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# PLAINTREE SYSTEMS INC.

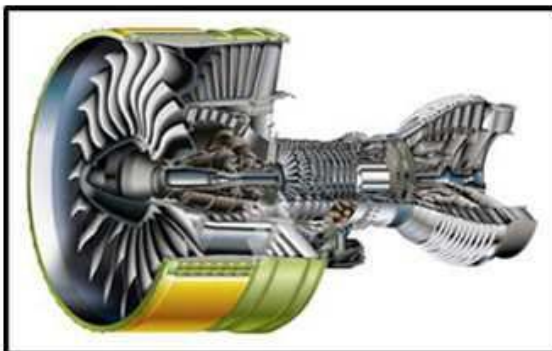
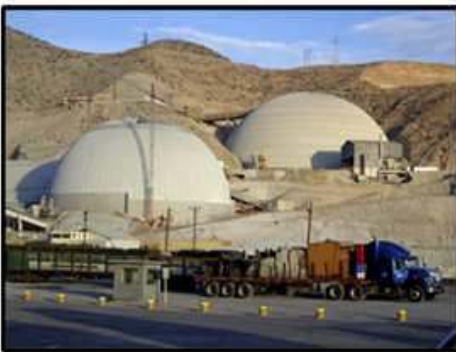
TRIODETC

MADAWASKA DOORS

SPOTTON

HYPERNETICS

SUMMIT AEROSPACE



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Q2-2018 for the three and six months ending  
September 30, 2017

## **“Notice to Reader”**

The accompanying unaudited interim consolidated financial statements of Plaintiff Systems Inc. for the three and six months ended September 30, 2017 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 15, 2017

“David Watson”

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David Watson  
CEO

# Plaintree Systems Inc.

Consolidated statements of financial position  
as of September 30, 2017 and March 31, 2017  
(unaudited)  
(in Canadian dollars)

	September 30, 2017	March 31, 2017
	\$	\$
<b>Assets</b>		
Current assets		
Trade receivables and other receivables	3,254,432	2,460,517
Unbilled revenue	591,363	244,299
Inventories (Note 5)	1,718,515	1,766,655
Assets classified as held for sale (Note 4)	-	10,686
Prepaid expenses and other receivables	60,123	77,785
	<b>5,624,434</b>	<b>4,559,942</b>
Property, plant and equipment (Note 6)	4,919,454	5,126,448
Intangible assets (Note 7)	595,320	655,713
	<b>11,139,208</b>	<b>10,342,103</b>
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness	386,827	324,566
Trade and other payables	2,380,561	3,769,957
Deferred revenue	1,750,521	479,572
Current portion of long-term debt - bank (Note 8)	1,205,263	1,660,149
Current portion of long-term debt - other (Note 8)	45,000	-
Current portion of due to related parties (Note 11)	554,447	-
Current portion of deferred government assistance (Note 10)	19,000	19,000
Current portion of obligations under lease capital (Note 9)	139,508	139,508
Current portion of government assistance (Note 10)	39,000	39,000
	<b>6,520,127</b>	<b>6,431,752</b>
Long-term debt - other (Note 8)	100,788	-
Deferred government assistance (Note 10)	91,656	108,058
Obligations under lease capital (Note 9)	346,495	438,169
Repayable government assistance - other (Note 10)	581,488	643,509
Due to related parties (Note 11)	5,684,069	5,835,109
	<b>13,324,623</b>	<b>13,456,597</b>
<b>Shareholders' equity</b>		
Issued capital	2	2
Contributed surplus	2,090,750	2,090,750
Deficit	(4,276,167)	(5,205,246)
	<b>(2,185,415)</b>	<b>(3,114,494)</b>
	<b>\$ 11,139,208</b>	<b>\$ 10,342,103</b>

Approved by the Board  
"David Watson"

"Girvan Patterson"

## Plaintree Systems Inc.

Condensed consolidated interim statements of comprehensive income (loss)

three and six months ended September 30, 2017 and September 30, 2016

(unaudited)

(in Canadian dollars)

	<b>Three Months Ended September 30, 2017</b>	Three Months Ended September 30, 2016	<b>Six Months Ended September 30, 2017</b>	Six Months Ended September 30, 2016
	\$	\$	\$	\$
<b>Revenue</b>	<b>4,410,137</b>	3,543,545	<b>8,026,654</b>	6,976,076
Cost of sales	<b>2,978,602</b>	3,030,430	<b>5,644,194</b>	5,788,225
Gross margin	<b>1,431,535</b>	513,115	<b>2,382,460</b>	1,187,851
Operating expenses				
Research and development	<b>339,951</b>	323,470	<b>615,937</b>	628,349
Finance and administration	<b>261,923</b>	225,388	<b>608,724</b>	467,886
Sales and marketing	<b>159,475</b>	170,082	<b>305,068</b>	350,557
Loss on disposal of assets	-	74	-	18,505
Interest expense	<b>87,103</b>	61,614	<b>149,975</b>	119,358
Gain on foreign exchange	<b>9,380</b>	17,318	<b>24,869</b>	21,580
	<b>857,832</b>	797,946	<b>1,704,573</b>	1,606,235
<b>Net income (loss) before other income</b>	<b>573,703</b>	(284,831)	<b>677,887</b>	(418,384)
<b>Other income (losses)</b>				
Income (losses) from discontinued operations	<b>2,612</b>	(42,064)	<b>251,192</b>	(57,764)
<b>Net earnings (loss) and comprehensive earnings (loss)</b>	<b>576,315</b>	(326,895)	<b>929,079</b>	(476,148)
Basic and diluted (loss) per common share (Note 13)	<b>0.02</b>	(0.05)	<b>0.02</b>	(0.10)
Weighted average common shares outstanding	<b>12,925,253</b>	12,925,253	<b>12,925,253</b>	12,925,253

# Plaintree Systems Inc.

Consolidated statements of cash flows (unaudited)  
for the six months ended September 30, 2017 and September 30, 2016

(in Canadian dollars)

	September 30, 2017	September 30, 2016
	\$	\$
<b>Cash flows from operating activities</b>		
Net income (loss)	677,887	(418,384)
Items not affecting cash:		
Other income (loss) from discontinued operations (Note 4)	251,192	(57,764)
Depreciation of intangible assets	69,014	68,225
Depreciation of property, plant and equipment	452,269	457,889
Loss on sale of property, plant and equipment	5,300	9,505
Changes in non-cash operating working capital items		
Trade and other receivables	(793,915)	(186,200)
Unbilled revenue	(347,064)	(1,117,384)
Inventories	48,140	(257,948)
Prepaid expenses and other receivables	17,662	(119,135)
Trade and other payables	(1,389,397)	1,097,050
Deferred revenue	1,270,949	124,672
Cash provided by (used in) operations	262,037	(399,474)
<b>Investing activities</b>		
Payments to acquire intangible assets	(8,621)	-
Payments to acquire property, plant and equipment	(257,689)	(173,234)
Proceeds from disposal of property, plant and equipment	17,800	25,084
Cash used in investing activities	(248,510)	(148,150)
<b>Financing activities</b>		
Repayment of government assistance	(78,423)	(21,455)
Repayment of long-term debt	(465,098)	(477,632)
Repayment of capital lease obligations	(91,674)	(20,181)
Increase in borrowings (Note 11)	156,000	-
Increase in related party borrowings (Note 11)	403,407	(64,792)
Cash (used in) financing activities	(75,788)	(584,060)
Net cash inflow	(62,261)	(1,131,684)
(Bank Indebtness) cash, beginning of the year	(324,566)	(4,576)
(Bank indebtedness), end of the year	(386,827)	(1,136,260)

# Plaintree Systems Inc.

## Consolidated statements of changes in equity for the periods ended September 30, 2017 and September 30, 2016

(unaudited)

	Number of common shares	Issued capital \$	Numer of Class A preferred shares (1)	Issued capital \$	Contributed surplus \$	Equity (deficit) \$	Shareholders' equity (deficiency) \$
Balances, March 31, 2016	12,925,253	1	18,325	1	2,090,750	(2,565,612)	(474,860)
Net loss and comprehensive loss	-	-	-	-	-	(476,148)	(476,148)
<b>Balances, September 30, 2016</b>	<b>12,925,253</b>	<b>1</b>	<b>18,325</b>	<b>1</b>	<b>2,090,750</b>	<b>(3,041,760)</b>	<b>(951,008)</b>
Balances, March 31, 2016	12,925,253	1	18,325	1	2,090,750	(5,205,246)	(3,114,494)
Net earnings and comprehensive earnings	-	-	-	-	-	929,079	929,079
<b>Balances, September 30, 2017</b>	<b>12,925,253</b>	<b>1</b>	<b>18,325</b>	<b>1</b>	<b>2,090,750</b>	<b>(4,276,167)</b>	<b>(2,185,415)</b>

<sup>(1)</sup> Class A shares have 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; non-voting

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements

For the Quarters ended September 30, 2017 and September 30, 2016

(unaudited)

(In Canadian dollars)

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## 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 Canadian Securities Exchange ("CSE") under "NPT". The Company operates an Electronics division (the Hypernetics business, the free space optics business and Summit Aerospace USA Inc. ("Summit Aerospace")) and a Specialty Structures division (the Triodetic business), Arnprior Fire Trucks Corp. ("AFTC"), Spotton Corp. and 9366920 Canada Inc. (operating as Madawaska Doors). Plaintree is an exceptionally diversified company with proprietary technologies and manufacturing capabilities in structural design, aerospace and telecommunications. 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. On June 6, 2017, the Company announced that it had completed the sale of assets and business of AFTC. Summit Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic valves and cylinders for the industrial, oil and gas markets. On July 20, 2015, the Company acquired the assets and activities of Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. The business of Madawaska Doors involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and materials. The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

## 2. BASIS OF PRESENTATION

### (a) Statement of Compliance

The condensed consolidated unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved for issue by the Board of Directors on November 15, 2017. The unaudited consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* using the accounting policies disclosed below. These statements should be read in conjunction with the audited financial statements and notes included in the Annual Report for the year ended March 31, 2017.

### (b) Basis of Measurement

These consolidated 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.

### (c) Basis of Consolidation

The consolidated financial statements include the accounts of Plaintree Systems Inc. and its wholly-owned subsidiaries: Summit Aerospace USA Inc. and Triodetic Inc. (American companies), Spotton Corp. (Canadian company) and Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements

For the Quarters ended September 30, 2017 and September 30, 2016

(unaudited)

(In Canadian dollars)

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The accounting policies of subsidiaries align with the policies adopted by the Company. All intercompany transactions have been eliminated.

(d) Going Concern

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As at September 30, 2017, the Company had an accumulated deficit of \$4,276,167 and, for the period then ended, the Company had comprehensive earnings of \$929,079. As at September 30, 2017, the Company had negative working capital of \$895,693 and \$NIL cash on hand. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the next twelve month period following September 30, 2017. The Company has in place a credit facility of up to \$2,100,000 through its bank based on acceptable trade receivables and inventory. The availability of the credit facility to the Company as at September 30, 2017 was \$2,100,000 of which \$362,884 was in use and a letter of credit in the amount of US\$299,999 (CAD\$374,399) leaving \$1,362,717 available. The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow as a result of contracts bid and/or signed, and their expected margins on these projects. As a result, the Company believes that it has sufficient cash resources to meet its obligations, beyond the next 12 months. However, should (i) the Company's bank credit facility fail to be available or fail to have sufficient availability to meet the Company's cash requirements; (ii) forecasts fall short of expectations in one or more of the Company's divisions; and/or (iii) any unanticipated unprofitable event occurs, this will impact the Company's ability to generate sufficient cash to meet its requirements and this will impact its ability to continue as a going concern. The Company would then implement a strategic review of its portfolio of companies to maximize shareholders value.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. Such adjustments, if required, may be material.

### 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 2017 annual consolidated financial statements and have been applied to the periods presented in these condensed consolidated interim financial statements.

*New and revised IFRS in issue but not yet 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:

*New Standards effective April 2018*

IFRS 9: Financial instruments

Issued in July 2014, IFRS 9 replaces IAS 39 *Financial Instruments: recognition and measurement* ("IAS 39"). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its



# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements

For the Quarters ended September 30, 2017 and September 30, 2016

(unaudited)

(In Canadian dollars)

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financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities and introduces a new hedge accounting model. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

#### IFRS 15: Revenue from contracts with customers

Issued in May 2014, IFRS 15 establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The main principle of this standard is that an entity shall recognize revenue to depict the transfer of promised services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Adoption of this IFRS is mandatory for annual reporting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

#### IFRS 16: Leases

Issued in January 2016, IFRS 16 Introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

#### **4. DISCONTINUED BUSINESS**

On May 25, 2017, the Company completed the sale of the assets and business of Arnprior Fire Trucks Corp (“AFTC”) (the “Fire Truck Business”) to 9584358 Canada Ltd. o/a Eastway Fire and Rescue Vehicles (“Eastway”). The Company and Eastway entered into an asset purchase agreement (the “Purchase Agreement”), pursuant to which Eastway agreed to acquire the Fire Truck Business from the Company as a going concern. The purchase price paid by Eastway consisted of nominal cash consideration and the obligation for Eastway to complete the outstanding existing fire truck contracts. Eastway has also agreed to a lease the Company’s premises to carry on the business for a one-year period. Following the closing of the transaction, the Company ceased the operations of the Fire Trucks Business. The balance of \$10,686 related to the carrying value of subsequently sold assets.

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended September 30, 2017 and September 30, 2016

(unaudited)

(In Canadian dollars)

5.

## INVENTORIES

	September 30, 2017	March 31, 2017
	\$	\$
Raw materials	924,607	984,341
Work in process	645,514	595,782
Finished goods	148,394	186,532
	<b>1,718,515</b>	<b>1,766,655</b>

The cost of inventories recognized as an expense during the six month period was \$5,598,235 (September 30, 2016 - \$5,734,502). The total carrying value of inventory at September 30, 2017 was pledged as security through general security agreements under bank lines of credit and related party liabilities.

## 6. PROPERTY, PLANT AND EQUIPMENT

	Factory equipment	Computer equipment	Furniture	Vehicles	Lease improvements	Building	Land	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance as of								
March 31, 2017	2,367,871	25,204	4,523	72,251	1,055,157	1,326,012	275,431	5,126,448
Additions	183,515	3,597	-	686	69,890	-	-	257,689
Disposal	(11,750)	-	(664)	-	-	-	-	(12,414)
Depreciation	(273,782)	(5,349)	(619)	(21,561)	(100,995)	(49,964)	-	(452,269)
September 30, 2017	2,265,854	23,453	3,241	51,377	1,024,052	1,276,048	275,431	4,919,454

## 7. INTANGIBLES

	Customer relationship	Non-competition agreement	Computer software	Total
	\$	\$	\$	\$
March 31, 2017	651,635	2,307	1,771	655,713
Additions	-	-	8,621	8,621
Depreciation	(65,163)	(769)	(3,081)	(69,014)
September 30, 2017	586,472	1,538	7,311	595,320

## 8. LONG-TERM DEBT

As of September 30, 2017 the Company being in breach of its current ratio covenant under its bank facilities which ratio was required to be maintained at a minimum of 125%. As a result of the covenant breach, the long-term debt has been reclassified to current. The bank has waived the covenant requirements to December 31, 2017 and has continued to provide funding under the terms of its banking facility.

# Plaintree Systems Inc.

## Notes to the condensed consolidated interim financial statements For the Quarters ended September 30, 2017 and September 30, 2016

(unaudited)

(In Canadian dollars)

	September 30, 2017	March 31, 2017
	\$	\$
<b>Long-term debt - bank</b>		
Bank loan bearing interest at a rate equal to the bank's LIBOR Rate plus 3.93%, due in monthly principal installments of \$4,028 secured by a general security agreement, matures May 2020	643,413	717,776
Bank loan bearing interest at a rate of prime plus 1.25% per annum, payable in monthly principal plus interest installments of \$4,221, secured by a general security agreement, maturing March 2035	204,614	225,558
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.50%, secured by general security agreement, maturing five years from the date of each draw-down or February 2022	48,062	53,013
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.50%, secured by general security agreement, maturing five years from the date of each draw-down or October 2021	182,674	203,177
Demand non-revolving loan, interest only monthly payments at a rate of prime plus 2.00%, secured by general security agreement, payable on demand maturing five years from date of advance	100,000	100,000
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.50%, secured by a general security agreement, maturing ten years following full draw-down of the loan or June 2016	22,756	57,633
Demand non-revolving loan payable in monthly installments of US\$36,957, interest at LIBOR plus 3.00% per annum, maturing September 2017	-	245,742
Demand non-revolving loan payable in monthly blended installments of \$9,906, interest at a rate of 3.63%, secured by a general security agreement, maturing June 2017	-	34,830
Term non-revolving loan payable in monthly installments of \$3,161, bearing interest at the rate of prime plus 1.25% per annum, maturing March 2025	3,744	22,420
	<b>1,205,263</b>	1,660,149
<b>Total Bank Debt - current portion</b>	<b>(1,205,263)</b>	1,660,149
	-	-
<b>Long-term debt - other</b>		
Commercial equipment loan bearing interest at a rate of 7% per annum, payable in monthly principal plus interest installments of \$2,959 USD, maturing June 2021.	145,788	-
Current portion	45,000	-
	<b>100,788</b>	-

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended September 30, 2017 and September 30, 2016  
(unaudited)

(In Canadian dollars)

## 9. OBLIGATIONS UNDER CAPITAL LEASE

	September 30, 2017	March 31, 2017
	\$	\$
Capital lease payable in monthly installments of \$639, bearing interest at 2.49% per annum, maturing October 2019.	15,549	19,163
Capital lease payable in monthly installments of \$1,205, bearing interest at 5.094% per annum, maturing January 2020.	32,103	36,734
Capital lease payable in monthly installments of \$6,899 USD, bearing interest at 4.50% per annum, maturing October 2021.	384,796	455,277
Capital lease payable in monthly installments of \$2,158, bearing interest at 5.094% per annum, maturing July 2018.	53,555	66,503
	486,003	577,676
Current portion	139,508	139,508
	346,495	438,169

## 10. LONG-TERM DEBT – GOVERNMENT ASSISTANCE

The Company's Summit Aerospace USA Inc. division accepted a loan of \$720,000 USD (\$898,560 CND) from the Pennsylvania Industrial Development Authority (PIDA) as partial financing towards the manufacturing facility in Pocono Summit, PA purchased in May 2013. Monthly repayments are amortized over fifteen years at a fixed rate of 1.5%. The loan facility is for a term of seven years, funding 45% of the cost of the building, land and renovations.

The Company records the government loan at its estimated fair value at the date in which the payments are recorded. The estimated fair value of the loan payable is determined by discounting future cash flows associated with the loan at a discount rate which represents the estimated borrowing rate to the Company. The difference between the face value of the loan and the estimated fair value is deemed to be government assistance. The loan payable is accreted to the face value over the term of the loan and is recognized as accretion expense.

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended September 30, 2017 and September 30, 2016

(unaudited)

(In Canadian dollars)

	Loan present value	Deferred Government Assistance	Repayable government assistance
	\$	\$	\$
Opening Balance	682,509	127,058	809,567
Loan adjustment for exchange	(42,032)	(9,186)	(51,218)
Repayments	(28,567)	1,362	(27,205)
Accretion	8,578	(8,578)	-
September 30, 2017	620,488	110,656	731,144
Current Portion	(39,000)	(19,000)	(58,000)
Balance	581,488	91,656	673,144

## 11. DUE TO RELATED PARTIES

	September 30, 2017	March 31, 2017
	\$	\$
Due to senior officers	4,376,615	4,450,665
Dividends payable	60,000	60,000
Due to Targa Group Inc., convertible debentures	247,672	247,672
Due to Tidal Quality Management Inc.	763,073	228,616
Due to Targa Group Inc., demand loan	66,581	66,581
Due to Targa Group Inc., line of credit	589,763	646,763
Due to Targa Group Inc., demand loan interest	134,812	134,812
	<b>6,238,516</b>	5,835,109
Less: current portion	554,447	-
	<b>5,684,069</b>	5,835,109

As at September 30, 2017, a balance of \$4,376,615 (\$3,215,031 principal and \$1,235,634 interest) – (March 31, 2017 - \$4,450,665) remained owing to senior officers of the Company. The senior officers have agreed to cancel their current consulting agreements and discontinue interest payments accruing on balances as of April 1, 2016. Balances are classified as long-term as the parties have agreed not to demand repayment before December 2018.

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 share. An amount of \$60,000 (March 31, 2017 - \$60,000) of the dividend remains outstanding as of September 30, 2017. The balance is classified as long-term as the related party has agreed not to demand payment before December 2018.

# Plaintree Systems Inc.

## Notes to the condensed consolidated interim financial statements

For the Quarters ended September 30, 2017 and September 30, 2016

(unaudited)

(In Canadian dollars)

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As at September 30, 2017, a balance of \$247,672 (March 31, 2017 - \$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 Targa). The balance is classified as long-term as the related party has agreed not to demand payment before December 2018.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears owing to this related party amounted to \$174,974 (March 31, 2017 - \$174,974). The Company accepted partial financing in the form of a note payable in the amount of \$373,473 during fiscal 2014 from Tidal for a new facility in Pocono Summit. As at September 30, 2017 a balance of \$270,767 remains outstanding. Loans totaling \$420,003 owed to Spotton by Tidal have been consolidated into the net balance as of April 1, 2014 with the acquisition of Spotton Corp by the Company. The party agreed to discontinue interest accruing on unpaid balances as at April 1, 2016. Until then the interest was at bank prime plus 2% and accrued on the principal balance for a balance of \$182,889 as of September 30, 2017 (March 31, 2017 - \$182,889). The party has agreed not to demand repayment of the total balance of \$208,626 (March 31, 2016 - \$228,616) before December 2018 and the amount is classified as long-term.

On May 31, 2017, Tidal refinanced its approximately \$345,000 mortgage on one of its properties, increasing the mortgage to \$900,000. Plaintree has guaranteed the Tidal loan and granted a security interest over its assets as security for this guarantee. Tidal used a portion of the proceeds from the refinancing to loan \$554,447 to the Company. The loan to the Company has a one (1) year term and bears interest at a rate of 14% per annum. Interest is payable monthly and the principal is due on maturity.

The Company has a demand loan of up to \$1,800,000 with Targa. Under the loan agreement, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The party has agreed to discontinue interest payments accruing on balances as of April 1, 2016. The Targa Demand Loan is secured by a security interest granted over the assets of the Company. At September 30, 2017 \$NIL, (March 31 2016 - \$NIL) remained outstanding on the demand loan with accumulated interest of \$66,581 (March 31, 2017 - \$66,581) for a balance of \$66,581 (March 31, 2017 - \$66,581). The balance is classified as long-term as the related party has agreed not to demand payment before December 2018.

The Company has a revolving Line of Credit of up to \$1,000,000 with Targa. Under the loan agreement, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The party has agreed to discontinue interest payments accruing on balances as of April 1, 2016. At September 30, 2017, \$347,165 (March 31, 2017 - \$408,165) remained outstanding on the Line of Credit with accumulated interest of \$242,598 (March 31, 2017 - \$242,598) for a balance of \$613,763 (March 31, 2017 - \$646,763). Targa has agreed that it will not demand repayment before December 2018 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of \$134,812 (March 31, 2017 - \$134,812), on a loan from Targa remains outstanding as of September 30, 2017. The party has agreed not to demand repayment before December 2018 and, accordingly, the amount is classified as long-term.

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements

For the Quarters ended September 30, 2017 and September 30, 2016

(unaudited)

(In Canadian dollars)

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## 12. 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 at September 30, 2017 \$13,127,000.

### Issued

Common shares	12,925,253
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Class A Preferred shares	18,325
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On July 14, 2011, the Board of Directors of the Company approved a reduction to the stated capital account of \$97,844,650 (the "Stated Capital Reduction Amount"). At the Company's Annual General Meeting held on September 15, 2011, the shareholders of the Company voted in favour of the Stated Capital Reduction. The effect of the reduction was to reduce the stated capital and the accumulated deficit of the Company by the same amount. The accumulated deficit of the Company represents primarily the Company's business prior to the completion of the merger with Hypernetics and Triodetic and is not reflective of the post-merger business of the Company.

### *Stock option plans*

The Company's Stock Option Plan allows the Company to grant options to officers and service providers to a maximum number of 1,200,000.

Options under the stock option plans are issued for a period as determined by the Board of Directors of the Company at the time of grant up to a period of ten years from the date of grant and the exercise price may not be less than the latest closing price of the common shares on the last trading day preceding the date of grant. Eligibility is determined by the Company's Board of Directors and the aggregate number available for issuance to any one person may not exceed 5% of the issued and outstanding common shares.

There are no stock options outstanding as of September 30, 2017.

# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements

For the Quarters ended September 30, 2017 and September 30, 2016

(unaudited)

(In Canadian dollars)

## 13. BASIC AND DILUTED EARNINGS PER COMMON SHARE

	Three Months September 30, 2017	Three Months September 30, 2016
	\$	\$
Net Income (loss)	576,315	(326,895)
Cumulative dividends on preferred shares - three months	(366,500)	(366,500)
Net income (loss) attributable to common shares (basic and diluted)	209,815	(693,395)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted earnings (loss) per share	0.02	(0.05)

	Six Months September 30, 2017	Six Months September 30, 2016
	\$	\$
Net Income (loss)	929,079	(476,148)
Cumulative dividends on preferred shares - six months	(733,000)	(733,000)
Net income (loss) attributable to common shares (basic and diluted)	196,079	(1,209,148)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted earnings (loss) per share	0.02	(0.10)



# Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements  
For the Quarters ended September 30, 2017 and September 30, 2016

(unaudited)

(In Canadian dollars)

## 14. 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.

### Revenues by division

	For the three months ended		For the six months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Electronics	1,644,251	1,365,475	3,156,250	3,021,815
Specialty structures	2,765,886	2,178,070	4,870,404	3,954,261
	<u>4,410,137</u>	<u>3,543,545</u>	<u>8,026,654</u>	<u>6,976,076</u>

### Net (loss) before taxes by division

	For the three months ended		For the six months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Electronics	221,600	(75,755)	361,649	142,086
Specialty structures	352,103	(209,076)	316,238	(560,470)
	<u>573,703</u>	<u>(284,831)</u>	<u>677,887</u>	<u>(418,384)</u>

### Revenues by geographical location

	For the three months ended		For the six months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Canada	2,622,592	1,982,717	3,960,032	3,237,769
United states	1,629,960	1,498,873	3,816,314	3,675,348
Other	157,585	61,955	250,308	62,959
	<u>4,410,137</u>	<u>3,543,545</u>	<u>8,026,654</u>	<u>6,976,076</u>

### Product revenue concentration (customers with revenues in excess of 10% of sales)

	For the three months ended		For the six months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Number of customers	-	1	-	1
% of total revenue	-	13%	-	11%

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

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## PLAINTREE SYSTEMS INC.

*For the three and six months ended September 30, 2017 and September 30, 2016*

**Date – November 15, 2017**

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 three and six months ended September 30, 2017. 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 Standards (“IFRS”). The information contained herein is dated as of November 15, 2017 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 annual 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 annual financial statements and this MD&A (“the annual Filings”) and that, based on their knowledge having exercised reasonable diligence, (a) the annual 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 annual filings; and (b) the annual financial statements together with the other financial information included in the annual 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 annual 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.

### ***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*

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

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*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**

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### **Overview**

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the Canadian Securities Exchange ("CSE") under "NPT". The Company operates an Electronics division (the Hypernetics business, the free space optics business and Summit Aerospace USA Inc. ("Summit Aerospace")) and a Specialty Structures division (the Triodetic business), Arnprior Fire Trucks Corp. ("AFTC") until June 6, 2017), Spotton Corp. and 9366920 Canada Inc. (operating as Madawaska Doors). On June 6, 2017, the Company announced that it had completed the sale of assets and business of AFTC. Plaintree is an exceptionally diversified company with proprietary technologies and manufacturing capabilities in structural design, aerospace and telecommunications. 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. Summit Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic valves and cylinders for the industrial, oil and gas markets. On July 20, 2015, the Company acquired the assets and activities of Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. The business of Madawaska Doors involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and materials. The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

### **Recent Developments**

During May 2017, the Company obtained a loan in the amount of \$554,447 from Tidal Quality Management Corporation ("Tidal"), a related party controlled by the Company's Chief Executive Officer. The loan has a one (1) year term and bears interest at a rate of 14% pa. Interest is payable monthly, and the principal is due on maturity.

In a related transaction, the Company also guaranteed a \$900,000 loan obtained by Tidal. The loan has a one (1) year term and bears interest at a rate of 14% pa. Interest is payable monthly, and the principal is due on maturity. This loan was used to fund the loan from Tidal to Plaintree described in the paragraph above. The Company granted a security interest over its assets as security for the guarantee.

Pursuant to an asset purchase agreement dated May 25, 2017, the Company sold its fire and emergency vehicle business, formerly carried on by its wholly-owned subsidiary AFTC, to 9584358 Canada Ltd. o/a Eastway Fire and Rescue Vehicles ("Eastway"). The purchase price paid by Eastway consisted of nominal cash consideration paid on closing and the obligation for Eastway to complete the outstanding existing fire truck contracts. Eastway has also agreed to a lease the Company's premises to carry on the business for a one year period. Following the transaction, the Company is in the process of ceasing the operations of AFTC.

On July 20, 2015, the Corporation, through its wholly-owned subsidiary 9366920 Canada Inc, acquired the assets and business of Madawaska Doors Inc., including a building located in Barry's Bay, Ontario, for a total purchase price of \$280,000. The business of Madawaska Doors Inc. acquired by 9366920 Canada Inc. involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and material. During fiscal 2017, due to sales being lower than anticipated and lower sales continuing, the Company recorded an impairment on

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

property plant and equipment of approximately \$311,500, and on inventory of approximately \$204,500.

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

### Control Activities

There was no change in the Company's internal control over financial reporting that occurred during the period that has materially affected, or is reasonably likely to material affect it internal control over financial reporting.

### Selected Annual 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 interim financial statements:

(\$000s, except per share amounts)

	September 30, 2017	March 31, 2017
	\$	\$
Total assets	11,139	10,342
Total liabilities	13,325	13,457
Long-term liabilities	6,804	7,025
Cash dividends declared per share	nil	nil

(\$000s, except per share amounts)

	For the three months ended		For the six months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Revenue	4,410	3,544	8,027	6,976
Net income (loss) and total comprehensive income (loss)	576	(327)	929	(476)
Net loss attributed to common shareholders	210	(693)	196	(1,209)
Basic and diluted (loss) earnings per share	0.02	(0.05)	0.02	(0.10)

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

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### Results of Operations

<b>Plaintree Systems Inc.</b>			
<i>(\$000s, except per share and % amounts)</i>			
for the three months ended			
	September 30, 2017	September 30, 2016 <sup>(1)</sup>	Change from 2016 to 2017
	\$	\$	\$
Revenue	4,410	3,543	867
Cost of sales	2,979	3,030	(51)
Gross margin	1,431	513	918
	32%	14%	
<i>Operating expenses:</i>			
Research and development	340	323	16
Finance and administration	262	225	37
Sales and marketing	159	170	(11)
Interest expense	87	62	25
Loss on foreign exchange	9	17	(8)
	857	798	59
Net income (loss) before other income (income)	574	(285)	859
Other income (loss) from discontinued operations	2	(42)	44
Net earnings (loss) and comprehensive earnings (loss)	576	(327)	903

(1) September 30, 2016 adjusted for discontinued operations.

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

	Plaintree Systems Inc. (\$000s, except per share and % amounts) for the three months ended		Change from 2016 to 2017
	September 30, 2017	September 30, 2016	
	(1)		
Revenue	\$ 8,027	\$ 6,976	\$ 1,051
Cost of sales	5,644	5,788	(144)
Gross margin	30%	17%	1,195
<i>Operating expenses:</i>			
Research and development	616	628	(12)
Finance and administration	609	468	141
Sales and marketing	305	351	(45)
Loss on disposal of assets	-	19	(19)
Interest expense	150	119	31
Loss on foreign exchange	25	22	3
	1,705	1,606	99
Net income (loss) before other income (income)	678	(418)	1,096
Other income (loss) from discontinued operations	251	(58)	309
Net earnings (loss) and comprehensive earnings (loss)	929	(476)	1,405

(1) September 30, 2016 adjusted for discontinued operations.

### 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. Where applicable the revenues and losses for the discontinued business of Arnprior Fire Trucks Corp. have been removed from the 2017 comparisons.

#### Revenues by division

	For the three months ended		For the six months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Electronics	1,644,251	1,365,475	3,156,250	3,021,815
Specialty structures	2,765,886	2,178,070	4,870,404	3,954,261
	4,410,137	3,543,545	8,026,654	6,976,076

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

### *Net (loss) before taxes by division*

	For the three months ended		For the six months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Electronics	221,600	(75,755)	361,649	142,086
Specialty structures	352,103	(209,076)	316,238	(560,470)
	<b>573,703</b>	<b>(284,831)</b>	<b>677,887</b>	<b>(418,384)</b>

### *Revenues by geographical location*

	For the three months ended		For the six months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Canada	2,622,592	1,982,717	3,960,032	3,237,769
United states	1,629,960	1,498,873	3,816,314	3,675,348
Other	157,585	61,955	250,308	62,959
	<b>4,410,137</b>	<b>3,543,545</b>	<b>8,026,654</b>	<b>6,976,076</b>

### *Product revenue concentration (customers with revenues in excess of 10% of sales)*

	For the three months ended		For the six months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Number of customers	-	1	-	1
% of total revenue	-	13%	-	11%

## Revenues

### Revenue

Total product revenue for three and six months ended September 30, 2017 was \$4,410,137 and \$8,026,654 compared to \$3,543,545 and \$6,976,076 for the respective periods ending September 30, 2016.

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

Plaintree's Electronics Division revenues of \$1,644,251 and \$3,156,250 in the three and six months ended September 30, 2017 was up from revenues of \$1,365,475 and \$3,021,815 for the three and six months ended September 30, 2016.

Plaintree's Specialty Structures Division revenue increased to \$2,765,886 and \$4,870,404 in the three and six months ended September 30, 2017 from \$2,178,070 and \$3,954,261 in the three and six months ended September 30, 2017 and September 30, 2016 respectively.

## Gross Margin

Total gross margin increased in the first three and six months of fiscal 2018 to 32% and 30% from 14% and 17% for the same period in fiscal 2017.



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

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### **Operating Expenses**

#### **Research and development expenses**

Research and development expenses were \$339,951 and \$615,937 for the three and six months ending September 30, 2017 compared to \$323,470 and \$628,349 for the three and six months ending September 30, 2016. 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 2018.

#### **Finance and administration expenses**

Finance expenses were \$261,923 and \$608,724 for the three and six months ending September 30, 2017 compared to \$225,388 and \$467,886 for the three and six months ending September 30, 2016. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which included financial staff, legal and audit activities. Amortization of intangibles related to the business of Summit Aerospace is the primary reason for the increase in finance and administration expenses.

Finance and administration expenses were higher in the first three months of fiscal 2018 due to legal fees associated with the new financing and sale of the discontinued operations.

#### **Sales and marketing expenses**

Sales and marketing expenses were \$159,475 and \$305,068 for the three and six months ending September 30, 2017 compared to \$170,082 and \$350,557 for the three and six months ending September 30, 2016. These expenses consisted primarily of personnel and related costs associated with 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 2018.

#### **Interest expense**

Interest expense consists of interest incurred on bank and related party debt. Interest expenses were \$87,103 and \$149,975 for the three and six months ending September 30, 2017 compared to \$61,614 and \$119,358 for the three and six months ending September 30, 2016. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest. The related parties with loans to the company have agreed to discontinue interest payments accruing on balances as of April 1, 2016 with the exception of the newly acquired financing from Tidal. The Company has accepted a loan \$554,447 which has a one (1) year term and bears interest at a rate of 14% per annum. Interest is payable monthly and the principal is due on maturity.

#### **Gain on foreign exchange**

The Company reported loss on foreign exchange of \$9,380 and \$24,869 for the three and six months ending September 30, 2017 compared to \$17,318 and \$21,580 for the three and six months ending September 30, 2016. The gain/loss on foreign exchange represents the gain/loss, realized

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

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 income and comprehensive income for the three and six months ended September 30, 2017 was \$209,815 and \$196,079 respectively compared to a net (loss) of \$(693,395) and \$(1,209,148) for the three and six months ended September 30, 2016. Net income attributed to common shareholders is calculated by reducing net income by the \$1,466,000 (QTD = \$366,500, YTD = \$733,000) cumulative dividends that accrue annually on the Class A preferred shares. The cumulative dividends accrue at 8% per annum on the face value of the \$18,325,000 for the Class A preferred shares and as September 30, 2017 the accrued and unpaid dividends on the Class A preferred shares were \$12,760,500 (March 31, 2017 - \$12,394,000).

### Quarterly Results

The following table sets out selected unaudited consolidated financial information for the last eight quarters in fiscals 2018, 2017 and 2016:

#### Quarters ended

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

	Sept 30 2017 Q2-2018	June 30 2017 Q1-2018	Mar 31 2017 Q4-2017	Dec 31 2016 Q3-2017	Sept 30 2016 Q2-2017	June 30 2016 Q1-2017	Mar 31 2016 Q4-2016	Dec 31 2015 Q3-2016
Revenue (1)	\$ 4,410	\$ 3,617	\$ 2,811	\$ 3,057	\$ 3,543	\$ 3,433	\$ 3,738	\$ 3,293
Net (loss) profit and total comprehensive (loss) income	576	352	(1,600)	(564)	(327)	(149)	(224)	(284)
Net (loss) profit attributed to common shareholders	210	(14)	(1,894)	(930)	(693)	(589)	(591)	(650)
Basic and diluted (loss) earnings per share	0.02	(0.00)	(0.15)	(0.07)	(0.05)	(0.05)	(0.05)	(0.05)

(1) Revenue of discontinued operations has been removed in the four quarters of 2017.

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

### Liquidity and Capital Resources

(\$000s)

	<u>September 30, 2017</u>	<u>March 31, 2017</u>	<u>Change</u>
	\$	\$	\$
Bank indebtedness	(387)	(325)	(62)
Working Capital	(896)	(1,872)	976

	<u>For the six months ended September 30, 2017</u>	<u>For the six months ended September 30, 2016</u>	<u>Change</u>
<i>Net cash (used in) provided by:</i>			
	\$	\$	\$
Operating activities	262	(399)	661
Investing activities	(249)	(148)	(101)
Financing activities	(76)	(584)	508

### Cash

As at September 30, 2017, the Company was had a bank indebtedness balance of \$(386,827) an increase in indebtedness of \$62,261 from March 31, 2017.

### Working Capital

Working capital represents current assets less current liabilities. As at September 30, 2017, the Company had negative working capital of \$(895,693) compared to a negative working capital of \$(1,871,810) at March 31, 2017 after the bank debt was reclassified as a current liability due to a breach of bank covenants. The Company is subject to various covenants on the long-term debt (including debt to tangible net worth, current assets to current liabilities and debt service ratios). The Company was in breach of the current ratio covenant as at September 30, 2017. At March 31, 2017 the Company was in breach of the debt servicing ratio and current ratio covenants to which the bank has provided forbearance until December 31, 2017. IFRS requires that a financial liability be classified as current even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue. The Company's working capital without this reclassification of current bank debt is \$(58,451) and \$(808,741) as at September 30, 2017 and March 31, 2017 respectively.

### Cash provided by (used in) Operating activities

Cash provided by operating activities for the six months ending September 30, 2017 was \$262,037 representing an increase of \$661,511 from cash used of \$(399,474) for the respective period during fiscal 2017. Cash provided by operating activities in the first six months of fiscal 2018 was primarily the result of income from operations and other income earned.

### Cash (used in) Investing activities

Cash used in investing activities for the first six months of fiscal 2018 was \$(248,510) representing an increase of \$100,360 from cash used in investing activities of \$(148,150) in the respective period

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

during fiscal 2017. The decrease in cash used during the three months of fiscal 2018 was primarily due to the payments to acquire capital.

### **Cash (used) in financing activities**

Cash (used) by financing activities for the first six months of fiscal 2018 was \$(75,788) representing a decrease of \$508,272 from cash used of \$(584,060) in the respective period during fiscal 2017. Cash from financing activities during the first six months of fiscal 2018 relates primarily to increase in related party borrowings.

### **Outlook – Going Concern**

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As at September 30, 2017, the Company had an accumulated deficit of \$4,276,167 and, for the period then ended, the Company had comprehensive earnings of \$929,079. As at September 30, 2017, the Company had negative working capital of \$895,693 and \$NIL cash on hand. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the next twelve month period following September 30, 2017. The Company has in place a credit facility of up to \$2,100,000 through its bank based on acceptable trade receivables and inventory. The availability of the credit facility to the Company as at September 30, 2017 was \$2,100,000 of which \$362,884 was in use and a letter of credit in the amount of US\$299,999 (CAD\$374,399) leaving \$1,362,717 available. The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow as a result of contracts bid and/or signed, and their expected margins on these projects. As a result, the Company believes that it has sufficient cash resources to meet its obligations, beyond the next 12 months. However, should (i) the Company's bank credit facility fail to be available or fail to have sufficient availability to meet the Company's cash requirements; (ii) forecasts fall short of expectations in one or more of the Company's divisions; and/or (iii) any unanticipated unprofitable event occurs, this will impact the Company's ability to generate sufficient cash to meet its requirements and this will impact its ability to continue as a going concern. The Company would then implement a strategic review of its portfolio of companies to maximize shareholders value.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. Such adjustments, if required, may be material.

### **Facilities**

The Company leases a 135,500 sq. /ft. building at 10 Didak Drive in Arnprior, Ontario.

The Company along with its wholly-owned US subsidiary owns a 16,300 sq. ft. manufacturing facility in Pocono Summit, PA.

On July 20, 2015 the Company, through a wholly-owned subsidiary completed the acquisition of a 33,000 sq. ft. manufacturing facility in Barry's Bay, ON for the manufacturing of its Madawaska Door business.

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

### Due to Related Parties

	September 30, 2017	March 31, 2017
	\$	\$
Due to senior officers	4,376,615	4,450,665
Dividends payable	60,000	60,000
Due to Targa Group Inc., convertible debentures	247,672	247,672
Due to Tidal Quality Management Inc.	763,073	228,616
Due to Targa Group Inc., demand loan	66,581	66,581
Due to Targa Group Inc., line of credit	589,763	646,763
Due to Targa Group Inc., demand loan interest	134,812	134,812
	<b>6,238,516</b>	5,835,109
Less: current portion	<b>554,447</b>	-
	<b>5,684,069</b>	5,835,109

As at September 30, 2017, a balance of \$4,376,615 (\$3,215,031 principal and \$1,235,634 interest) – (March 31, 2017 - \$4,450,665) remained owing to senior officers of the Company. The senior officers have agreed to cancel their current consulting agreements and discontinue interest payments accruing on balances as of April 1, 2016. Balances are classified as long-term as the parties have agreed not to demand repayment before December 2018.

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 share. An amount of \$60,000 (March 31, 2017 - \$60,000) of the dividend remains outstanding as of September 30, 2017. The balance is classified as long-term as the related party has agreed not to demand payment before December 2018.

As at September 30, 2017, a balance of \$247,672 (March 31, 2017 - \$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 Targa). The balance is classified as long-term as the related party has agreed not to demand payment before December 2018.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears owing to this related party amounted to \$174,974 (March 31, 2017 - \$174,974). The Company accepted partial financing in the form of a note payable in the amount of \$373,473 during fiscal 2014 from Tidal for a new facility in Pocono Summit. As at September 30, 2017 a balance of \$270,767 remains outstanding. Loans totaling \$420,003 owed to Spotton by Tidal have been consolidated into the net balance as of April 1, 2014 with the acquisition of Spotton Corp by the Company. The party agreed to discontinue interest accruing on unpaid balances as at April 1, 2016. Until then the interest was at bank prime plus 2% and accrued on the principal balance for a balance of \$182,889 as of September 30, 2017 (March 31, 2017 - \$182,889). The party has agreed not to demand repayment of the total balance of \$208,626 (March 31, 2016 - \$228,616) before December 2018 and the amount is classified as long-term.

On May 31, 2017, Tidal refinanced its approximately \$345,000 mortgage on one of its properties, increasing the mortgage to \$900,000. Plaintiff has guaranteed the Tidal loan and granted a security interest over its assets as security for this guarantee. Tidal used a portion of the proceeds from the refinancing to loan \$554,447 to the Company. The loan to the Company has a one (1)

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

year term and bears interest at a rate of 14% per annum. Interest is payable monthly and the principal is due on maturity.

The Company has a demand loan of up to \$1,800,000 with Targa. Under the loan agreement, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The party has agreed to discontinue interest payments accruing on balances as of April 1, 2016. The Targa Demand Loan is secured by a security interest granted over the assets of the Company. At September 30, 2017 \$NIL, (March 31 2016 - \$NIL) remained outstanding on the demand loan with accumulated interest of \$66,581 (March 31, 2017 - \$66,581) for a balance of \$66,581 (March 31, 2017 - \$66,581). The balance is classified as long-term as the related party has agreed not to demand payment before December 2018.

The Company has a revolving Line of Credit of up to \$1,000,000 with Targa. Under the loan agreement, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The party has agreed to discontinue interest payments accruing on balances as of April 1, 2016. At September 30, 2017, \$347,165 (March 31, 2017 - \$408,165) remained outstanding on the Line of Credit with accumulated interest of \$242,598 (March 31, 2017 - \$242,598) for a balance of \$613,763 (March 31, 2017 - \$646,763). Targa has agreed that it will not demand repayment before December 2018 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of \$134,812 (March 31, 2017 - \$134,812), on a loan from Targa remains outstanding as of September 30, 2017. The party has agreed not to demand repayment before December 2018 and, accordingly, the amount is classified as long-term.

### 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 2017 annual consolidated financial statements and have been applied to the periods presented in these condensed consolidated interim financial statements.

#### *New and revised IFRS in issue but not yet 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:

#### *New Standards effective April 2018*

##### *IFRS 9: Financial instruments*

Issued in July 2014, IFRS 9 replaces IAS 39 *Financial Instruments: recognition and measurement* ("IAS 39"). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in 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. The standard also adds guidance on the classification and measurement of financial liabilities and introduces a new hedge accounting model. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

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

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### IFRS 15: Revenue from contracts with customers

Issued in May 2014, IFRS 15 establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The main principle of this standard is that an entity shall recognize revenue to depict the transfer of promised services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Adoption of this IFRS is mandatory for annual reporting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

### IFRS 16: Leases

Issued in January 2016, IFRS 16 Introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

### **Summary of Outstanding Share Data**

As at November 15, 2017 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 March 31, 2017 of \$247,672 in accrued interest only. Interest is convertible in cash only.

Options:\*\*\* None

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.plaintree.com](http://www.plaintree.com).