073)	(1,161,073)
Balances at March 31, 2012	12,925,253	1	18,325	1	1,432,408	1,432,410
Net loss					(211,744)	(211,744)
Balances at September 30, 2012	12,925,253	1	18,325	1	1,220,664	1,220,666

⁽¹⁾ Class A Shares have a 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at \$1000 per share plus accrued dividends; non-voting.

PLAINTREE SYSTEMS INC.

Notes to the condensed Consolidated Interim Statements

for the Quarters ended September 30, 2012 and 2011(unaudited)

(in Canadian dollars)

1. DESCRIPTION OF THE BUSINESS

Plaintree Systems Inc ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the CNSX ("Canadian National Stock Exchange") under the ticker "NPT". The Company operates an Electronics division (the Hypernetics business, the free space optics business and the newly acquired Summit Aerospace USA Inc. business) and a Specialty Structures division (the Triodetic business and Arnprior Fire Trucks Corp.). Plaintree was historically a designer and manufacturer of wireless connections transmitting data on beams of light versus conventional radio frequency, commonly referred to as free space optics ("FSO"). The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids and permanent magnet alternators. Summit Aerospace USA Inc, provides precision machining for jet engine components, up to 36 inches in diameter and holding tolerances of 1/1000, to the aerospace and defense markets. The Triodetic business is a design/build manufacturer of steel, aluminum and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings. The Arnprior Fire Trucks business involves the custom build of high-end fire trucks and emergency vehicles sold to municipalities within North America.

On February 6, 2012, Plaintree announced the purchase of all of the assets of Summit Tool Corporation ("Summit Tool") of Pocono Summit, Pennsylvania. This company continues in its existing location under the new name Summit Aerospace USA Inc. as a wholly-owned subsidiary of Plaintree Systems Inc. (Note 10).

The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario K7S 0C3.

2. BASIS OF PRESENTATION

The condensed consolidated interim financial statements were authorized by the Company's Board of Directors on November 21, 2012 should be read in conjunction with the audited financial statements and notes included in the Annual Report for the year ended March 31, 2012.

Statement of Compliance

The unaudited consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* using the accounting policies disclosed below.

The policies applied in these condensed interim financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as of November 21, 2012, the date the Board of Directors approved the condensed

PLAINTREE SYSTEMS INC.

Notes to the condensed Consolidated Interim Statements

for the Quarters ended September 30, 2012 and 2011 (unaudited)

(in Canadian dollars)

consolidated interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending March 31, 2013 could result in a restatement of these condensed consolidated interim financial statements.

These financial statements have been prepared on a historical cost basis except for share-based compensation, which is measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2012 annual consolidated financial statements, and have been applied consistently to the periods presented in these condensed consolidated interim financial statements.

(a) *New and revised IFRS in issue but not effective*

The following is a list of standards and amendments that have been issued but are not yet effective and have not yet been adopted by the Company:

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9, Financial Instruments ("IFRS"), was issued by the International Accounting Standards Board ("IASB") on October 28, 2010, and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules of IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and nonderivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Management is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011)

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") establishes principles for the presentation and preparation of consolidated financial statements when an entity

PLAINTREE SYSTEMS INC.

Notes to the condensed Consolidated Interim Statements

for the Quarters ended September 30, 2012 and 2011(unaudited)

(in Canadian dollars)

controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. IFRS 11 Joint Arrangements (“IFRS 11”) establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31 Interests in Joint Ventures and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 12 – *Disclosure of Interests in Other Entities* (“IFRS 12”) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

These 5 standards are effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted but all 5 standards must all be adopted at the same time. The Company is currently evaluating the impact of these standards on its consolidated financial statements.

IFRS 13 Fair Value Measurement (“IFRS 13”)

IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

4. INVENTORIES

	<u>September 30, 2012</u>	<u>March 31, 2012</u>
Raw materials	\$627,519	\$ 619,159
Work in process	809,904	791,252
Finished goods	433,574	312,884
	<u>\$1,870,997</u>	<u>\$ 1,723,292</u>

The cost of inventories recognized as an expense during the six month period ended September 30, 2012 was \$4,117,167 (September 30, 2011 - \$4,860,818). The total carrying value of inventory at September 30, 2012 was pledged as security through general security agreements under bank lines of credit and related party liabilities. Write-downs of inventory for the six months ended September 30, 2012 was \$NIL (September 30, 2011 - \$19,617). Recoveries of inventory write-downs for the first half of fiscal 2012 was \$76,451 (2012 - \$102,747).

PLAINTREE SYSTEMS INC.

Notes to the condensed Consolidated Interim Statements for the Quarters ended September 30, 2012 and 2011 (unaudited) (in Canadian dollars)

5. DUE FROM RELATED PARTY

As of September 30, 2012, \$1,384,506 (March 31, 2012 - \$1,284,665) is owed from Spotton Corporation, a company controlled by Targa Group Inc. ("Targa"). Targa is the Company's largest shareholder and is a company controlled by the CEO of the Company and a related party to the CEO. The balance accrues interest at prime plus 2% and is due from the related party on demand. The balance relates to rent, utilities charges, advances and related interest.

6. ASSETS HELD FOR SALE

Assets held for sale as of September 30, 2012 consist of a manufacturing property owned by the Company that is vacant and available-for-sale. The assets are recorded at the lower of carrying value and fair value less estimated selling costs. The property has mortgage loans totalling \$563,971 that would need to be satisfied at the time of sale of the properties.

7. PROPERTY, PLANT AND EQUIPMENT

Carrying amounts as of:

	Land	Building	Building improvements	Factory equipment	Computer equipment	Office equipment	Vehicles	Total
March 31, 2012	\$50,000	\$114,327	\$767,338	\$2,923,609	\$35,885	\$24,650	\$69,341	\$3,985,150
Additions	-	-	-	852,400	2,347	2,625	8,000	865,372
Depreciation		(3,775)	(41,501)	(221,358)	(12,904)	(2,235)	(12,773)	(294,546)
September 30, 2012	\$50,000	\$110,552	\$725,837	\$3,554,651	\$25,328	\$25,040	\$64,568	\$4,555,976

8. INTANGIBLE ASSETS

Carrying amounts as of:

	Customer Relationship	Non-competition Agreement	Computer Software	Total
Balance as at March 31, 2012	\$1,303,270	\$10,000	\$11,642	\$1,324,912
Depreciation	(65,164)	(769)	(7,918)	(73,851)
Balance as of September 30, 2012	\$1,238,106	\$ 9,231	\$ 3,724	\$1,251,061

PLAINTREE SYSTEMS INC.

Notes to the condensed Consolidated Interim Statements

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(in Canadian dollars)

9. NOTE RECEIVABLE

On March 28, 2012, the Company sold one of its two manufacturing buildings that were recorded as assets held-for-sale. The building was sold for \$470,000. The Company assumed a vendor take-back first mortgage of \$446,500 for a three-year term, interest only payments in the first 12 months, at prime plus 2% per annum. The Company recorded a gain on the sale of \$295,110 of which \$29,511 has been recognized during the first six months of fiscal 2013 and the remaining balance deferred to be recognized as income over the three-year term of the mortgage.

10. NOTE PAYABLE

On February 6, 2012 Plaintiff Systems Inc., along with its wholly-owned subsidiary Summit Aerospace USA Inc., completed its acquisition of the assets of Summit Tool Corp., consisting primarily of precision machining equipment. The total consideration was US\$3 million, of which US\$1.875 million has been paid to date through debt financing, and the balance, which included US\$375,000 in contingent consideration, is to be paid in two remaining tranches: US\$375,000 – February 2013; and US\$750,000 – August 2013.

11. DUE TO RELATED PARTIES

	<u>September 30, 2012</u>	<u>March 31, 2012</u>
Due to Senior officers	\$3,274,559	\$ 3,062,063
Dividends payable	60,000	60,000
Due to Targa Group Inc., Convertible Debentures	247,672	247,672
Due to Tidal Quality Management Inc.	317,995	313,621
Due to Targa Group Inc., Line of Credit	748,070	932,237
Due to Targa Group Inc., Demand Loan	66,581	66,581
Due to Targa Group Inc., loan interest	134,812	134,812
	<u>4,849,689</u>	<u>4,816,986</u>
Less: current portion	<u>(60,000)</u>	<u>(60,000)</u>
	<u>\$4,789,689</u>	<u>\$4,756,986</u>

As at September 30, 2012, a balance of \$3,274,559 (\$2,524,715 principal and \$749,844 interest) remained owing to senior officers. These amounts are classified as long-term as the parties have agreed not to demand repayment before December 2013.

On July 14, 2011, the board of directors of the Company declared a cash dividend of \$10.91405 per Class A preferred share (\$200,000 in the aggregate) payable on July 22, 2011 to the holders of record at the close of business on July 18, 2011. The Class A

PLAINTREE SYSTEMS INC.

Notes to the condensed Consolidated Interim Statements

for the Quarters ended September 30, 2012 and 2011(unaudited)

(in Canadian dollars)

preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the \$1,000 redemption amount of the Class A preferred shares. The dividend declared was a partial payment of the dividends accumulated. A balance of \$60,000 remains unpaid.

As at September 30, 2012, a balance of \$247,672 (March 31, 2012 - \$247,672) of the due to related parties is convertible into common shares of the Company at a rate of \$0.0115 at the option of the Targa. The balance is classified as long-term as the related party has agreed not to demand payment before December 2013.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears, including interest of \$143,021 owing to this related party, amounted to \$317,995 (March 31, 2012 - \$313,621). The party has agreed not to demand repayment before December 2013 and the amount is classified as long-term.

The Company has a demand loan of up to \$1,800,000 and a revolving line of credit of up to \$1,000,000 with Targa ("Targa Credit Facility"). Under the Targa Credit Facility, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The Targa Credit Facility is secured by a security interest granted over the assets of the Company. At September 30, 2012, \$600,000 (March 31, 2011 - \$800,000) remained outstanding on the line of credit with accumulated interest of \$148,070, (March 31, 2012 - \$132,237) for a balance of \$748,070; \$NIL was drawn against the revolving demand loan with accumulated interest owing of \$66,581 for a balance of \$66,581. Targa has agreed that it will not demand repayment before December 2013 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of \$134,812 (March 31, 2012) on a loan from Targa remains outstanding as of September 30, 2012. The party has agreed not to demand repayment before December 2013 and the amount is classified as long-term.

The Company leases premises located at 10 Didak Drive, owned by Tidal Quality Management Corporation, a company owned by Targa Group Inc., Plaintiff's largest shareholder. During the first six months of fiscal 2013, the Company paid \$24,447 to Tidal in lease payments

PLAINTREE SYSTEMS INC.
Notes to the condensed Consolidated Interim Statements
for the Quarters ended September 30, 2012 and 2011(unaudited)
(in Canadian dollars)

12. LONG-TERM DEBT

	September 30, 2012	March 31, 2012
Bank loan bearing interest at the rate of prime plus 1.25% per annum, due in monthly principal plus interest instalments of \$4,733, secured by a general security agreement, matures April 15, 2013.	\$ 21,060	\$ 48,655
Bank loan bearing interest at the rate of prime plus 1.25% per annum, payable in monthly principal plus interest instalments of \$4,221, secured by a general security agreement, maturing October 1, 2027.	390,172	406,791
Term loan payable in monthly instalments of \$733, bearing interest at the rate of prime minus 0.65% per annum, secured by a mortgage on a property, maturing November 7, 2016.	107,444	110,549
Demand non-revolving loan payable in monthly blended instalments of principal and interest, at the rate of Prime + 1.5%, secured by general security agreement, maturing 5 years from the date of each draw-down or February 27, 2022.	92,935	96,838
Demand non-revolving loan payable in monthly blended instalments of principal and interest, at the rate of Prime + 1.5%, secured by general security agreement, maturing 5 years from the date of each draw-down or October 9, 2012	368,508	384,637
Demand non-revolving loan payable in monthly blended instalments of principal and interest, at the rate of Prime + 1.5%, secured by general security agreement, maturing 5 years following full draw-down of, \$500,000 of the loan or June 18, 2016	338,806	276,550
Demand non-revolving loan payable in monthly instalments of \$65,000 USD plus LIBOR plus 3% per annum, maturing January 2, 2016.	1,394,227	1,435,000
Demand non-revolving loan payable in monthly blended instalments of principal and interest, at the rate of 3.63%, secured by general security agreement, maturing 5 years or June 1, 2017.	505,829	-
Term non-revolving loan payable in monthly instalments of \$3161 bearing interest at the rate of prime plus 1.25% per annum, maturing September 18, 2018.	173,799	188,877
	\$ 3,392,780	\$ 2,947,897
Current portion	(1,072,683)	(2,947,897)
	\$ 2,320,097	\$ -

PLAINTREE SYSTEMS INC.

Notes to the condensed Consolidated Interim Statements for the Quarters ended September 30, 2012 and 2011(unaudited) (in Canadian dollars)

13. SHARE CAPITAL

Authorized

Unlimited number of common shares

Unlimited number of Class A preferred shares

Class A 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at \$1,000 per share plus accrued dividends; liquidation preference of the redemption value plus cumulative dividends (when and if declared) to common shares; non-voting. As of September 30, 2012, the accrued and unpaid dividends on the Class A preferred shares were \$6,163,500.

14. BASIC AND DILUTED EARNINGS PER COMMON SHARE

Net income (loss) per common share represents net loss attributable to common shareholders divided by the weighted average number of common shares outstanding for the combined entities during the year. Net loss attributable to common shareholders represents net income (loss) reduced by the amount of 8% preferred share dividends accumulated during the period.

Diluted income (loss) per common share is calculated by dividing the applicable net income (loss) by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period.

15. BUSINESS SEGMENT INFORMATION

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments - the design, development, manufacture, marketing and support of electronic products, and the specialty structural products.

The Company determines the geographic location of revenues based on the location of its customers. All of the Company's assets are primarily located in Canada.

PLAINTREE SYSTEMS INC.
Notes to the condensed Consolidated Interim Statements
for the Quarters ended September 30, 2012 and 2011 (unaudited)
(in Canadian dollars)

Revenues by division

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Six months ended September 30, 2012 (unaudited)	Six months ended September 30, 2011 (unaudited)
<i>Electronics</i>	\$ 1,472,350	\$ 900,924	\$ 2,970,747	\$ 1,511,464
<i>Specialty Structures</i>	1,331,329	4,135,524	2,611,394	6,199,719
<i>Total revenue</i>	\$ 2,803,679	\$ 5,036,449	\$ 5,582,141	\$ 7,711,183

Net income before taxes by division

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Six months ended September 30, 2012 (unaudited)	Six months ended September 30, 2011 (unaudited)
<i>Electronics</i>	\$ 272,574	\$ 224,131	\$ 575,776	\$ 135,918
<i>Specialty Structures</i>	(307,519)	392,717	(787,520)	393,322
<i>Total (loss) earnings</i>	\$ (34,945)	\$ 616,848	\$ (211,744)	\$ 529,240

Revenue by geographical location

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Six months ended September 30, 2012 (unaudited)	Six months ended September 30, 2011 (unaudited)
<i>Canada</i>	\$ 1,263,230	\$ 1,260,206	\$ 2,375,328	\$ 2,255,909
<i>United States</i>	1,480,391	1,417,213	2,820,444	3,048,689
<i>Russia</i>	-	2,298,887	-	2,298,887
<i>Other</i>	31,415	1,981	371,336	1,981
<i>Europe</i>	28,643	58,162	15,033	105,717
<i>Total Revenue</i>	\$ 2,803,679	\$ 5,036,449	\$ 5,582,141	\$ 7,711,183

The product revenue concentration (customers with revenues in excess of 10% of total revenues) is as follows:

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Six months ended September 30, 2012 (unaudited)	Six months ended September 30, 2011 (unaudited)
<i>Number of customers</i>	3	1	2	3
<i>% of total revenue</i>	41%	46%	33%	50%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PLAINTREE SYSTEMS INC.

For the six months ended September 30, 2012 and 2011

Date – November 21, 2012

The following discussion and analysis is the responsibility of management and has been reviewed by the Audit Committee of Plaintiff Systems Inc ("Plaintree" or the "Company") and approved by the Board of Directors of Plaintiff. The Board of Directors carries out its responsibilities for the financial statements and management's discussion and analysis principally through the Audit Committee, which is comprised exclusively of independent directors.

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintiff is for the six months ended September 30, 2012 and 2011 and should be read in conjunction with the unaudited interim Consolidated Financial Statements and Notes for the six months ended September 30, 2011 ("the interim Consolidated Statements") as well as Management's Discussion and Analysis, of results of Plaintiff for the year ended March 31, 2012 ("Fiscal 2012 Statements"). Historical results of operations, percentage relationships and any trends that may be inferred there from are not necessarily indicative of the operating results of any future periods. Unless otherwise stated all amounts are in Canadian dollars following the requirements of the International Financial Reporting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). The information contained herein is dated as of November 21, 2012 and is current to that date, unless otherwise stated. Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the interim filings. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying financial statements.

W. David Watson II, President and Chief Executive Officer, and Lynn E. Saunders, Chief Financial Officer, in accordance with National Instrument 52-109 ("NI52-109"), have both certified that they have reviewed the interim financial report and this MD&A ("the interim Filings") and that, based on their knowledge having exercised reasonable diligence, (a) the interim Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the interim Filings; and (b) the interim financial statements together with the other financial information included in the interim Filings fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the dates and for the periods presented in the interim Filings.

Investors should be aware that the inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis Disclosure Controls and Procedures and Internal Controls over Financial Reporting as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Caution Regarding Forward Looking Information

This MD&A of the Company contains certain statements that, to the extent not based on historical events, are forward-looking statements based on certain assumptions and reflect Plaintiff's current expectations. Forward-looking statements include, without limitation, statements evaluating market and general economic conditions, and statements regarding growth strategy and future-oriented project revenue, costs and expenditures. Actual results could differ materially from those projected and should not be relied upon as a prediction of future events. A variety of inherent risks, uncertainties and factors, many of which are beyond Plaintiff's control, affect the operations, performance and results of Plaintiff and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. Some of these risks, uncertainties and factors include the impact or unanticipated impact of: companies evaluating Plaintiff's products delaying purchase decisions; current, pending and proposed legislative or regulatory developments in the jurisdictions where Plaintiff operates; change in tax laws; political conditions and developments; intensifying competition from established competitors and new entrants in the industry; technological change; currency value fluctuation; general economic conditions worldwide, including in China; Plaintiff's success in developing and introducing new products and services, expanding existing distribution channels, developing new distribution channels and realizing increased revenue from these channels. This list is not exhaustive of the factors that may affect any of Plaintiff's forward-looking statements. Plaintiff undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results otherwise. Readers are cautioned not to put undue reliance on forward-looking statements. Readers should also carefully review the risks concerning the business of the Company and the industries in which it operates generally described in the documents filed from time to time with Canadian securities regulatory authorities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Plaintree Systems Inc ("Plaintree" or "the Company") was incorporated in Canada pursuant to the Canada Business Corporation Act. The Company operates through two divisions: Electronics and Specialty Structures. The Electronics division consists of the Hypernetics business, the free space optics business and the newly acquired business of Summit Aerospace USA Inc and the Specialty Structures division consists of the Triodetic business and Arnprior Fire Trucks Corp. Plaintree was historically a designer and manufacturer of wireless connections transmitting data on beams of light versus conventional radio frequency, commonly referred to as free space optics ("FSO"). The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminum and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings. Arnprior Fire Trucks Corp. involves the custom build of high-end fire trucks and emergency vehicles to be sold to municipalities. Summit Aerospace USA Inc, a wholly owned US subsidiary of Plaintree provides precision machining for jet engine components, up to 36 inches in diameter and holding tolerances of 1/1000, to the aerospace and defense markets.

Recent Developments

On March 28, 2012, the Company sold one of its two manufacturing buildings held for sale as it was no longer required after the Company moved to larger facilities in late fiscal 2011. The building was sold for \$470,000 and Plaintree assumed a vendor take-back first mortgage of \$446,509 for a three year term, with interest at prime plus 2% per annum. The second of the two buildings remains available for sale.

On February 7, 2012, the Company announced the completion of its acquisition of the business and assets' of Summit Tool Corp. ("Summit Tool") of Pocono Summit, Pennsylvania. The purchase price for the acquisition was US\$ 3 million, subject to reduction if certain milestones are not met. The Company directly, and through its wholly-owned subsidiary Summit Aerospace USA Inc. ("Summit Aerospace"), acquired all of the assets of Summit Tool which consisted of machinery and equipment and intellectual property and goodwill. The Company acquired the intellectual property and goodwill and Summit Aerospace acquired the equipment and machinery. In addition, Summit Aerospace entered into a lease arrangement with Summit Tool to continue to use that company's former premises for a one year period. Plaintree also has a first right to purchase the premises until February 6, 2014. All of the former employees of Summit Tool have agreed to remain employed in the business with Summit Aerospace. The newly acquired business will continue to be operated in Pennsylvania by Summit Aerospace USA Inc. Prior to its acquisition by the Company, Summit Tool had been operating as a value added manufacturer of aerospace engine components for over 30 years.

The Company's common shares are quoted on the CNSX under symbol "NPT" in Canada.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Selected Financial Information

The Company's consolidated financial statements are stated in Canadian dollars and are prepared in accordance with IFRS. The following table sets forth selected financial information from the Company's financial statements for the six months ended September 30, 2012.

(\$000s)	September 30, 2012 <u>(unaudited)</u>	March 31, 2012 <u>(audited)</u>
Total assets	\$13,004	\$ 12,733
Total liabilities	11,783	11,301
Long-term liabilities	7,316	5,743
Cash dividends declared per share	\$NIL	\$200

Statement of Operations Data

(\$000s, except per share data)

	For the six months ended September 30,	
	<u>2012</u> <u>(unaudited)</u>	<u>2011</u> <u>(unaudited)</u>
Revenue	\$5,582	\$ 7,711
Net (loss) profit and total comprehensive (loss) income	(212)	529
Net (loss) profit attributable to common shareholders	(945)	(204)
Basic and diluted (loss) earnings per share	\$(0.07)	\$(0.02)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statement of Operations Data (*\$000s, except per share data*)

	For the three months ended September 30,	
	<u>2012</u> <u>(unaudited)</u>	<u>2011</u> <u>(unaudited)</u>
Revenue	\$2,804	\$ 5,036
Net (loss) profit and total comprehensive (loss) income	(35)	617
Net (loss) profit attributable to common shareholders	(402)	251
Basic and diluted (loss) earnings per share	\$(0.06)	\$0.02

Results of Operations

	Plaintree Systems Inc. (<i>\$000s, except per share and % amounts</i>) (<i>unaudited</i>) Six Months Ended September 30,		Change from 2011 to 2012
	<u>2012</u>	<u>2011</u>	
Revenue	\$ 5,582	\$ 7,711	(2,129)
Cost of revenue	4,175	5,582	(1,407)
Gross margin	1,407	2,129	(722)
	25.2%	27.6%	
<i>Operating expenses:</i>			
Sales & marketing	306	307	(1)
Finance & administration	509	486	23
Research & development	697	824	(127)
Interest expense	111	84	27
(Gain) on Disposal of asset	(29)	-	(29)
Loss (Gain) on foreign exchange	25	(101)	126
	1,619	1,600	19
Net (loss) profit and total comprehensive (loss) income	\$ (212)	\$ 529	\$(741)

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

	Plaintree Systems Inc.		
	(\$000s, except per share and % amounts) (unaudited)		Change from
	Three Months Ended September 30,		2011 to 2012
	2012	2011	
Revenue	2,804	5,037	(2,233)
Cost of revenue	2,071	3,677	(1,606)
Gross margin	733	1,360	(627)
	26.1%	27.0%	
<i>Operating expenses:</i>			
Sales & marketing	139	129	10
Finance & administration	235	283	(48)
Research & development	334	405	(71)
Interest expense	59	41	18
(Gain) on disposal of asset	(29)	-	(29)
Loss (Gain) on foreign exchange	30	(115)	145
	768	743	25
Net (loss) profit and total comprehensive (loss) income	\$ (35)	\$ 617	\$(652)

BUSINESS SEGMENT INFORMATION

The Company's chief decision maker, the Chief Executive Officer, tracks the Company's operations as two business segments - the design, development, manufacture, marketing and support of electronic products and specialty structures products.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Revenues by division

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Six months ended September 30, 2012 (unaudited)	Six months ended September 30, 2011 (unaudited)
Electronics	\$ 1,472,350	\$ 900,924	\$ 2,970,747	\$ 1,511,464
Specialty Structures	1,331,329	4,135,524	2,611,394	6,199,719
Total revenue	\$ 2,803,679	\$ 5,036,449	\$ 5,582,141	\$ 7,711,183

Net income before taxes by division

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Six months ended September 30, 2012 (unaudited)	Six months ended September 30, 2011 (unaudited)
Electronics	\$ 272,574	\$ 224,131	\$ 575,776	\$ 135,918
Specialty Structures	(307,519)	392,717	(787,520)	393,322
Total earnings	\$ (34,945)	\$ 616,848	\$ (211,744)	\$ 529,240

Revenue by geographical location

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Six months ended September 30, 2012 (unaudited)	Six months ended September 30, 2011 (unaudited)
Canada	\$ 1,263,230	\$ 1,260,206	\$ 2,375,328	\$ 2,255,909
United States	1,480,391	1,417,213	2,820,444	3,048,689
Russia	-	2,298,887	-	2,298,887
Other	31,415	1,981	371,336	1,981
Europe	28,643	58,162	15,033	105,717
Total Revenue	\$ 2,803,679	\$ 5,036,449	\$ 5,582,141	\$ 7,711,183

The product revenue concentration (customers with revenues in excess of 10% of total revenues) is as follows:

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Six months ended September 30, 2012 (unaudited)	Six months ended September 30, 2011 (unaudited)
Number of customers	3	1	2	3
% of total revenue	41%	46%	33%	50%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Revenues

Revenue

Total revenue for the six months ended September 30, 2012 was \$5,582,141 compared to \$7,711,183 for the six months ended September 30, 2011.

Plaintree has two diversified business divisions: Specialty Structures and Electronics.

Plaintree's Electronics Division derives its revenues from products installed on commercial and military aircraft. Sales for the first six months of fiscal 2013 ending September 30, 2012 include revenues from the newly acquired Summit Aerospace USA Inc and Hypernetics division.

Plaintree's Specialty Structures Division revenues for the first six months of fiscal 2013 of \$2,611,394 were down from the same period in fiscal 2012 by \$3,588,325. Sales for the first half of fiscal 2013 ending September 30, 2012 include revenues from the Triodetic division and Arnprior Fire Trucks Corp. Weaker demand for the division's products and delay in the start for signed projects as of September 30, 2012 was the primary reason for the reduction in sales.

Gross Margin

Total gross margin decreased to 25.2% in the six months ended September 30, 2012 from 27.6% for the six months ended September 30, 2011. Lower revenues in the Specialty Structures business segment during the first two quarters contributed to the lower margin in the first half of fiscal 2013.

Operating Expenses

Sales and marketing expenses

Sales and marketing expenses were \$305,981 and \$307,292 in the six months ended September 30, 2012 and 2011, respectively. These expenses consisted primarily of personnel and related costs associated with the Company's sales and marketing departments, which include sales commissions, advertising, travel, trade shows and other promotional activities.

Sales and marketing expenses are expected to remain at comparable levels throughout fiscal 2013.

Finance and administration expenses

Finance and administrative expenses were \$509,389 and \$485,533 in the six months ended September 30, 2012 and 2011, respectively. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which included financial staff, legal and audit activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Finance and administration expenses are expected to remain at comparable levels throughout fiscal 2013.

Research and development expenses

Research and development expenses were \$696,949 and \$824,403 in the six months ended September 30, 2012 and 2011 respectively. Research and development expenditures consist primarily of development engineering and personnel expenses.

Research and development expenses are expected to remain at comparable levels throughout fiscal 2013.

Interest expense

Interest expense consists of interest incurred on bank and related party debt. Interest expenses were \$110,439 and \$83,690 for the six months ended September 30, 2012 and 2011, respectively. Interest expense increased primarily due to the increase in borrowings for plant equipment and plant leaseholds. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest.

Gain on foreign exchange

The Company reported a loss on foreign exchange of \$25,306 and a gain of \$100,538 in the six months ended September 30, 2012 and 2011, respectively. The gain/loss on foreign exchange represents the gain/loss, realized or unrealized, of transactions and year end foreign balances that are completed in currencies other than the Company's reporting currency.

Net loss, Comprehensive loss and Net loss Attributable to Common Shareholders

Net loss and comprehensive loss of \$944,744 and \$203,760 was recorded for the first six months ended September 30, 2012 and 2011, respectively. Net loss attributed to common shareholders is calculated by (increasing) reducing net (loss) income by the \$733,000 of cumulative dividends that accrue on the Class A preferred shares. The cumulative dividends accrue at 8% per annum on the face value of \$18,325,000 and as of September 30, 2012, the accrued and unpaid dividends on the Class A preferred shares were \$6,163,500.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Quarterly Results

The following table sets out selected unaudited consolidated financial information for each quarter in fiscal 2013 and fiscal 2012:

Quarters ended

(unaudited, in \$000s except per share data)

	Sept 30	Jun 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31
	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>	<u>2011</u>	<u>2011</u>	<u>2010</u>
Revenue	\$2,804	\$2,778	\$2,556	\$2,374	\$5,036	\$2,675	\$2,442	\$1,727
Net profit (loss) and total comprehensive income (loss)	\$(35)	\$(177)	\$(446)	\$(715)	\$617	\$(88)	\$(353)	\$(722)
Net profit (loss) attributed to common shareholders	\$(402)	\$(543)	\$(835)	\$(1,081)	\$250	\$(454)	\$(741)	\$(1,089)
Basic and diluted earnings (loss) per share	\$(0.06)	\$(0.06)	\$(0.08)	\$0.02	\$0.02	\$(0.04)	\$(0.06)	\$(0.08)

Liquidity and Capital Resources

(\$000s)	<u>As at September 30,</u> <u>2012</u> <u>(unaudited)</u>	<u>As at March 31,</u> <u>2012</u> <u>(audited)</u>	<u>Change</u>
Cash	\$ 573	\$ 680	\$ (107)
Working Capital	2,283	1,419	864
	<u>Six months ended</u> <u>September 30, 2012</u> <u>(unaudited)</u>	<u>Six months ended</u> <u>September 30, 2011</u> <u>(unaudited)</u>	<u>Change</u>
Net cash (used in) provided by:			
Operating activities	\$ 629	\$ (768)	\$ 397
Investing activities	(865)	(355)	(510)
Financing activities	2	355	(353)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cash

As at September 30, 2012, the Company held \$572,556 in cash, a decrease of \$107,444 from March 31, 2012.

Working Capital

Working capital represents current assets less current liabilities. As at September 30, 2012, the Company had positive working capital of \$2,283,483 compared to working capital of \$1,418,913 at March 31, 2012. The net increase in working capital from March 31, 2012 is mainly attributed to the reclassification of the long-term portion debt to current at March 31, 2012 due to a bank facility covenant breach.

Cash provided by (used in) Operating activities

Cash used in operating activities for the first six months of fiscal 2013 was \$628,853 representing an increase of \$1,396,913 from a net use of cash of \$(768,060) in fiscal 2012. The cash provided by operating activities for the first half of fiscal 2013 mainly relates to the increase in deferred revenues and decrease in trade receivables.

Cash used in Investing activities

Cash used in investing activities for the first six months of fiscal 2013 was \$865,372, representing an increase of \$510,074 from a net use of \$354,798 in the first six months of fiscal 2012, which relates to the purchase of plant equipment.

Cash provided by Financing activities

Cash provided by financing activities for first six months of fiscal 2013 was \$1,933, representing a decrease of \$353,514 from cash provided in financing activities for the same period in 2012 of 355,447. Repayment of borrowings to both bank and related parties attributed to the decrease in fiscal 2013.

Outlook

The first six months of fiscal 2013 resulted in a small deficit. The Company continues to see increased interest in all segments as compared to the 2010 – 2011 levels that were affected by the global economic decline. However, contracts have not yet reached the levels experienced in the 2009 fiscal year.

There can be no assurances that the Company will achieve the long term operating results required to reduce the bank and related party debt to adequate levels and achieve profitability to meet the Company's obligations to Class A preferred shareholders and provide income and cash flow attributable to common shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Related Party Transactions

Due from Related Party

As of September 30, 2012, \$1,384,506 (March 31, 2012 - \$1,284,665) is owed from Spotton Corporation, a company controlled by Targa Group Inc. ("Targa"). Targa is the Company's largest shareholder and is a company controlled by the CEO of the Company and a related party to the CEO. The balance accrues interest at prime plus 2% and is due from the related party on demand. The balance relates to rent, utilities charges, advances and related interest.

Due to Related Parties

	September 30, 2012	March 31, 2012
Due to Senior officers	\$3,274,559	\$3,062,063
Dividends payable	60,000	60,000
Due to Targa Group Inc., Convertible Debentures	247,672	247,672
Due to Tidal Quality Management Inc.	317,995	313,621
Due to Targa Group Inc., Line of Credit	748,070	932,237
Due to Targa Group Inc., Demand Loan	66,581	66,581
Due to Targa Group Inc., loan interest	134,812	134,812
	4,849,689	4,816,986
Less: current portion	(60,000)	(60,000)
	\$4,789,689	\$4,756,986

As at September 30, 2012, a balance of \$3,274,559 (\$2,524,715 principal and \$749,844 interest) remained owing to senior officers. These amounts are classified as long-term as the parties have agreed not to demand repayment before December 2013.

On July 14, 2011, the board of directors of the Company declared a cash dividend of \$10.91405 per Class A preferred share (\$200,000 in the aggregate) payable on July 22, 2011 to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the \$1,000 redemption amount of the Class A preferred shares. The dividend declared was a partial payment of the dividends accumulated. A balance of \$60,000 remains unpaid.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As at September 30, 2012, a balance of \$247,672 (March 31, 2012 - \$247,672) of the due to related parties is convertible into common shares of the Company at a rate of \$0.0115 at the option of the Targa. The balance is classified as long-term as the related party has agreed not to demand payment before December 2013.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears, including interest of \$143,021 owing to this related party, amounted to \$317,995 (March 31, 2012 - \$313,621). The party has agreed not to demand repayment before December 2013 and the amount is classified as long-term.

The Company has a demand loan of up to \$1,800,000 and a revolving line of credit of up to \$1,000,000 with Targa, ("Targa Credit Facility"). Under the Targa Credit Facility, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The Targa Credit Facility is secured by a security interest granted over the assets of the Company. At September 30, 2012, \$600,000, (March 31, 2011 - \$800,000) remained outstanding on the line of credit with accumulated interest of \$148,070, (March 31, 2012 - \$132,237) for a balance of \$748,070; \$NIL was drawn against the revolving demand loan with accumulated interest owing of \$66,581 for a balance of \$66,581. Targa has agreed that it will not demand repayment before December 2013 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of \$134,812 (March 31, 2012) on a loan from Targa remains outstanding as of September 30, 2012. The party has agreed not to demand repayment before December 2013 and the amount is classified as long-term.

The Company leases premises located at 10 Didak Drive, owned by Tidal Quality Management Corporation, a company owned by Targa Group Inc., Plaintiff's largest shareholder. During the first six months of fiscal 2013, the Company paid \$24,447 to Tidal in lease payments

Facilities

The Company leases a 135,500 sq/ft building at 10 Didak Drive in Arnprior, Ontario. The Company holds a manufacturing property that is vacant and available-for-sale.

Significant Accounting Policies

The significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2012 annual consolidated financial statements, and have been applied consistently to the periods presented in these condensed consolidated interim financial statements.

(a) *New and revised IFRS in issue but not effective*

The following is a list of standards and amendments that have been issued but are not yet effective and have not yet been adopted by the Company:

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9, Financial Instruments ("IFRS"), was issued by the International Accounting Standards Board ("IASB") on October 28, 2010, and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules of IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and nonderivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Management is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011)

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. IFRS 11 *Joint Arrangements* ("IFRS 11") establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 12 – *Disclosure of Interests in Other Entities* ("IFRS 12") applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

These 5 standards are effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted but all 5 standards must all be adopted at the same time. The Company is currently evaluating the impact of these standards on its consolidated financial statements.

IFRS 13 Fair Value Measurement ("IFRS 13")

IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The IFRS 13

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

Summary of Outstanding Share Data

As at September 30, 2012, the following equity instruments of the Company were issued and outstanding:

Common Shares: 12,925,253

Class A Preferred Shares: * 18,325

* The Class A Preferred shares provide an 8% cumulative dividend based on a value of \$1,000 per share, are redeemable at the option of the Company at any time at \$1,000 per share plus accrued dividends and they are non-voting.

Convertible Debentures:** \$nil principal value

** The Company has issued various tranches of convertible debentures to related parties for total outstanding value at September 30, 2012, of \$247,671 in accrued interest only. The accrued interest is convertible at any time into common shares of the Company at varying conversion rates that were determined at the time of issuance of each tranche. If all the debentures plus accrued interest were converted at the current time, the total number of common shares issued would be 229,935.

Options:*** Options to acquire 560,000 common shares

*** The options, having exercise prices of \$0.12, were granted pursuant to the Company's stock option plan.

Additional information relating to the Company may be found on SEDAR at www.sedar.com or the Company's website at www.plaintree.com.