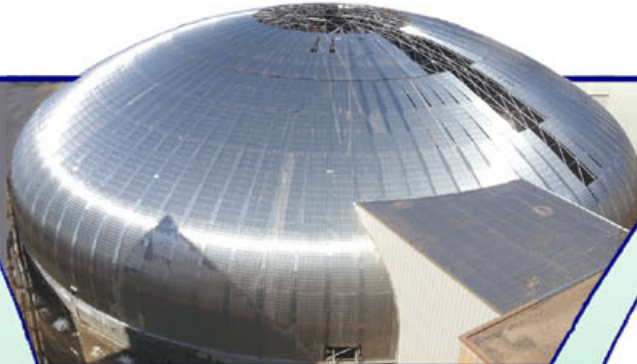




# PLAINTREE

## SYSTEMS INC.

**TRIODETTIC**



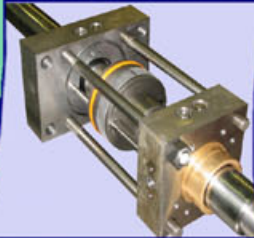
**PLAINTREE**



**HYPERNETICS**



**SPOTTON**



**SUMMIT**



**AFTC**



**Q3-2015**  
**For the nine**  
**months ending**  
**December 31, 2014**  
**Unaudited**

# **PLAINTREE SYSTEMS INC.**

## **Interim Condensed Consolidated Financial Statements** *(Unaudited)*

*For the three and twelve months ended December 31, 2014 and 2013*

### **Notice of No Auditor Review of Interim Financial Statements**

The accompanying unaudited interim condensed consolidated financial statements of Plaintiff Systems Inc. for the three and twelve months ended December 31, 2014 have been prepared by Management and approved by the Audit Committee and the Board of Directors of the Company. The Company's independent auditors have not performed a review of these financial statements, in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Date: February 24, 2015

"David Watson"  
David Watson, CEO

# PLAINTREE SYSTEMS INC.

## Condensed Consolidated Statements of Financial Position

(in Canadian dollars)

	December 31, 2014	March 31, 2014
	(unaudited)	(audited)
	\$	\$
<b>Assets</b>		
Trade receivables and other receivables	4,566,606	1,885,105
Unbilled revenue	547,726	1,895,308
Inventories (Note 4)	1,710,512	1,293,747
Prepaid expenses and other receivables	198,965	177,231
Note receivable (Note 5)	368,370	401,858
Due from related party	-	1,096,641
	<b>7,392,179</b>	<b>6,749,890</b>
<b>Non-current assets</b>		
PROPERTY, PLANT AND EQUIPMENT, NET (Note 7)	6,400,284	6,460,981
INTANGIBLE ASSETS (Note 8)	955,602	1,057,936
	<b>14,748,065</b>	<b>14,268,807</b>
<b>Total Assets</b>		
	<b>14,748,065</b>	<b>14,268,807</b>
<b>Current liabilities</b>		
Bank indebtedness	536,001	24,776
Trade and other payables	1,867,566	1,661,739
Deferred revenue	513,928	866,067
Deferred income (government grant) - current (Note 10)	10,068	-
Current portion of long-term debt - bank (Note 9)	689,929	4,041,993
Current portion of long-term debt - other (Note 10)	44,428	-
	<b>3,661,920</b>	<b>6,594,575</b>
LONG-TERM DEBT - Bank	2,834,617	-
LONG -TERM DEBT - Other (Note 10)	379,473	-
DUE TO RELATED PARTIES (Note 11)	5,502,512	7,579,907
DEFERRED INCOME (Government Grant) (Note 10)	73,254	-
	<b>12,451,776</b>	<b>14,174,482</b>
<b>Total Liabilities</b>		
	<b>12,451,776</b>	<b>14,174,482</b>
<b>Shareholders' equity</b>		
Issued capital (Note 13 )	2	2
Contributed surplus	1,807,336	-
Equity	488,951	94,323
	<b>2,296,289</b>	<b>94,325</b>
<b>Total Shareholder's equity</b>		
	<b>2,296,289</b>	<b>94,325</b>
	<b>14,748,065</b>	<b>14,268,807</b>

APPROVED BY THE BOARD

"David Watson"

"Girvan Patterson"

## PLAINTREE SYSTEMS INC.

### Interim Condensed Consolidated Statements of Comprehensive Profit (Loss)

(in Canadian dollars)

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
	\$	\$	\$	\$
<b>Revenue</b>	<b>3,969,822</b>	6,143,956	<b>15,408,009</b>	15,614,980
<b>Cost of sales</b>	<b>3,366,079</b>	5,618,963	<b>12,312,513</b>	12,367,436
<b>Gross margin</b>	<b>603,742</b>	524,993	<b>3,095,495</b>	3,247,543
<b>Operating expenses</b>				
Research and development	<b>439,428</b>	358,690	<b>1,096,423</b>	1,027,785
Finance and administration	<b>338,091</b>	329,990	<b>883,463</b>	951,613
Sales and marketing	<b>244,712</b>	164,831	<b>700,865</b>	529,034
Interest expense	<b>74,077</b>	78,831	<b>323,397</b>	206,175
Loss (gain) on foreign exchange	<b>8,359</b>	(56,405)	<b>78,111</b>	(56,044)
	<b>1,104,667</b>	875,937	<b>3,082,259</b>	2,658,563
Net (loss) income before other income	<b>(500,925)</b>	(350,944)	<b>13,237</b>	588,980
Other income				
Gain on forgiveness of debt (Note 11)	<b>381,391</b>	-	<b>381,391</b>	-
Net income (loss) and comprehensive income (loss)	<b>(119,534)</b>	(350,944)	<b>394,628</b>	588,980
Basic and diluted income (loss) per common share (Note 14)	<b>(0.05)</b>	(0.06)	<b>(0.05)</b>	(0.04)
Weighted average common shares outstanding	<b>12,925,253</b>	12,925,253	<b>12,925,253</b>	12,925,253

# PLAINTREE SYSTEMS INC.

## Interim Condensed Consolidated Statements of Cash Flows

(in Canadian dollars)

	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
	\$	\$
<b>Cash flows from operating activities</b>		
Profit for the period	394,628	588,980
Write-down of due to related party	(381,391)	-
Accretion of government assistance	(8,309)	-
Depreciation of intangible assets	102,334	100,397
Depreciation of property, plant and equipment	623,259	388,563
	<u>730,521</u>	<u>1,077,941</u>
<b>Movements in working capital</b>		
Increase in trade and other receivables	(2,681,501)	(1,503,246)
Decrease in unbilled revenue	1,347,582	387,775
Increase in inventories	(416,765)	(382,416)
Decrease (increase) in notes receivable	33,488	(38,237)
Increase in other assets	(21,734)	-
Increase in due from related parties	-	(126,539)
Increase in trade and other payables	205,827	158,109
(Decrease) increase in deferred revenue	(352,139)	65,972
Cash used in operations	<u>(1,154,721)</u>	<u>(360,641)</u>
Interest paid on related party debt	214,080	139,718
	<u>(940,641)</u>	<u>(220,925)</u>
<b>Cash flows from investing activities</b>		
Payments to acquire property, plant and equipment	(562,562)	(1,527,221)
Proceeds from disposal of property, plant and equipment	-	(3,626)
Net cash (used in) investing activities	<u>(562,562)</u>	<u>(1,530,847)</u>
<b>Cash flows from financing activities</b>		
Borrowings to acquire financial assets	1,110,406	1,180,283
Increase of government assistance	91,630	-
Repayment of borrowings	(527,314)	(716,235)
Increase of borrowings - related party	317,256	105,419
Net cash from financing activities	<u>991,978</u>	<u>569,467</u>
Net (decrease) in cash and cash equivalents	<u>(511,225)</u>	<u>(1,182,305)</u>
(Bank indebtedness) cash, beginning of period	<u>(24,776)</u>	145,760
(Bank indebtedness), end of period	<u>(536,001)</u>	<u>(1,036,546)</u>

# **PLAINTREE SYSTEMS INC.**

## **Notes to the condensed Consolidated Interim Statements**

### **for the Quarters ended December 31, 2014 and 2013 (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 CSE under "NPT". The Company operates an Electronics division (the Hypernetics business, the free space optics business and Summit Aerospace USA Inc. ("Summit") business) and a Specialty Structures division (the Triodetic business, the Arnprior Fire Trucks Corp. and Spotton 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. The Arnprior Fire Truck business designs and fabricates custom emergency vehicles. The Spotton business is a designer and manufacturer of high end custom hydraulic and pneumatic cylinders and valves. Summit, is a wholly-owned subsidiary of Plaintree which specializes in the high end machining of super-alloys for the aircraft and helicopter markets. 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**

##### **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 February 24, 2015. 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, 2014.

##### **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., Plaintree Systems Corp. and Triodetic Inc. (U.S. companies) and Arnprior Fire Trucks Corp., Triodetic Ltd. and Spotton Corp. (Canadian companies). 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. The accounting policies of subsidiaries align with the policies adopted by the Company. All inter-company transactions have been eliminated.

# PLAINTREE SYSTEMS INC.

## Notes to the condensed Consolidated Interim Statements for the Quarters ended December 31, 2014 and 2013 (unaudited) (in Canadian dollars)

---

### 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 2014 annual consolidated financial statements and have been applied consistently to the periods presented in these condensed consolidated interim financial statements.

*New and revised IFRS in issue but not effective*

#### **IFRS 9 Financial Instruments ("IFRS 9")**

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 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 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. 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 non-derivative hosts not within the scope of the standard. IFRS 9 is effective January 21, 2018. The impact of this ongoing project will be assessed by the Company as remaining phases of the project are complete.

*New and revised IFRS in issue but not effective*

#### **Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**

Amendments to IAS 32 *Financial Instruments: Presentation* clarifies certain aspects because of diversity in application of the requirements on offsetting, focus on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The IAS 32 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014.

#### **IFRIC 21 Levies ("IFRIC 21")**

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- the liability is recognised progressively if the obligating event occurs over a period of time.
- if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

#### **IAS 36 Impairment of Assets ("IAS 36")**

In May 2013, the IASB amended IAS 36 to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014.

**PLAINTREE SYSTEMS INC.**  
**Notes to the condensed Consolidated Interim Statements**  
**for the Quarters ended December 31, 2014 and 2013 (unaudited)**  
**(in Canadian dollars)**

---

**3. Significant accounting policies (continued)**

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. This standard is applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2017

The impact of these standards and amendments has not yet been determined.

**4. Inventories**

	December 31, 2014	March 31, 2014
	\$	\$
Raw materials	999,166	505,003
Work in process	598,990	600,148
Finished goods	112,356	188,596
	<b>1,710,512</b>	<b>1,293,747</b>

The cost of inventories recognized as an expense during the nine month period was \$12,102,753 (December 31, 2013 - \$9,651,636). The total carrying value of inventory at December 31, 2014 was pledged as security through general security agreements under bank lines of credit and related party liabilities.

The Company wrote down its inventories by \$NIL for the nine months ended December 31, 2014 (December 31, 2014 - \$NIL) to reflect where the carrying amount exceeded net realizable value. Recoveries of inventory write-downs for the nine months ended December 31, 2014 and December 31, 2013 was \$90,122, \$70,076 respectively.

**5. Note receivable**

On March 28, 2012, the Company sold one of its two manufacturing buildings for \$470,000. The Company assumed a vendor take-back first mortgage of \$446,509 for a three-year term with interest at prime plus 2% per annum and principal repayments beginning April 1, 2013. As at December 31, 2014, a balance of \$368,370 remained owing to the Company. The note matures on March 31, 2015 and as such the note is recorded as a current asset.



# PLAINTREE SYSTEMS INC.

## Notes to the condensed Consolidated Interim Statements for the Quarters ended December 31, 2014 and 2013 (unaudited) (in Canadian dollars)

### 6. Due from related party

Subsequent to year-end, the Company purchased the assets of Spotton Corporation. All inter-company transactions have been eliminated.

### 7. Property, plant and equipment

	Factory equipment	Computer equipment	Furniture	Vehicles	Lease improvements	Building	Land	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance as of March 31, 2014	3,080,104	9,851	18,200	96,279	1,297,036	1,674,080	285,431	6,460,981
Additions	161,003	2,766	-	48,216	350,577	-	-	562,562
Depreciation	(366,677)	(4,785)	(3,420)	(36,337)	(136,745)	(75,296)	-	(623,259)
Balance as of December 31, 2014	2,874,430	7,832	14,780	108,158	1,510,868	1,598,784	285,431	6,400,284

### 8. Intangible assets

	Customer relationship	Non-competition agreement	Computer software	Total
	\$	\$	\$	\$
March 31, 2014	1,042,616	6,923	8,397	1,057,936
Depreciation	(97,745)	(1,154)	(3,435)	(102,334)
<b>December 31, 2014</b>	<b>944,871</b>	<b>5,769</b>	<b>4,962</b>	<b>955,602</b>

**PLAINTREE SYSTEMS INC.**  
**Notes to the condensed Consolidated Interim Statements**  
**for the Quarters ended December 31, 2014 and 2013 (unaudited)**  
**(in Canadian dollars)**

**9. Long-term debt - bank**

	<b>December 31, 2014</b>	<b>March 31, 2014</b>
	\$	\$
Mortgage loan, payable in monthly principal installments of \$4,028, bearing interest at a rate equal to the bank's LIBOR rate plus 3.5%, secured by a general security agreement, maturing May 2020.	<b>752,293</b>	756,960
Bank loan, payable in monthly blended installments of \$4,221, bearing interest at a rate of prime plus 1.25% per annum, secured by a general security agreement, maturing October 2027.	<b>309,736</b>	337,385
Term loan payable in monthly blended installments of \$733, bearing interest at a rate of prime minus 0.65% per annum, secured by a mortgage on a property, maturing November 2016.	<b>92,977</b>	97,871
Demand non-revolving loan payable in monthly blended installments of \$691, at a rate of prime plus 1.5%, secured by general security agreement, maturing five years from the date of each draw-down or February 2022.	<b>74,179</b>	80,618
Demand non-revolving loan payable in monthly blended installments of \$2,867, at a rate of prime plus 1.5%, secured by a general security agreement, maturing five years from the date of each draw-down or October 2021.	<b>290,666</b>	317,464
Demand non-revolving loan payable in monthly blended installments of \$4,901, at a rate of prime plus 1.5%, secured by a general security agreement, maturing ten years following full draw-down of the loan or June 2016.	<b>205,652</b>	251,497
Demand non-revolving USD denominated loan payable in monthly blended installments of US\$65,000, interest at LIBOR plus 3% per annum, maturing January 2016.	<b>1,371,944</b>	1,675,073
Demand non-revolving US denominated 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.	<b>325,298</b>	398,576
Term non-revolving USD denominated loan payable in monthly installments of \$3,161, bearing interest at the rate of prime plus 1.25% per annum, secured by a general security agreement, maturing September 2018.	<b>101,802</b>	126,549
	<b>3,524,546</b>	4,041,993
Current Portion	<b>689,929</b>	4,041,993
Balance	<b>2,834,617</b>	-

**PLAINTREE SYSTEMS INC.**  
**Notes to the condensed Consolidated Interim Statements**  
**for the Quarters ended December 31, 2014 and 2013 (unaudited)**  
**(in Canadian dollars)**

---

**10. Long-term debt - other**

The Company's Summit Aerospace USA Inc. division accepted a loan from the Pennsylvania Industrial Development Authority (PIDA) as partial financing towards the manufacturing facility in Pocono Summit, PA purchased in May 2013. In April 2014 the Company received a draw from the loan in the amount of \$421,852 USD (\$450,117 CND). Monthly repayments are amortized over fifteen years at a fixed rate of 1.5%. The loan facility is for an aggregate of \$720,000 USD 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.

	Present Value	Deferred Government Assistance	Long-term Debt (Government Loan)
Opening Balance	397,760	91,630	489,391
Repayments	17,047		17,047
Accretion	- 8,308	8,308	-
December 31 2014	389,022	83,322	472,344
Current Portion	29,572	10,068	39,640
Balance	359,450	73,254	432,704

The Company accepted a loan through Ford Credit for the purchase of a plant vehicle in the amount of \$36,008 for five years at a fixed rate of interest of 2.49%. Monthly payments are \$638.90. As at December 31, 2014 a balance of \$34,879 remains outstanding.

	December 31, 2014	March 31, 2014
Ford Credit	34,879	-
PIDA Loan	389,022	-
	423,901	-
Current Portion	44,428	-
	379,473	-

**PLAINTREE SYSTEMS INC.**  
**Notes to the condensed Consolidated Interim Statements**  
**for the Quarters ended December 31, 2014 and 2013 (unaudited)**  
**(in Canadian dollars)**

**11. Due to related parties**

	<b>December 31, 2014</b>	March 31, 2014
	\$	\$
Due to senior officers	<b>3,959,737</b>	<b>3,665,568</b>
Dividends payable	<b>60,000</b>	<b>60,000</b>
Due to Targa Group Inc. and affiliates, debenture interest	<b>247,672</b>	<b>247,672</b>
Due to Tidal Quality Management Inc.	<b>277,868</b>	<b>713,284</b>
Due to Targa Group Inc. and affiliates, line of credit	<b>755,842</b>	<b>1,194,737</b>
Due to Targa Group Inc. and affiliates, demand loan	<b>66,581</b>	<b>1,563,833</b>
Due to Targa Group Inc. and affiliates, demand loan interest	<b>134,812</b>	<b>134,813</b>
	<b>5,502,512</b>	<b>7,579,907</b>
Less: current portion	-	-
	<b>5,502,512</b>	<b>7,579,907</b>

As at December 31, 2014, a balance of \$3,959,737 (\$2,907,126 principal and \$1,052,610 interest), (March 31, 2014 - \$2,718,820 in principal and \$947,048 in interest) remained owing to senior officers of the Company. These amounts are classified as long-term as the parties have agreed not to demand repayment before February 2016.

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, 2014 - \$60,000) of the dividend remains outstanding as of December 31, 2014. The balance is classified as long-term as the related party has agreed not to demand payment before February 2016.

As at December 31, 2014, a balance of \$247,672 in debenture interest (March 31, 2014 - \$247,672) is outstanding. The balance is classified as long-term as the related party has agreed not to demand payment before February 2016.

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, 2014 - \$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 December 31, 2014 a balance of \$345,109 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 interest is at bank prime plus 2% and accrues on the principal balance for a balance of \$177,789 as of December 31, 2014 (March 31, 2014 - \$171,852). The party has agreed not to demand repayment of the total balance of \$277,868 (March 31, 2014 - \$713,284) before February 2016 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 and affiliates. Under the loan agreements, 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 the end of December, an affiliate of Targa forgave a portion of the loan amounting to \$2,099,825 including accumulated interest in the amount of \$88,903 for a total of \$2,188,728. The estimated fair value of the forgiven debt totalling \$1,807,336 was recorded directly to shareholders' equity as a contribution to the Company while the difference in the amount of \$381,391 was recorded as a gain on settlement of debt in the statement of comprehensive income (loss). As a result of the forgiveness of debt, at December 31, 2014, \$NIL, (March 31, 2014 - \$1,000,000) remained outstanding on the line of credit with accumulated interest of \$214,627 (March 31, 2014 - \$194,737) for a balance of \$755,842 (March 31, 2014 - \$1,194,737). At December 31, 2014, \$NIL, (March 31, 2013 - \$1,491,040) remained outstanding on the demand loan with accumulated interest of \$66,581 (March 31, 2014 - \$72,793.46 for a

**PLAINTREE SYSTEMS INC.**  
**Notes to the condensed Consolidated Interim Statements**  
**for the Quarters ended December 31, 2014 and 2013 (unaudited)**  
**(in Canadian dollars)**

---

**11. Due to related parties (continued)**

balance of \$66,581 (March 31, 2014 - \$1,563,833). Targa has agreed that it will not demand repayment before February 2016 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of \$134,813 (March 31, 2013 - \$134,813), on a loan from Targa, for which the principal was fully repaid in fiscal 2008, remains outstanding as of December 31, 2014. The party has agreed not to demand repayment before February 2016 and, accordingly, the amount is classified as long-term.

**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 December 31 2014, the accrued and unpaid dividends on the Class A preferred shares were \$9,095,500.

**13. Basic and diluted earnings per common share**

	<b>Three Months December 31, 2014 (unaudited)</b>	<b>Three Months December 31, 2013 (unaudited)</b>
	\$	\$
Net loss	<b>(119,534)</b>	(350,945)
Cumulative dividends on preferred shares - three months	<b>(366,500)</b>	(366,500)
Net loss attributable to common shares (basic and diluted)	<b>(605,568)</b>	(717,445)
Basic and diluted weighted average shares outstanding	<b>12,925,253</b>	12,925,253
Basic and diluted (loss) per share	<b>(0.05)</b>	(0.06)

	<b>Nine Months December 31, 2014 (unaudited)</b>	<b>Nine Months December 31, 2013 (unaudited)</b>
	\$	\$
Net income	<b>394,628</b>	588,980
Cumulative dividends on preferred shares - nine months	<b>(1,099,500)</b>	(1,099,500)
Net loss attributable to common shares (basic and diluted)	<b>(704,872)</b>	(510,520)
Basic and diluted weighted average shares outstanding	<b>12,925,253</b>	12,925,253
Basic and diluted earnings (loss) per share	<b>(0.05)</b>	(0.04)

**PLAINTREE SYSTEMS INC.**  
**Notes to the condensed Consolidated Interim Statements**  
for the Quarters ended December 31, 2014 and 2013 (unaudited)  
(in Canadian dollars)

**14. Segmented 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. From time to time, the Company provides management services primarily to related companies. The revenue and cost of sales related to these services are presented in the consolidated statements of comprehensive (loss) income. No other expenses or assets are attributable to this segment. 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 nine months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	\$	\$	\$	\$
Electronics	1,980,715	1,391,825	5,057,160	4,157,548
Specialty structures	1,989,107	4,752,131	10,350,849	11,457,432
	<b>3,969,822</b>	<b>6,143,956</b>	<b>15,408,009</b>	<b>15,614,980</b>

**Net loss income from operations before taxes by division**

	For the three months ended		For the nine months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	\$	\$	\$	\$
Electronics	167,615	170,836	305,771	588,231
Specialty structures	(668,539)	(521,780)	(292,534)	749
	<b>(500,924)</b>	<b>(350,944)</b>	<b>13,237</b>	<b>588,980</b>

**Revenues by geographical location**

	For the three months ended		For the nine months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	\$	\$	\$	\$
Canada	2,023,141	4,608,021	8,419,742	11,310,416
United states	1,769,759	1,154,042	5,200,192	3,552,291
Peru	68,242	362,343	1,572,196	651,870
Other	108,680	19,550	215,879	100,403
	<b>3,969,822</b>	<b>6,143,956</b>	<b>15,408,009</b>	<b>15,614,980</b>

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

	For the three months ended		For the nine months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	\$	\$	\$	\$
Number of customers	2	1	2	2
% of total revenue	29%	20%	25%	50%

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

---

## PLAINTREE SYSTEMS INC.

*For the three and nine months ended December 31, 2014 and 2013*

**Date – February 24, 2014**

The following discussion and analysis is the responsibility of management and has been reviewed by the Audit Committee of Plaintree Systems Inc (“Plaintree” or the “Company”) and approved by the Board of Directors of Plaintree. 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 Plaintree is for the three and nine months ended December 31, 2014 and 2013. 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 February 24, 2015 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 (“NI 52-109”), have both certified that they have reviewed the interim financial statements 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 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 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") business) and a Specialty Structures division (the Triodetic business, Arnprior Fire Trucks Corp. business and Spotton Corporation business). 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, including non-US sales activity through Triodetic Ltd. a wholly-owned subsidiary, is a design/build manufacturer of steel, aluminium and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings. Summit Aerospace USA Inc is a wholly-owned subsidiary of Plaintree which specializes in the high end machining of super-alloys for the aircraft and helicopter markets. Arnprior Fire Trucks Corp. is a wholly-owned subsidiary of Plaintree which specializes in the design and manufacturing of fire trucks for municipal and commercial use. Spotton Corporation is a wholly-owned subsidiary of Plaintree which is in the business of designing and manufacturing high end custom hydraulic and pneumatic valves and cylinders for the industrial and oil and gas markets. The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario, K7S 0C3.

### **Recent Developments**

On December 31, 2014 the Company recorded a write-down on a related party debt after Targa and its affiliate's forgave a loan amount in the amount of \$2,099,825 and accumulated interest of \$88,903 for a total of \$2,188,728.

On May 23, 2013 the Company along with its wholly-owned US subsidiary completed the acquisition of a 16,300 sq. ft. manufacturing facility in Pocono Summit, PA. The Company increased its credit facility with its bankers (HSBC Bank USA) and obtained a short-term loan from a related party for the purposes of financing the \$1.1M acquisition. The relocation of Summit Aerospace USA Inc. was completed in June 2014.

On April 1, 2014, the Company has reorganized the non-US sales activities of Triodetic and all of the sales activities in relation to non-US business will be dealt with by Triodetic Ltd., a wholly-owned subsidiary of Plaintree. Plaintree's Triodetic division will still continue to manufacture the structures to be sold through Triodetic Ltd.

On March 31, 2014, the Company acquired all of the shares of Spotton Corporation for \$120.

### **Control Activities**

For all changes to policies and procedures that have been identified, the effectiveness of internal controls over financial reporting and disclosure controls and procedures has been assessed and any required changes have been implemented.

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

### 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)*

	<b>December 31, 2014</b>	March 31, 2014
	<b>\$</b>	<b>\$</b>
Total assets	<b>14,748</b>	6,750
Total liabilities	<b>12,452</b>	14,174
Long-term liabilities	<b>8,790</b>	7,580
Cash dividends declared per share	<b>Nil</b>	nil

*(\$000s, except per share amounts)*

	<b>Three months ended December 31, 2014</b>	<b>Three months ended December 31, 2013</b>
	<b>\$</b>	<b>\$</b>
Revenue	<b>3,970</b>	6,144
Net income (loss) and total comprehensive income (loss)	<b>(120)</b>	(351)
Net loss attributed to common shareholders	<b>(606)</b>	(717)
Basic and diluted (loss) per share	<b>(0.05)</b>	(0.06)

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

(\$000s, except per share amounts)

	Nine months ended December 31, 2014	Nine months ended December 31, 2013
	\$	\$
Revenue	15,408	15,615
Net income and total comprehensive income	394	589
Net income (loss) attributed to common shareholders	(705)	(511)
Basic and diluted earnings (loss) per share	(0.05)	(0.04)

### Results of Operations

	Plaintree Systems Inc. (\$000s, except per share and % amounts) for the three months ended			Change from
	December 31, 2014	December 31, 2013	2013 to 2014	
	\$	\$	\$	
Revenue	3,970	6,144	(2,174)	
Cost of sales	3,366	5,619	2,253	
Gross margin	604	525	79	
	15%	8%		
<i>Operating expenses:</i>				
Research and development	440	359	81	
Finance and administration	338	330	8	
Sales and marketing	245	165	80	
Interest expense	74	79	(5)	
Loss on foreign exchange	8	(57)	65	
	1,105	876	229	
Net income before other income	(501)	(351)	(150)	
Write-down of due to related party	381	-	381	
Net income (loss) and comprehensive income (loss)	(120)	(351)	231	

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

### Plaintree Systems Inc.

	(\$000s, except per share and % amounts) for the nine months ended		Change from
	December 31, 2014 \$	December 31, 2013 \$	2013 to 2014 \$
Revenue	15,408	15,615	(207)
Cost of sales	12,313	12,367	(54)
Gross margin	3,095 20%	3,248 21%	153
<i>Operating expenses:</i>			
Research and development	1,096	1,028	68
Finance and administration	884	952	(68)
Sales and marketing	701	529	172
Interest expense	323	206	117
Loss on foreign exchange	78	(56)	134
	3,082	2,659	423
Net income before other income	13	589	(576)
Write-down of due to related party	381	-	381
Net income and comprehensive income	394	589	195

### Business Segment Information

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

#### Revenues by division

	For the three months ended		For the nine months ended	
	December 31, 2014 \$	December 31, 2013 \$	December 31, 2014 \$	December 31, 2013 \$
Electronics	1,980,715	1,391,825	5,057,160	4,157,548
Specialty structures	1,989,107	4,752,131	10,350,849	11,457,432
	3,969,822	6,143,956	15,408,009	15,614,980

#### Net income from operations

	For the three months ended		For the nine months ended	
	December 31, 2014 \$	December 31, 2013 \$	December 31, 2014 \$	December 31, 2013 \$
Electronics	167,615	170,836	305,771	588,231
Specialty structures	(668,539)	(521,780)	(292,534)	749
	(500,924)	(350,944)	13,237	588,980

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

### Revenues by geographical location

	For the three months ended		For the nine months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	\$	\$	\$	\$
Canada	2,023,141	4,608,021	8,419,742	11,310,416
United states	1,769,759	1,154,042	5,200,192	3,552,291
Peru	68,242	362,343	1,572,196	651,870
Other	108,680	19,550	215,879	100,403
	<b>3,969,822</b>	<b>6,143,956</b>	<b>15,408,009</b>	<b>15,614,980</b>

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

	For the three months ended		For the nine months ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	\$	\$	\$	\$
Number of customers	2	1	2	2
% of total revenue	29%	20%	25%	50%

## Revenues

### Revenue

Total product revenue for the nine months ended December 31, 2014 was \$15,408,009 compared to \$15,614,980 for nine months ended December 31, 2013.

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

Plaintree's Electronics Division revenue increased to \$5,057,160 in the nine months ended December 31, 2014 compared to \$4,157,548 for the nine months ended December 31, 2013.

Plaintree's Specialty Structures Division revenue was \$10,350,849 in the nine months ended December 31, 2014 compared to \$11,457,432 for the nine months ended December 31, 2013.

## Gross Margin

Total gross margin remained consistent in the first nine months of fiscal 2015 at 20% from 21% for the first nine months of fiscal 2014.

## Operating Expenses

### Research and development expenses

Research and development expenses were \$1,096,423 and \$1,027,785 in the first nine months of fiscal 2015 and 2014 respectively. Research and development expenditures consist primarily of development engineering and personnel expenses.

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

---

### **Finance and administration expenses**

Finance and administration expenses were \$883,463 and \$951,613 in the first nine months of fiscal 2015 and 2014 respectively. 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.

### **Sales and marketing expenses**

Sales and marketing expenses were \$700,865 and \$529,034 in the first nine months of fiscal 2015 and 2014 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.

### **Interest expense**

Interest expense consists of interest incurred on bank and related party debt. Interest expenses were \$323,397 and \$206,175 for the first nine months of fiscals 2015 and 2014, respectively. Interest expense increased primarily due to the increase in borrowings for plant 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 losses on foreign exchange of \$78,111 and a gain on foreign exchange of \$(56,044) in the nine months of fiscal 2015 and 2014 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 Profit (Loss), Comprehensive Income (Loss) and Net Profit (Loss) Attributable to Common Shareholders**

Net profit (loss) and comprehensive profit (loss) for the first nine months of fiscals 2015 and 2014 was (\$704,872) and \$(510,520) respectively. Net profit (loss) attributed to common shareholders is calculated by reducing net income by the \$1,466,000 cumulative yearly 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 of December 31, 2014, the accrued and unpaid dividends on the Class A preferred shares were \$9,095,500.

## 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 2015 and fiscal 2014:

#### Quarters ended

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

	Dec 31 <u>2014</u> \$	Sept 30 <u>2014</u> \$	June 30 <u>2014</u> \$	Mar 31 <u>2014</u> \$	Dec 31 <u>2013</u> \$	Sept 30 <u>2013</u> \$	June 30 <u>2013</u> \$	Mar 31 <u>2013</u> \$
Revenue	3,970	6,770	4,669	5,189	6,144	5,859	3,612	4,118
Net profit (loss) and total comprehensive income (loss)	(120)	1,040	(526)	(2,300)	(351)	801	139	212
Net profit (loss) attributed to common shareholders	(606)	674	(893)	(2,667)	(717)	435	(228)	(155)
Basic and diluted earnings (loss) per shareholder	(0.05)	0.05	(0.07)	(0.12)	(0.04)	(0.02)	(0.02)	(0.02)

### Liquidity and Capital Resources

(\$000s)

	<u>December 31, 2014</u>	<u>December 31, 2013</u>	<u>Change</u>
Cash	\$ (536)	\$ (1,037)	\$ 501
Working Capital	3,730	4166	(436)

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

	December 31, 2014	December 31, 2013	Change
<i>Net cash (used in) provided by:</i>			
	\$	\$	\$
Operating activities	(941)	(221)	(720)
Investing activities	(563)	(1,531)	968
Financing activities	992	569	423

### Cash

As at December 31, 2014, the Company was indebted to the bank by \$536,001 in cash, an increase of \$511,225 from March 31, 2014.

### Working Capital

Working capital represents current assets less current liabilities. As at December 31, 2014, the Company had positive working capital of \$3,730,259 compared to working capital of \$155,315 at March 31, 2014 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, capital and debt service ratios). The Company was in breach of the debt service ratio to which the bank has provided forbearance until April 1, 2015. The bank expects the Company to be back in covenant by March 31, 2015. 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 for March 31, 2014 was \$3,308,645.

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

Cash used in operating activities for the first nine months of Fiscal 2015 was \$(940,642) representing an increase of \$719,717 from cash used of \$(220,925) in the first nine months of 2014. Cash used in operating activities during fiscal 2015 mainly relates to increase in trade receivables, inventories and deferred revenues.

### Cash (used in) Investing activities

Cash used in investing activities for the first nine months of 2015 was \$(562,562) representing a decrease of \$968,285 from cash used in investing activities of \$(1,530,847) in the first nine months of fiscal 2014.

### Cash provided by financing activities

Cash provided by financing activities for the first half months of fiscal 2015 was \$991,979 representing an increase of \$422,512 from cash provided by financing of \$569,467 in the first half of fiscal 2014.

### Outlook

The first nine months of fiscal 2015 concluded with a net income from operations of \$13,237 and a net income of \$394,628 after other income of \$381,391 before adjusting for accrued and unpaid dividends on the Class A preferred shares. Continued growth for the Company is expected from Summit Aerospace and Arnprior Fire Trucks Corp in the next several years. The Company has increased their investment into high end, robust and versatile manufacturing equipment throughout



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

all of its divisions. Plaintiff moved to a larger facility in late fiscal 2011 to ensure it had sufficient capacity for growth for its Canadian operations.

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 obligations to Class A preferred shareholders and provide income and cash flow attributable to common shareholders.

### **Related Party Transactions**

#### **Due from Related Party**

Subsequent to year-end, the Company purchased the assets of Spotton Corporation. All inter-company transactions have been eliminated.

#### **Due to Related Party**

As at December 31, 2014, a balance of \$3,959,737 (\$2,907,126 principal and \$1,052,610 interest), (March 31, 2014 - \$2,718,820 in principal and \$947,048 in interest) remained owing to senior officers of the Company. These amounts are classified as long-term as the parties have agreed not to demand repayment before February 2016.

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, 2014 - \$60,000) of the dividend remains outstanding as of December 31, 2014. The balance is classified as long-term as the related party has agreed not to demand payment before February 2016.

As at December 31, 2014, a balance of \$247,672 in debenture interest (March 31, 2014 - \$247,672) is outstanding. The balance is classified as long-term as the related party has agreed not to demand payment before February 2016.

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, 2014 - \$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 December 31, 2014 a balance of \$345,109 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 interest is at bank prime plus 2% and accrues on the principal balance for a balance of \$177,789 as of December 31, 2014 (March 31, 2014 - \$171,852). The party has agreed not to demand repayment of the total balance of \$277,868 (March 31, 2014 - \$713,284) before February 2016 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 and affiliates. Under the loan agreements, 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 the end of December, an affiliate of Targa forgave a portion of the loan amounting to \$2,099,825 including accumulated interest in the amount of \$88,903 for a total of \$2,188,728. The estimated fair value of the forgiven debt totalling \$1,807,336 was recorded directly to shareholders' equity as a contribution to the Company while the difference in the amount of \$381,391 was recorded as a gain on settlement of debt in the statement of comprehensive income (loss). As a result of the forgiveness of debt, at December 31, 2014, \$NIL, (March 31, 2014 - \$1,000,000) remained outstanding on the line of credit with accumulated interest of \$214,627 (March 31, 2014 - \$194,737) for a balance of \$755,842 (March 31, 2014 - \$1,194,737). At December 31, 2014, \$NIL, (March 31, 2013 - \$1,491,040) remained outstanding on the demand loan with accumulated interest of \$66,581 (March 31, 2014 - \$72,793.46 for a balance of \$66,581 (March 31, 2014 - \$1,563,833). Targa has agreed that it will not demand repayment before February 2016 and, accordingly, the amounts are classified as long-term.

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

Accumulated interest in the amount of \$134,813 (March 31, 2013 - \$134,813), on a loan from Targa, for which the principal was fully repaid in fiscal 2008, remains outstanding as of December 31, 2014. The party has agreed not to demand repayment before February 2016 and, accordingly, the amount is classified as long-term.

### Facilities

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

On May 23, 2013 the Company along with its wholly-owned US subsidiary completed the acquisition of a 16,300 sq. ft. manufacturing facility in Pocono Summit, PA. The relocation of Summit Aerospace USA Inc. from its leased location was completed in June 2014.

### New and Revised IFRS in Issue but not Effective

#### *IFRS 9 Financial Instruments ("IFRS 9")*

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 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 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. 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 non-derivative hosts not within the scope of the standard. IFRS 9 is effective January 1, 2018. The impact of this ongoing project will be assessed by the Company as remaining phases of the project are complete.

#### *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*

Amendments to IAS 32 *Financial Instruments: Presentation* clarifies certain aspects because of diversity in application of the requirements on offsetting, focus on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The IAS 32 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014.

#### *IFRIC 21 Levies ("IFRIC 21")*

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- the liability is recognised progressively if the obligating event occurs over a period of time.

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

- if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

### *IAS 36 Impairment of Assets ("IAS 36")*

In May 2013, the IASB amended IAS 36 to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. This standard is applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2017

The impact of these standards and amendments has not yet been determined.

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

As at February 24, 2015, 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, 2014, of \$247,672 in accrued interest only. Interest is convertible in cash only.

Options:\*\*\* None

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

---

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).