

MADAWASKA DOORS



SPOTTON



HYPERNETICS



SUMMIT AEROSPACE



ARNPRIOR FIRE TRUCKS



TRIODETIC



PLAINTREE SYSTEMS INC.

Q3-2017 For the three and nine months
ending December 31, 2016
Unaudited

“Notice to Reader”

The accompanying unaudited interim consolidated financial statements of Plaintiff Systems Inc. for the three and nine months ended December 31, 2016 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: February 22, 2017

“David Watson”

David Watson
CEO

Plaintree Systems Inc.

Consolidated statements of financial position
as of December 31, 2016 and March 31, 2016
(unaudited)

(in Canadian dollars)

| | December 31, 2016 | March 31, 2016 |
|---|-------------------|----------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Trade receivables and other receivables | 2,137,212 | 2,711,810 |
| Unbilled revenue | 1,140,600 | 364,981 |
| Inventories (Note 4) | 2,269,694 | 2,232,395 |
| Prepaid expenses and other receivables | 138,787 | 91,103 |
| | 5,686,293 | 5,400,289 |
| Property, plant and equipment (Note 5) | 5,831,389 | 5,888,195 |
| Intangible assets (Note 6) | 689,640 | 791,978 |
| | 12,207,322 | 12,080,462 |
| Liabilities | | |
| Current liabilities | | |
| Cash deficit | 877,992 | 4,576 |
| Trade and other payables | 3,141,209 | 2,339,216 |
| Deferred revenue | 469,724 | 625,693 |
| Current portion of long-term debt (Note 7) | 2,091,629 | 2,701,665 |
| Current portion of obligations under lease capital (Note 8) | 47,076 | 48,024 |
| Current portion of deferred government assistance (Note 9) | 19,000 | 19,500 |
| Current portion of government assistance (Note 9) | 39,000 | 38,100 |
| | 6,685,630 | 5,776,774 |
| Long-term debt (Note 7) | 393,147 | - |
| Obligations under lease capital (Note 8) | 85,728 | 115,237 |
| Deferred government assistance (Note 9) | 113,989 | 123,140 |
| Repayable government assistance - other (Note 9) | 660,651 | 668,625 |
| Due to related parties (Note 10) | 5,782,907 | 5,871,546 |
| | 13,722,052 | 12,555,322 |
| Shareholders' equity | | |
| Issued capital | 2 | 2 |
| Contributed surplus | 2,090,750 | 2,090,750 |
| Deficit | (3,605,482) | (2,565,612) |
| | (1,514,730) | (474,860) |
| | 12,207,322 | 12,080,462 |

Approved by the Board

"David Watson"

"Girvan Patterson"

Plaintree Systems Inc.

Condensed consolidated interim statements of comprehensive income (loss)

for the three and nine months ended December 31, 2016 and December 31, 2015

(unaudited)

(in Canadian dollars)

| | Three Months Ended December 31, 2016 | Three Months Ended December 31, 2015 | Nine Months Ended December 31, 2016 | Nine Months Ended December 31, 2015 |
|--|---|---|--|--|
| | \$ | \$ | \$ | \$ |
| Revenue | 3,342,880 | 3,648,065 | 12,438,180 | 11,030,756 |
| Cost of sales | 3,097,396 | 3,144,173 | 10,919,422 | 9,995,781 |
| Gross margin | 245,483 | 503,891 | 1,518,757 | 1,034,974 |
| Operating expenses | | | | |
| Research and development | 299,056 | 322,057 | 980,420 | 984,375 |
| Finance and administration | 250,495 | 285,422 | 718,381 | 859,610 |
| Sales and marketing | 144,520 | 261,173 | 581,672 | 770,647 |
| Loss on disposal of assets | - | - | 6,475 | - |
| Interest expense | 70,986 | 118,771 | 190,938 | 318,515 |
| Gain on foreign exchange | 44,150 | 52,802 | 80,743 | 160,173 |
| | 809,206 | 1,040,225 | 2,558,627 | 3,093,319 |
| Net (loss) and comprehensive (loss) | (563,723) | (536,335) | (1,039,870) | (2,058,347) |
| Basic and diluted (loss) per common share | (0.07) | (0.07) | (0.14) | (0.24) |
| Weighted average common shares outstanding | 12,925,253 | 12,925,253 | 12,925,253 | 12,925,253 |

Plaintree Systems Inc.

Consolidated statements of cash flows

for the three and nine months ended December 31, 2016 and December 31, 2015

(unaudited)

(in Canadian dollars)

| | December 31, 2016 | December 31, 2015 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Net (loss) | (1,039,870) | (2,058,343) |
| Add (deduct) items not affecting cash: | | |
| Depreciation of intangible assets | 102,338 | 104,002 |
| Depreciation of property, plant and equipment | 722,213 | 719,418 |
| Loss on the sale of property, plant and equipment | 6,475 | - |
| Changes in non-cash operating working capital items | | |
| Trade and other receivables | 574,598 | 571,199 |
| Unbilled revenue | (775,620) | 331,143 |
| Inventories | (37,299) | (341,672) |
| Prepaid expenses and other receivables | (47,685) | 99,686 |
| Notes receivable | - | 357,207 |
| Trade and other payables | 801,997 | (6,533) |
| Deferred revenue | (155,969) | 238,470 |
| Interest paid on related party debt (Note 10) | - | 128,981 |
| Cash (used in) provided by operations | 151,178 | 143,558 |
| Cash flows from investing activities | | |
| Payments to acquire intangibles | - | (4,722) |
| Payments to acquire property, plant and equipment | (687,278) | (496,919) |
| Proceeds on disposal of property, plant and equipment | 15,396 | - |
| Net cash (used) in investing activities | (671,882) | (501,641) |
| Cash flows (used in) from financing activities | | |
| Repayment of government assistance | (16,725) | (35,355) |
| Borrowings to acquire financial assets | 496,939 | - |
| Repayment of long-term debt | (744,286) | (576,985) |
| Increase (repayment) in related party borrowings | (88,639) | 55,870 |
| Net (used in) cash from financing activities | (352,711) | (556,470) |
| Net cash inflow | (873,415) | (843,843) |
| (Bank indebtedness) cash, beginning of the period | (4,576) | 57,757 |
| (Bank indebtedness) cash, end of the period | (877,992) | (786,086) |

PLAINTREE SYSTEMS INC.

Condensed consolidated interim Statement of changes in equity
for the periods ended December 31 2016 and December 31, 2015
(unaudited)

| | Common Shares Number | Issued Capital | Preferred Shares (1) Number | Issued Capital | Contributed Surplus | Equity (Deficit) | Shareholders' Equity |
|---------------------------------|-------------------------|----------------|--------------------------------|----------------|---------------------|------------------|----------------------|
| Balances at March 31, 2016 | 12,925,253 | \$ 1 | 18,325 | \$ 1 | 2,090,750 | (2,565,612) | (474,860) |
| Net loss and comprehensive loss | | | | | | (1,039,870) | (1,039,870) |
| Balances at December 31, 2016 | 12,925,253 | \$ 1 | 18,325 | \$ 1 | 2,090,750 | (3,605,482) | (1,514,730) |
| | | \$ | | \$ | \$ | \$ | \$ |
| Balances at March 31, 2015 | 12,925,253 | \$ 1 | 18,325 | \$ 1 | 2,090,750 | (307,028) | 1,783,724 |
| Net loss and comprehensive loss | | | | | | (2,058,347) | (2,058,347) |
| Balances at December 31, 2015 | 12,925,253 | \$ 1 | 18,325 | \$ 1 | 2,090,750 | (2,365,375) | (274,623) |

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

Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements
For the Quarters ended December 31, 2016 and 2015 (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 business) and a Specialty Structures division (the Triodetic business, Arnprior Fire Trucks Corp., Spotton Corp. and 9366920 Canada Inc. (o/a 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, aluminium and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings. On May 23, 2013 the Company completed the acquisition of a 16,300 sq. ft. manufacturing facility in Pocono Summit, PA, where they will continue the operation of Summit, 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 specializes in the design, manufacture and servicing of custom trucks for the firefighting industry. On April 1, 2014 Plaintree acquired all the share capital of Spotton Corporation ("Spotton"). Spotton's business involves the design and manufacture of high end custom hydraulic and pneumatic valves and cylinders for the industrial and oil and gas markets. On July 20, 2015 the Company acquired the assets and businesses 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 February 22, 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, 2016.

(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. (U.S. companies) and Arnprior Fire Trucks Inc. (Canadian company), Spotton Corp. (Canadian company) and Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc.

Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements

For the Quarters ended December 31, 2016 and 2015 (unaudited)

(In Canadian dollars)

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.

(d) Going Concern

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As at December 31, 2016, the Company had an accumulated deficit of \$3,605,482 and, for the period then ended, the Company incurred a total comprehensive loss of \$1,039,870. As at December 31, 2016, the Company had negative working capital of \$(999,337) and no cash on hand. The Company has in place a credit facility of up to \$2.1M through its bank based on acceptable trade receivables and inventory (amount outstanding as at December 31, 2016, \$(1,735,693) which includes a letter of credit in the amount of \$474,261). As at January 27, 2017, the available limit on the Bank credit line was \$946,772 which limit the Company exceeded by \$192,240. The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow starting April 2017 as a result of contracts bid and or signed and their expected margins on these projects. The Bank advised the company on February 22, 2017 that it currently exceeds the margin levels allowed by the Company's credit facilities in place. The Company is working with the Bank to remedy the margin excess including a Bank review of the Company's cash flow forecast which forecast the Company cautiously expects will allow the Company to become in compliance with its margin requirements on or about the fiscal year end. However, the cash forecast is not guaranteed and is partially based on expected customer orders which may not take place or may be delayed and 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 and/or (ii) forecasts fall short of expectations in one or more of the Company's divisions, this will impact the Company's ability to generate sufficient cash to meet its requirements and will impact its ability to continue as a going concern.

Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements
For the Quarters ended December 31, 2016 and 2015 (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 2016 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 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 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 financial statements.

Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements
For the Quarters ended December 31, 2016 and 2015 (unaudited)
(In Canadian dollars)

4. INVENTORIES

| | December 31, 2016 | March 31, 2016 |
|-----------------|-------------------|------------------|
| | \$ | \$ |
| Raw materials | 1,402,149 | 1,182,239 |
| Work in process | 627,217 | 781,593 |
| Finished goods | 240,328 | 268,563 |
| | <u>2,269,694</u> | <u>2,232,395</u> |

The cost of inventories recognized as an expense during the nine month period was \$10,874,259 (December 31, 2015 - \$9,994,304). The total carrying value of inventory at December 31, 2016 was pledged as security through general security agreements under bank lines of credit and related party liabilities.

5. PROPERTY, PLANT AND EQUIPMENT

| | equipment | equipment | Furniture | Vehicles | improvements | Building | Land | Total |
|-------------------|------------------|---------------|--------------|----------------|------------------|------------------|----------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance as of | | | | | | | | |
| March 31, 2016 | 2,509,597 | 8,283 | 9,082 | 165,643 | 1,335,738 | 1,534,419 | 325,431 | 5,888,195 |
| Additions | 521,224 | 25,590 | - | 3,010 | 137,454 | - | - | 687,278 |
| Disposal | (16,871) | - | - | (5,000) | - | - | - | (21,871) |
| Depreciation | (424,536) | (5,008) | (3,420) | (37,272) | (167,166) | (84,812) | - | (722,213) |
| December 31, 2016 | <u>2,589,415</u> | <u>28,865</u> | <u>5,662</u> | <u>126,381</u> | <u>1,306,026</u> | <u>1,449,607</u> | <u>325,431</u> | <u>5,831,389</u> |

6. INTANGIBLES

| | Customer relationship | Non-competition agreement | Computer software | Total |
|-------------------|--------------------------|------------------------------|----------------------|----------------|
| | \$ | \$ | \$ | \$ |
| March 31, 2016 | 781,962 | 3,845 | 6,171 | 791,978 |
| Depreciation | (97,745) | (1,154) | (3,438) | (102,338) |
| December 31, 2016 | <u>684,217</u> | <u>2,691</u> | <u>2,733</u> | <u>689,640</u> |

7. LONG-TERM DEBT

As of December 31, 2016, the Company was in breach of current ratio which 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 April 1, 2017 and has continued to provide funding under the terms of the facility.

Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements
For the Quarters ended December 31, 2016 and 2015 (unaudited)
(In Canadian dollars)

| | December 31, 2016 | March 31, 2016 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Bank loan bearing interest at a rate equal to the bank's LIBOR Rate plus 3.5%, due in monthly principal installments of \$4,028 secured by a general security agreement, matures May 2020. | 740,909 | 763,708 |
| 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 October 2027. | 235,929 | 266,360 |
| Term loan payable in monthly 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. | 79,065 | 84,361 |
| Demand non-revolving loan payable in monthly blended installments of principal and interest, 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. | 55,485 | 62,696 |
| Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.5%, secured by general security agreement, maturing five years from the date of each draw-down or October 2021. | 213,375 | 243,215 |
| Demand non-revolving loan, interest only monthly payments at a rate of prime plus 2.0%, 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 1.5%, secured by a general security agreement, maturing February 2018. | 74,806 | 125,213 |
| Demand non-revolving loan payable in monthly installments of US\$36,957, interest at LIBOR plus 3% per annum, maturing September 2017. | 396,972 | 813,325 |
| 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. | 74,505 | 184,109 |
| Term non-revolving loan payable in monthly installments of \$3,161, bearing interest at the rate of prime plus 1.25% per annum, maturing September 2018. | 31,622 | 58,678 |
| Term non-revolving loan payable in monthly installments of \$6,899 USD, bearing interest at the rate of 4.5% per annum, maturing September 2021. | 482,109 | - |
| | 2,484,776 | 2,701,665 |
| Current portion | (2,091,629) | (2,701,665) |
| | 393,147 | - |

Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements
For the Quarters ended December 31, 2016 and 2015 (unaudited)
(In Canadian dollars)

8. OBLIGATIONS UNDER CAPITAL LEASE

| | December 31, 2016 | March 31, 2016 |
|--|-------------------|----------------|
| | \$ | \$ |
| Capital lease payable in monthly installments of \$639, bearing interest at 2.49% per annum, maturing October 2019. | 20,953 | 26,256 |
| Capital lease payable in monthly installments of \$1,205, bearing interest at 5.094% per annum, maturing January 2020. | 39,767 | 48,599 |
| Capital lease payable in monthly installments of \$2,158, bearing interest at 5.094% per annum, maturing July 2020. | 72,084 | 88,406 |
| | 132,804 | 163,261 |
| Current portion | 47,076 | 48,024 |
| | 85,728 | 115,237 |

9. LONG-TERM DEBT – OTHER

The Company's Summit Aerospace USA Inc. division accepted a loan of \$720,000 USD (\$966,744 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.

| | Loan present value | Deferred Government Assistance | Repayable government assistance |
|------------------------------|--------------------|--------------------------------|---------------------------------|
| Opening Balance | 706,725 | 142,640 | 849,365 |
| Loan adjustment for exchange | 23,944 | 3,471 | 27,415 |
| Repayments | (45,502) | 1,362 | (44,140) |
| Accretion | 14,484 | (14,484) | - |
| December 31, 2016 | 699,651 | 132,989 | 832,640 |
| Current Portion | (39,000) | (19,000) | (58,000) |
| Balance | 660,651 | 113,989 | 774,640 |

Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements
For the Quarters ended December 31, 2016 and 2015 (unaudited)
(In Canadian dollars)

10. DUE TO RELATED PARTIES

| | December 31, 2016 | March 31, 2016 |
|---|-------------------|------------------|
| | \$ | \$ |
| Due to senior officers | 4,387,690 | 4,456,950 |
| Dividends payable | 60,000 | 60,000 |
| Due to Targa Group Inc., convertible debentures | 247,672 | 247,672 |
| Due to Tidal Quality Management Inc. | 235,389 | 265,968 |
| Due to Targa Group Inc., demand loan | 66,581 | 66,581 |
| Due to Targa Group Inc., line of credit | 650,763 | 639,563 |
| Due to Targa Group Inc., demand loan interest | 134,812 | 134,812 |
| | 5,782,907 | 5,871,546 |
| Less: current portion | - | - |
| | 5,782,907 | 5,871,546 |

As at December 31, 2016, a balance of \$4,387,690 (\$3,152,056 principal and \$1,235,634 interest) 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 March 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, 2016 - \$60,000) of the dividend remains outstanding as of December 31, 2016. The balance is classified as long-term as the related party has agreed not to demand payment before March 2018.

As at December 31, 2016, a balance of \$247,672 (March 31, 2016 - \$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 March 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, 2016 - \$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, 2016 a balance of \$318,352 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 December 31, 2016 (March 31, 2016 - \$182,889). The party has agreed not to demand repayment of the total balance of \$256,211 (March 31, 2016 - \$260,968) before March 2018 and the amount is classified as long-term.

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,

Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements For the Quarters ended December 31, 2016 and 2015 (unaudited)

(In Canadian dollars)

2016. The Targa Demand Loan is secured by a security interest granted over the assets of the Company. At December 31, 2016 \$NIL, (March 31 2016 - \$NIL) remained outstanding on the demand loan with accumulated interest of \$66,581 (March 31, 2016 - \$66,581) for a balance of \$66,581 (March 31, 2016 - \$66,581). The balance is classified as long-term as the related party has agreed not to demand payment before March 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 December 31, 2016, \$429,615 (March 31, 2016 - \$396,965) remained outstanding on the Line of Credit with accumulated interest of \$242,598 (March 31, 2016 - \$242,598) for a balance of \$672,213 (March 31, 2016 - \$639,593). Targa has agreed that it will not demand repayment before March 2018 and, accordingly, the amounts are classified as long-term. The balance is classified as long-term as the related party has agreed not to demand payment before March 2018.

Accumulated interest in the amount of \$134,812 (March 31, 2016 - \$134,812), on a loan from Targa remains outstanding as of December 31, 2016. The party has agreed not to demand repayment before March 2018 and, accordingly, the amount is classified as long-term.

11. 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, 2016, the accrued and unpaid dividends on the Class A preferred shares were \$12,027,500.

Issued

Common shares 12,925,253

Class A Preferred shares 18,325

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

Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements

For the Quarters ended December 31, 2016 and 2015 (unaudited)

(In Canadian dollars)

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 December 31, 2016.

12. BASIC AND DILUTED EARNINGS PER COMMON SHARE

| | Three Months December 31, 2016 | Three Months December 31, 2015 |
|---|---|---|
| | \$ | \$ |
| Net Income (loss) | (563,723) | (536,335) |
| Cumulative dividends on preferred shares - three months | (366,500) | (366,500) |
| Net loss attributable to common shares (basic and diluted) | (930,223) | (902,835) |
| Basic and diluted weighted average shares outstanding | 12,925,253 | 12,925,253 |
| Basic and diluted (loss) per share | (0.07) | (0.07) |
| | Nine Months December 31, 2016 | Nine Months December 31, 2015 |
| | \$ | \$ |
| Net Income (loss) | (1,039,870) | (2,058,347) |
| Cumulative dividends on preferred shares - six months | (1,099,500) | (1,099,500) |
| Net loss attributable to common shares (basic and diluted) | (2,139,370) | (3,157,847) |
| Basic and diluted weighted average shares outstanding | 12,925,253 | 12,925,253 |
| Basic and diluted (loss) per share | (0.14) | (0.24) |

Plaintree Systems Inc.

Notes to the condensed consolidated interim financial statements
For the Quarters ended December 31, 2016 and 2015 (unaudited)
(In Canadian dollars)

13. 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 nine months ended | |
|----------------------|----------------------------|-------------------|---------------------------|-------------------|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | \$ | \$ | \$ | \$ |
| Electronics | 1,606,831 | 1,622,678 | 4,628,647 | 4,757,023 |
| Specialty structures | 1,736,049 | 2,025,387 | 7,809,533 | 6,273,733 |
| | 3,342,880 | 3,648,065 | 12,438,180 | 11,030,756 |

Net (loss) before taxes by division

| | For the three months ended | | For the nine months ended | |
|----------------------|----------------------------|-------------------|---------------------------|--------------------|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | \$ | \$ | \$ | \$ |
| Electronics | 86,070 | (15,256) | 228,156 | (93,614) |
| Specialty structures | (649,793) | (521,079) | (1,268,026) | (1,964,733) |
| | (563,723) | (536,335) | (1,039,870) | (2,058,347) |

Revenues by geographical location

| | For the three months ended | | For the nine months ended | |
|---------------|----------------------------|-------------------|---------------------------|-------------------|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | \$ | \$ | \$ | \$ |
| Canada | 1,323,610 | 1,720,753 | 6,680,602 | 5,415,128 |
| United states | 2,018,326 | 1,527,616 | 5,693,675 | 5,014,168 |
| Peru | - | 132,930 | - | 218,222 |
| Other | 944 | 266,766 | 63,903 | 383,238 |
| | 3,342,880 | 3,648,065 | 12,438,180 | 11,030,756 |

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

| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
|---------------------|-------------------|-------------------|-------------------|-------------------|
| | \$ | \$ | \$ | \$ |
| Number of customers | 1 | 2 | - | 3 |
| % of total revenue | 14% | 15%, 17% | - | 10%, 11%, 15% |

14. SUBSEQUENT EVENT

Subsequent to the end of the quarter, the Company sold a non-operational building for \$225,000.

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

PLAINTREE SYSTEMS INC.

For the nine and three months ended December 31, 2016 and 2015

Date – February 22, 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 nine months ended December 31, 2016 and 2015. 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 10, 2016 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

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 CSE under "NPT". The Company operates an Electronics division (the Hypernetics business, the free space optics business and Summit Aerospace USA Inc business) and a Specialty Structures division (the Triodetic business, Arnprior Fire Trucks Corp., Spotton Corp. and 9366920 Canada Inc. (o/a 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, aluminium and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings. On May 23, 2013 the Company completed the acquisition of a 16,300 sq. ft. manufacturing facility in Pocono Summit, PA, where they will continue the operation of Summit, 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 specializes in the design, manufacture and servicing of custom trucks for the firefighting industry. On April 1, 2014 Plaintree acquired all the share capital of Spotton Corporation ("Spotton"). Spotton's business involves the design and manufacture of high end custom hydraulic and pneumatic valves and cylinders for the industrial and oil and gas markets. On July 20, 2015 the Company acquired the assets and businesses 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

On July 20, 2015, the Corporation, through 9366920 Canada Inc., a wholly-owned subsidiary, acquired the assets and businesses 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. involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and material. The Corporation intends to carry on the business of Madawaska Doors Inc. through its wholly-owned subsidiary.

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

Control Activities

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)

| | December 31, 2016 | March 31, 2016 |
|-----------------------------------|-------------------|----------------|
| | \$ | \$ |
| Total assets | 12,207 | 12,080 |
| Total liabilities | 13,722 | 12,555 |
| Long-term liabilities | 7,036 | 6,779 |
| Cash dividends declared per share | nil | nil |

(\$000s, except per share amounts)

| | For the three months ended | | For the nine months ended | |
|---|----------------------------|-------------------|---------------------------|-------------------|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | \$ | \$ | \$ | \$ |
| Revenue | 3,343 | 3,648 | 12,438 | 11,031 |
| Net (loss) income and total comprehensive (loss) income | (564) | (1,040) | (1,040) | (2,058) |
| Net loss attributed to common shareholders | (931) | (1,407) | (2,139) | (3,158) |
| Basic and diluted loss per share | (0.07) | (0.07) | (0.14) | (0.24) |

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

Results of Operations

| Plaintree Systems Inc. | | | |
|---|--------------------------|--------------------------|---------------------|
| <i>(\$000s, except per share and % amounts)</i> | | | |
| for the three months ended | | | Change from |
| | December 31, 2016 | December 31, 2015 | 2015 to 2016 |
| | \$ | \$ | \$ |
| Revenue | 3,343 | 3,648 | (305) |
| Cost of sales | 3,098 | 3,144 | (46) |
| Gross margin | 245 (7)% | 504 (14)% | (259) |
| <i>Operating expenses:</i> | | | |
| Research and development | 299 | 322 | (23) |
| Finance and administration | 250 | 285 | (35) |
| Sales and marketing | 145 | 261 | (116) |
| Interest expense | 71 | 119 | (48) |
| Loss on foreign exchange | 44 | 53 | (9) |
| | 809 | 1,040 | (231) |
| Net (loss) and comprehensive (loss) | (564) | (536) | (28) |

| Plaintree Systems Inc. | | | |
|---|--------------------------|--------------------------|---------------------|
| <i>(\$000s, except per share and % amounts)</i> | | | |
| for the nine months ended | | | Change from |
| | December 31, 2016 | December 31, 2015 | 2015 to 2016 |
| | \$ | \$ | \$ |
| Revenue | 12,438 | 11,031 | 1,407 |
| Cost of sales | 10,919 | 9,996 | 923 |
| Gross margin | 1,519 12% | 1,035 9% | 484 |
| <i>Operating expenses:</i> | | | |
| Research and development | 980 | 984 | (4) |
| Finance and administration | 718 | 860 | (142) |
| Sales and marketing | 582 | 771 | (189) |
| Loss of disposal of assets | 7 | - | 7 |
| Interest expense | 191 | 318 | (127) |
| Loss on foreign exchange | 81 | 160 | (79) |
| | 2,559 | 3,093 | (534) |
| Net (loss) income and comprehensive (loss) income | (1,040) | (2,058) | (1,018) |

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

Revenues by division

| | For the three months ended | | For the nine months ended | |
|----------------------|----------------------------|-------------------|---------------------------|-------------------|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | \$ | \$ | \$ | \$ |
| Electronics | 1,606,831 | 1,622,678 | 4,628,647 | 4,757,023 |
| Specialty structures | 1,736,049 | 2,025,387 | 7,809,533 | 6,273,733 |
| | 3,342,880 | 3,648,065 | 12,438,180 | 11,030,756 |

Net (loss) before taxes by division

| | For the three months ended | | For the nine months ended | |
|----------------------|----------------------------|-------------------|---------------------------|--------------------|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | \$ | \$ | \$ | \$ |
| Electronics | 86,070 | (15,256) | 228,156 | (93,614) |
| Specialty structures | (649,793) | (521,079) | (1,268,026) | (1,964,733) |
| | (563,723) | (536,335) | (1,039,870) | (2,058,347) |

Revenues by geographical location

| | For the three months ended | | For the nine months ended | |
|---------------|----------------------------|-------------------|---------------------------|-------------------|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | \$ | \$ | \$ | \$ |
| Canada | 1,323,610 | 1,720,753 | 6,680,602 | 5,415,128 |
| United states | 2,018,326 | 1,527,616 | 5,693,675 | 5,014,168 |
| Peru | - | 132,930 | - | 218,222 |
| Other | 944 | 266,766 | 63,903 | 383,238 |
| | 3,342,880 | 3,648,065 | 12,438,180 | 11,030,756 |

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

| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
|---------------------|-------------------|-------------------|-------------------|-------------------|
| | \$ | \$ | \$ | \$ |
| Number of customers | 1 | 2 | - | 3 |
| % of total revenue | 14% | 15%, 17% | - | 10%, 11%, 15% |

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

Revenues

Revenue

Total product revenue for three and nine months ended December 31, 2016 was \$3,342,880 and \$12,438,180 compared to \$3,648,065 and \$11,030,756 respective periods ending December 31, 2015.

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

Plaintree's Electronics Division revenue of \$1,606,831 and \$4,628,647 in the three and nine months ended December 31, 2016 remained consistent with revenues of \$1,622,678 and \$4,757,023 for the three and nine months ended December 13, 2015.

Plaintree's Specialty Structures Division revenue decreased to \$1,736,049 from \$2,025,387 in the three months ended December 31, 2016 and December 31, 2015 respectively. Revenue increased to \$7,809,533 from \$6,273,733 for the nine months ended December 31, 2016 and December 31, 2015 respectively.

Gross Margin

Total gross margin increased in the first nine months of fiscal 2017 to 12% from 9% for the same period in fiscal 2016. Extra costs incurred after substantial completion of a project in the specialty structures division is the primary reason for the low gross margin in fiscal 2016.

Operating Expenses

Research and development expenses

Research and development expenses were \$299,056 and \$980,420 for the three and nine months ending December 31, 2016 and \$322,057 and \$984,375 for the three and nine months ending December 31, 2015. 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 2017.

Finance and administration expenses

Finance and administration expenses were \$250,495 and \$718,381 for the three and nine months ending December 31, 2016 and \$285,422 and \$859,610 for the three and nine months ending December 31, 2015. 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 are expected to remain at comparable levels throughout fiscal 2017.

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

Sales and marketing expenses

Sales and marketing expenses were \$144,520 and \$581,672 for the three and nine months ending December 31, 2016 and \$261,173 and \$770,647 for the three and nine months ending December 31, 2015. 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 2017.

Interest expense

Interest expense consists of interest incurred on bank and related party debt. Interest expenses were \$ 70,986 and \$190,838 for the three and nine months ending December 31, 2016 and \$118,771 and \$318,515 for the three and nine months ending December 31, 2015. 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.

Gain on foreign exchange

The Company reported loss on foreign exchange of \$44,150 and \$80,743 for the three and nine months ending December 31, 2016 and \$52,802 and \$160,173 in the three and nine months of ending December 31, 2015. The gain/loss on foreign exchange represents the gain/loss, realized or unrealized, of transactions and year end foreign balances that are completed in currencies other than the Company's reporting currency.

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

Net loss and comprehensive loss for the nine months ended December 31, 2016 and 2015 was \$(1,039,870) and \$(2,058,347) respectively. Net income attributed to common shareholders is calculated by reducing net income by the \$1,466,000 (QTD = \$366,500, YTD = \$1,099,500) 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 December 31, 2016, the accrued and unpaid dividends on the Class A preferred shares were \$12,027,500 (March 31, 2016 - \$10,928,000).

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 the last eight quarters in fiscals 2017, 2016 and 2015:

Quarters ended

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

| | Dec 31 2016 | Sept 30 2016 | June 30 2016 | Mar 31 2016 | Dec 31 2015 | Sept 30 2015 | June 30 2015 | Mar 31 2015 |
|---|----------------|-----------------|-----------------|----------------|----------------|-----------------|-----------------|----------------|
| | Q3-2017 | Q2-2017 | Q1-2017 | Q4-2016 | Q3-2016 | Q2-2016 | Q1-2016 | Q4-2015 |
| Revenue | \$ 3,343 | \$ 4,953 | \$ 4,143 | \$ 4,716 | \$ 3,648 | \$ 3,622 | \$ 3,760 | \$ 3,910 |
| Net (loss) profit and total comprehensive (loss) income | (564) | (327) | (149) | (201) | (536) | (1,365) | (157) | (795) |
| Net (loss) profit attributed to common shareholders | (930) | (693) | (589) | (589) | (903) | (1,731) | (524) | (1,161) |
| Basic and diluted (loss) earnings per share | (0.07) | (0.05) | (0.05) | (0.07) | (0.07) | (0.13) | (0.04) | (0.09) |

Liquidity and Capital Resources

(\$000s)

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> | <u>Change</u> |
|-----------------|--------------------------|--------------------------|---------------|
| | \$ | \$ | \$ |
| Cash | (878) | (786) | (92) |
| Working Capital | (999) | (412) | (587) |

| | <u>For the nine months ended December 31, 2016</u> | <u>For the nine months ended December 31, 2015</u> | <u>Change</u> |
|--|--|--|---------------|
| <i>Net cash (used in) provided by:</i> | \$ | \$ | \$ |
| Operating activities | 151 | 144 | 7 |
| Investing activities | (672) | (502) | (170) |
| Financing activities | (353) | (486) | 133 |

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

Cash

As at December 31, 2016, the Company was in a cash deficit balance of \$877,992, a decrease of \$873,416 from March 31, 2016.

Working Capital

Working capital represents current assets less current liabilities. As at December 31, 2016, the Company had negative working capital of \$(999,337) compared to a negative working capital of \$(376,485) at March 31, 2016 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 as at December 31, 2016. At March 31, 2016 the Company was in breach of the debt servicing ratio to which the bank has provided forbearance until April 1, 2017. The bank expects the Company to be back in covenant by March 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 \$88,393 and \$1,319,970 as at December 31, 2016 and March 31, 2016 respectively.

Cash provided by Operating activities

Cash provided by operating activities for the nine months ending December 31, 2016 of fiscal 2017 was \$151,178 representing an increase of \$7,620 from cash provided of \$143,558 for the respective period during fiscal 2016. Cash provided by operating activities in the nine months of fiscal 2017 was primarily the result of increased trade payable and accrued balances from March 31, 2016.

Cash (used in) Investing activities

Cash used in investing activities for the nine months of fiscal 2017 was \$(671,882) representing a decrease of \$170,241 from cash used in investing activities of \$(501,641) in the respective period during fiscal 2016. The increase in cash used during the nine months of fiscal 2017 was primarily due to the payments to acquire capital.

Cash (used in) by financing activities

Cash used in financing activities for the nine months of fiscal 2017 was \$(352,711) representing an increase of \$203,759 from cash used of \$(556,470) in the respective period during fiscal 2016. Cash used in financing activities during the nine months of fiscal 2017 relates primarily to repayment of long term debt.

Outlook – Going Concern

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As at December 31, 2016, the Company had an accumulated deficit of \$3,605,482 and, for the period then ended, the Company incurred a total comprehensive loss of \$1,039,870. As at December 31, 2016, the Company had negative working capital of \$(999,337) and no cash on hand. The Company has in place a credit facility of up to \$2.1M through its bank based on acceptable trade receivables and inventory (amount outstanding as at December 31, 2016, \$(1,735,693) which includes a letter of credit in the amount of \$474,261). As at January 27, 2017, the available limit on the Bank credit line was \$946,772 which limit the Company exceeded by \$192,240. The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow starting April 2017 as a result of contracts bid and or signed and their expected margins on these projects. The Bank advised the company on Feb 22, 2017 that it currently exceeds the margin levels allowed by the Company's credit facilities in place. The

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

Company is working with the Bank to remedy the margin excess including a Bank review of the Company's cash flow forecast which forecast the Company cautiously expects will allow the Company to become in compliance with its margin requirements on or about the fiscal year end. However, the cash forecast is not guaranteed and is partially based on expected customer orders which may not take place or may be delayed and 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 and/or (ii) forecasts fall short of expectations in one or more of the Company's divisions, this will impact the Company's ability to generate sufficient cash to meet its requirements and will impact its ability to continue as a going concern.

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.

Due to Related Parties

| | December 31, 2016 | March 31, 2016 |
|---|-------------------|------------------|
| | \$ | \$ |
| Due to senior officers | 4,387,690 | 4,456,950 |
| Dividends payable | 60,000 | 60,000 |
| Due to Targa Group Inc., convertible debentures | 247,672 | 247,672 |
| Due to Tidal Quality Management Inc. | 235,389 | 265,968 |
| Due to Targa Group Inc., demand loan | 66,581 | 66,581 |
| Due to Targa Group Inc., line of credit | 650,763 | 639,563 |
| Due to Targa Group Inc., demand loan interest | 134,812 | 134,812 |
| | 5,782,907 | 5,871,546 |
| Less: current portion | - | - |
| | 5,782,907 | 5,871,546 |

As at December 31, 2016, a balance of \$4,387,690 (\$3,152,056 principal and \$1,235,634 interest) 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 March 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, 2016 - \$60,000) of the dividend remains outstanding as of December 31, 2016. The balance is classified as long-term as the related party has agreed not to demand payment before March 2018.

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

As at December 31, 2016, a balance of \$247,672 (March 31, 2016 - \$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 March 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, 2016 - \$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, 2016 a balance of \$318,352 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 December 31, 2016 (March 31, 2016 - \$182,889). The party has agreed not to demand repayment of the total balance of \$256,211 (March 31, 2016 - \$260,968) before March 2018 and the amount is classified as long-term.

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 December 31, 2016 \$NIL, (March 31 2016 - \$NIL) remained outstanding on the demand loan with accumulated interest of \$66,581 (March 31, 2016 - \$66,581) for a balance of \$66,581 (March 31, 2016 - \$66,581). The balance is classified as long-term as the related party has agreed not to demand payment before March 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 December 31, 2016, \$429,615 (March 31, 2016 - \$396,965) remained outstanding on the Line of Credit with accumulated interest of \$242,598 (March 31, 2016 - \$242,598) for a balance of \$672,213 (March 31, 2016 - \$639,593). Targa has agreed that it will not demand repayment before March 2018 and, accordingly, the amounts are classified as long-term. The balance is classified as long-term as the related party has agreed not to demand payment before March 2018.

Accumulated interest in the amount of \$134,812 (March 31, 2016 - \$134,812), on a loan from Targa remains outstanding as of December 31, 2016. The party has agreed not to demand repayment before March 2018 and, accordingly, the amount is classified as long-term.

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

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

adoption permitted. The Company is in the process of assessing the impact of this standard on its 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 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 financial statements.

Summary of Outstanding Share Data

As at February 22, 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 December 31, 2016 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 or the Company's website at www.plaintree.com.