

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

PLAINTREE SYSTEMS INC.

For the three and six months ended September 30, 2011

Date – November 25, 2011

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 for the three and six months ended September 30, 2011 and 2010 should be read in conjunction with the unaudited interim Consolidated Financial Statements and Notes for the three and six months ended September 30, 2011 (the interim Consolidated Statements") as well as Management's Discussion and Analysis, of Plaintiff for the year ended March 31, 2011 ("Fiscal 2011 Statements"). Historical results of operations, percentage relationships and any trends that may be inferred there from are not necessarily indicative of the operating results of any future period. All amounts are in Canadian dollars, unless otherwise stated, and using International Financial Reporting Standard 1 ("IFRS"), "First-time Adoption of International Financial Reporting Standards", and using Accounting Standards Board ("IASB"). Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The information contained herein is dated as of November 25, 2011 and is current to the date, unless otherwise stated.

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

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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.

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Overview

Plaintree Systems Inc ("Plaintree" or "the Company") was incorporated in Canada under the Canada Business Corporation Act. The Company operates an Electronics division (the Hypernetics business and the free space optics business) and a Specialty Structures division (the Triodetic business and a newly formed Arnprior Fire Trucks Corp.). Plaintree was historically a designer and manufacturer of wireless connections transmitting data on beams of light versus conventional radio frequency, commonly referred to as free space optics ("FSO"). The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminium and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings.

On November 23, 2010, Plaintree announced the creation of its new business, a new wholly-owned subsidiary, Arnprior Fire Trucks Corp. The new business involves the custom build of high-end fire trucks and emergency vehicles to be sold to municipalities with a target market being North America.

In late fiscal 2011, all operations of Plaintree were relocated to a modern 135,000 sq. ft. manufacturing facility located in Arnprior, Ontario, Canada, thirty minutes west of Ottawa, Ontario, Canada.

On May 3, 2011 the Company filed a Form 15F with the United States Securities and Exchange Commission (the "SEC") with the intention of voluntarily terminating its reporting obligations under Section 13(a) and Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). On the filing of the Form 15F, Plaintree's reporting obligations with the SEC under the Exchange Act, including its obligations to file annual reports on Form 20F, was immediately suspended. Plaintree's termination of its reporting obligations under the Exchange Act was final 90 days after the filing of the Form 15F with the SEC.\

On July 14, 2011, the Board of Directors of the Company approved of 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 is primarily due to 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.

The Company's common shares are quoted on the CNSX in Canada.

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IFRS Transition Activities

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* using the accounting policies disclosed below. The Company is a first-time adopter of International Financial Reporting Standards ("IFRS") and has followed the requirements of IFRS 1- First-time Adoption of IFRS ("IFRS 1") in its initial application of IFRS as they exist at January 1, 2011 and encompasses individual IFRS, International Accounting Standards ("IASB"), and interpretations made by the International Financial Reporting Interpretations Committee ("IFRIC") and the Standard Interpretations Committee. Certain changes may be required to the extent that the IASB determines additional standards to be effective on or before December 31, 2011. The following statements represent Plaintiffree's first-time adoption of IFRS, the last annual financial were prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions, cash flow or capital expenditures.

The Company's IFRS accounting policies are provided in Note 2 to the condensed Consolidated Interim Financial Statements. Note 3 to the condensed Consolidated Interim Financial Statements presents any reconciliations between the Company's previous Canadian GAAP results and IFRS results with respect to changes in the shareholder's equity as at April 1, 2010, September 30, 2010 and March 31, 2011.

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. In addition, controls over IFRS changeover process have been implemented, as necessary. The Company has identified and implemented the required accounting process changes that resulted from the application of IFRS account policies and these changes were not significant. We have completed the design, implementation and documentation of the internal controls over accounting process changes resulting from the application of IFRS accounting policies. We applied our existing control framework to the IFRS changeover process.

The Company has assessed the impact of the IFRS transition project on our key ratios. The transition did not significantly impact key ratios.

The IFRS transition project did not have a significant impact on our information systems for the convergence periods. We do not expect significant changes in the post-convergence periods.

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. The Company notes that the standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that we have selected. In particular, the Company expects that there may be additional new or revised IFRS standards or IFRIC interpretations in relation to consolidation, financial

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instruments, leases, and revenue recognition. Processes are in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRS standards and IFRIC interpretations will be evaluated by the Company as they are drafted and published.

Selected Financial Information

The Company's consolidated financial statements are stated in Canadian dollars and are prepared in accordance with IFRS. The following table sets forth selected financial information from the Company's financial statements for the three and six months ended September 30, 2011.

<i>(\$000s)</i>	September 30, 2011 (unaudited)	March 31, 2011 (audited)
Total assets	\$9,621	\$ 8,973
Total liabilities	7,028	6,710
Long-term liabilities	5,566	5,102
Cash dividends declared per share	\$200	\$200

Statement of Operations Data

(\$000s, except per share data)

	For the three months ended September 30, (unaudited)		For the six months ended September 30, (unaudited)	
	2011	2010	2011	2010
Revenue	\$5,036	\$3,165	\$7,711	\$6,872
Net profit and total comprehensive income	\$ 617	\$ 285	\$ 529	\$1,388
Net profit (loss) attributable to common shareholders	\$ 250	\$ (82)	\$ (204)	\$ 655
Basic (loss) earnings per share	\$ 0.02	\$(0.01)	\$(0.02)	\$ 0.05
Diluted (loss) earnings per share	\$ 0.02	\$(0.01)	\$(0.02)	\$0.05

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Results of Operations

Plaintree Systems Inc.			
<i>(\$000s, except per share and % amounts)</i>			
<i>(unaudited)</i>			
Three Months Ended September 30,			
	2011	2010	Change from 2010 to 2011
Revenue	\$ 5,036	\$ 3,165	\$ 1,871
Cost of revenue	3,676	2,058	1,618
Gross margin	1,360	1,107	253
	27%	35%	
<i>Operating expenses:</i>			
Sales & marketing	129	116	13
Finance & administration	283	247	36
Research & development	405	350	55
Interest expense	41	41	-
(Gain) loss on foreign exchange	(115)	68	(183)
	743	822	(79)
Net profit and total comprehensive income	\$ 617	\$ 285	\$ 332

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	Plaintree Systems Inc.		
	(\$000s, except per share and % amounts) (unaudited)		
	Six Months Ended September 30,		Change from
	2011	2010	2010 to 2011
Revenue	\$ 7,711	\$ 6,872	\$ 839
Cost of revenue	5,582	3,864	1,718
Gross margin	2,129	3,008	879
	28%	44%	
<i>Operating expenses:</i>			
Sales & marketing	307	296	11
Finance & administration	486	497	(11)
Research & development	824	801	23
Interest expense	84	64	20
(Gain) loss on foreign exchange	(101)	(38)	(63)
	1,600	1,620	20
Net profit and total comprehensive income	\$ 529	\$ 1,388	\$ 859

BUSINESS SEGMENT INFORMATION

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

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Revenues by division

	Three months ended September 30, 2011 (unaudited)	Three months ended September 30, 2010 (unaudited)	Six months ended September 30, 2011 (unaudited)	Six months ended September 30, 2010 (unaudited)
Electronics	\$ 900,924	\$ 700,440	\$ 1,511,465	\$ 1,558,690
Specialty Structures	4,135,524	2,464,578	6,199,719	5,313,660
Total revenue	\$ 5,036,449	\$ 3,165,018	\$ 7,711,183	\$ 6,872,350

Net income before taxes by division

	Three months ended September 30, 2011 (unaudited)	Three months ended September 30, 2010 (unaudited)	Six months ended September 30, 2011 (unaudited)	Six months ended September 30, 2010 (unaudited)
Electronics	\$ 224,132	\$ (25,838)	\$ 135,918	\$ 1,229,162
Specialty Structures	392,717	310,348	393,322	159,110
Total earnings	\$ 616,849	\$ 284,510	\$ 529,240	\$ 1,388,272

Revenue by geographical location

	Three months ended September 30, 2011 (unaudited)	Three months ended September 30, 2010 (unaudited)	Six months ended September 30, 2011 (unaudited)	Six months ended September 30, 2010 (unaudited)
Canada	\$ 1,260,206	\$ 1,891,104	\$ 2,255,909	\$ 3,064,439
United States	1,417,213	783,068	3,048,689	2,373,559
Russia	2,298,887	-	2,298,887	-
Other	1,981	52,712	1,981	280,976
Europe	58,162	36,379	105,717	48,156
Chile	-	401,755	-	1,105,220
Total Revenue	\$ 5,036,449	\$ 3,165,018	\$ 7,711,183	\$ 6,872,350

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

	Three months ended September 30, 2011 (unaudited)	Three months ended September 30, 2010 (unaudited)	Six months ended September 30, 2011 (unaudited)	Six months ended September 30, 2010 (unaudited)
Number of customers	1	3	3	3
% of total revenue	46%	53%	50%	62%

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Revenues

Revenue

Total revenue for the six months ended September 30, 2011 was \$7,711,183 compared to \$6,872,350 for the six months ended September 30, 2010.

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

Plaintree's Electronics Division derives most of its revenues from products installed on commercial aircraft and in particular, business jets.

Plaintree's Specialty Structures Division revenues for the first half of fiscal 2012 of \$6,199,719 were up from the same period in fiscal 2011 by approximately \$886,000.

Booked orders and forecasts indicate a return to at least fiscal 2011 levels for the remainder of fiscal 2012 in both sectors.

Gross Margin

Total gross margin decreased to 27.6% in the six months ended September 30, 2011 from 43.8% for the six months ended September 30, 2010. The consumption of inventory in early fiscal 2011 revalued from cost to market during fiscal 2010, contributed to increased margin in the first six months of fiscal 2011.

Operating Expenses

Sales and marketing expenses

Sales and marketing expenses were \$307,292 and \$296,185 in the six months ended September 30, 2011 and 2010 respectively. These expenses consisted primarily of personnel and related costs associated with the Company's sales and marketing departments, which include sales commissions, advertising, travel, trade shows and other promotional activities.

Sales and marketing expenses are expected to remain at comparable levels throughout fiscal 2012.

Finance and administration expenses

Finance and administrative expenses were \$485,533 and \$497,261 in the six months ended September 30, 2011 and 2010, respectively. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which included financial staff, legal and audit activities.

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Finance and administration expenses are expected to remain at comparable levels throughout fiscal 2012.

Research and development expenses

Research and development expenses were \$824,403 and \$800,375 in the six months ended September 30, 2011 and 2010 respectively. Research and development expenditures consist primarily of development engineering and personnel expenses.

Research and development expenses are expected to remain at comparable levels throughout fiscal 2012.

Interest expense

Interest expense consists of interest incurred on bank and related party debt. Interest expenses were \$83,690 and \$64,125 for the six months ended September 30, 2011 and 2010, respectively. Interest expense increased primarily due to the increase in borrowings for plant equipment and plant leaseholds. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest.

Gain on foreign exchange

The Company reported a gain on foreign exchange of \$100,538 and \$38,121 in the six months ended September 30, 2011 and 2010 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. A 7% increase in the US rate of exchange from the start to the close of the first six months of fiscal 2012 contributed to a gain on foreign exchange.

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

Net loss and comprehensive loss for the six months ended September 30, 2011 was \$203,760 compared to a net profit and comprehensive income of \$655,272 booked in the first six months ended September 30, 2010. Net income attributed to common shareholders is calculated by reducing net income by the \$733,000 of cumulative dividends that accrue on the Class A preferred shares. The cumulative dividends accrue at 8% per annum on the face value of \$18,325,000 and as of September 30, 2011, the accrued and unpaid dividends on the Class A preferred shares were \$4,697,500.

Quarterly Results

The following table sets out selected unaudited consolidated financial information for each quarter in fiscal 2012 and fiscal 2011:

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Quarters ended

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

	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31
	<u>2011</u>	<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2009</u>
Revenue	\$5,036	\$2,675	\$2,442	\$1,727	\$3,165	\$3,707	\$3,425	\$1,203
Net profit (loss) and total comprehensive income (loss)	\$617	\$(88)	\$(353)	\$(722)	\$284	\$1,104	\$(240)	\$(718)
Net profit (loss) attributed to common shareholders	\$250	\$(454)	\$(719)	\$(1,089)	\$(82)	\$737	\$860	\$(1,085)
Basic earnings (loss) per share	\$0.02	\$(0.04)	\$(0.06)	\$(0.08)	\$(0.01)	\$0.06	\$0.07	\$(0.08)
Diluted earnings (loss) per share-diluted	\$0.02	\$(0.04)	\$(0.06)	\$(0.08)	\$(0.01)	\$0.06	\$0.07	\$(0.08)

Liquidity and Capital Resources

(\$000s)	As at September,	As at March 31,	Change
	<u>2011</u>	<u>2011</u>	
	<u>(unaudited)</u>	<u>(audited)</u>	
Cash	\$ 308	\$ 371	\$ (63)
Working Capital	5,819	5,204	615

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	Six months ended September 30, 2011 (unaudited)	Six Months ended September 30, 2010 (unaudited)	Change
<i>Net cash (used in) provided by:</i>			
Operating activities	(768)	(839)	71
Investing activities	(355)	(235)	(120)
Financing activities	355	(593)	948

Cash

As at September 30, 2011, the Company held \$308,762 in cash, a decrease of \$62,709 from March 31, 2011.

Working Capital

Working capital represents current assets less current liabilities. As at September 30, 2011, the Company had positive working capital of \$5,818,552 compared to working capital of \$5,204,078 at March 31, 2011. The increase in working capital was due to moderate increases in accounts receivable, inventories, and decreased deferred revenues.

Cash used in Operating activities

Cash used in operating activities for the first six months of fiscal 2012 was \$768,060 representing a decrease of \$70,634 from \$838,694 in fiscal 2011. The cash provided by operating activities for the first six months of fiscal 2012 mainly relates to moderate increases in trade receivables, inventories, and decrease in deferred revenues.

Cash used in Investing activities

Cash used in investing activities for the first six months of fiscal 2012 was \$354,798 representing a increase of \$119,751 from \$235,047 in fiscal 2011 relating mainly to the purchase of plant equipment.

Cash provided by (used in) Financing activities

Cash provided by financing activities for first six months of fiscal 2012 was \$355,447 compared to cash used in financing activities for the first quarter of 2011 of \$(592,905). Cash used in financing activities in fiscal 2012 relates primarily to borrowings for plant equipment. A repayment of related party borrowings accounted for the majority of cash used in financing activities in fiscal 2011.

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Outlook

The first half of fiscal 2012 was profitable. The Company continues to see increased activity and interest in all segments as compared to the 2010 – 2011 levels that were affected by the global economic decline. However, contracts have not yet reached the levels experienced in the 2009 fiscal year.

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

Related Party Transactions

Due from Related Party

As of September 30, 2011 \$1,095,051 (March 31, 2011 - \$1,102,770, April 1, 2010 - \$745,720) is owed from Spotton Corporation, a company controlled by Targa Group Inc. ("Targa"). Targa is the Company's largest shareholder and is a company controlled by the CEO of the Company and a related party to the CEO. The balance accrues interest at prime plus 2% and is due from the related party on demand. The balance relates to rent, utilities charges, advances and related interest.

Due to Related Parties

	September 30, 2011	March 31, 2011	April 1 , 2010
	<u> </u>	<u> </u>	<u> </u>
Due to Senior officers	\$2,906,996	\$2,700,887	\$2,356,361
Due to Targa Group Inc., Convertible Debentures	247,672	247,672	247,672
Due to Tidal Quality Management Inc.	309,247	304,87	339,924
Due to Targa Group Inc., Line of Credit	618,070	605,570	602,937
Due to Targa Group Inc., Demand Loan	66,581	66,581	66,581
Due to Targa Group Inc., loan interest	134,812	134,81	134,812
	<u>\$4,283,378</u>	<u>\$ 4,060,395</u>	<u>\$3,748,287</u>

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As at September 30, 2011, a balance of \$2,906,996 (\$2,276,815 principal and \$630,181 interest) remained owing to senior officers. These amounts are classified as long-term as the parties have agreed not to demand repayment before December 2012.

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 5, 2010 to the holders of record at the close of business on June 30, 2010. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the \$1,000 redemption amount of the Class A preferred shares. The dividend declared was a partial payment of the dividends accumulated. \$NIL of the dividend remains outstanding as of September 30, 2011 and is included in Trade and other payables.

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 \$100,000 of the dividend remains outstanding as of September 30, 2011.

As at September 30, 2011 a balance of \$247,672 (March 31, 2011 - \$247,672, April 1, 2010 - \$247,672) of the due to related parties is convertible into common shares of the Company at a rate of \$0.0115 at the option of the Targa. The balance is classified as long-term as the related party has agreed not to demand payment before December 2012.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears, including interest of \$134,273 owing to this related party, amounted to \$309,247 (March 31, 2011 - \$304,874, April 1, 2010 - \$339,924). In 2003, this related party entered into a forbearance agreement with the Company whereby the Company agreed to repay the amounts owing and the related party was provided with a security interest in the form of a mortgage on the property owned by the Company. The forbearance agreement is now in default. The party has agreed not to demand repayment before December 2012 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. 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 September 30, 2011, \$500,000, (March 31, 2011 - \$500,000, April 1, 2010 - \$500,000) remained outstanding on the line of credit with accumulated interest of \$118,070, (March 31, 2011 - \$106,570, April 1, 2010 - \$102,937) for a balance of \$618,070; \$NIL was drawn against the revolving demand loan with accumulated interest owing of \$66,581 for a balance of \$66,581. Targa has agreed that it will not demand repayment before December 2012 and, accordingly, the amounts is classified as long-term.

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Accumulated interest in the amount of \$134,812 (March 31, 2011 - \$134,812, April 1, 2010 - \$134,812), on a loan from Targa remains outstanding as of September 30, 2011. The party has agreed not to demand repayment before December 2012 and the amount is classified as long-term.

During the third quarter of fiscal 2011, the Company executed a five year lease for new premises located at 10 Didak Drive, owned by Tidal Quality Management Corporation, a company owned by Targa Group Inc., Plaintree's largest shareholder. The five year lease for the new premises is at \$0.41 per sq/ft in the first year, increasing \$1.00 per sq/ft per year until the rent reaches \$3.41 where it remain for the balance of the term. During the first six months of 2012, the Company paid \$27,854 to Tidal in lease payments

Facilities

The Company leases a 135,000 sq/ft building at 10 Didak Drive in Arnprior, Ontario. Plaintree no longer requires its existing two buildings in Arnprior and steps are underway to sell the two buildings.

Statement of Compliance

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* using the accounting policies disclosed below. The Company is a first-time adopter of International Financial Reporting Standards ("IFRS") and has followed the requirements of IFRS 1- First-time Adoption of IFRS ("IFRS 1") in its initial application of IFRS as they exist at January 1, 2011 and encompasses individual IFRS, International Accounting Standards ("IASB"), and interpretations made by the International Financial Reporting Interpretations Committee ("IFRIC") and the Standard Interpretations Committee. Certain changes may be required to the extent that the IASB determines additional standards to be effective on or before December 31, 2011. The following statements represent Plaintree's first-time adoption of IFRS, the last annual financial were prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Critical Accounting Policies and Estimates

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Revenue Recognition

Application of the accounting principles related to measurement and recognition of revenue requires the Company to make judgments and estimates.

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Revenue for fixed price contracts based on the estimated percentage-of-completion of services rendered reflects management's estimates of the percentage-of-completion at each period end. This method requires management to estimate total costs and profits over the entire term of the contract.

Functional Currency

Revenue contracts are priced in a variety of currencies whereas the cost structure inputs are primarily in Canadian dollars. Secondary indicators of functional currency, including financing and cash holdings are primarily in Canadian dollars. As the primary indicators of functional currency do not clearly indicate a specific currency, the indicators as a whole have been judged to indicate the Canadian dollar is the functional currency of the parent company and its subsidiaries.

Estimation Uncertainty

Critical accounting policies and estimates utilized in the normal course of preparing the company's consolidated financial statements require the determination of future cash flows utilized in assessing net recoverable amounts and net realizable values; useful lives; allowance for bad debt; useful lives of property, equipment and intangible assets; legal contingency estimates; percentage of completion for revenue recognition; unbilled revenues; deferred revenues; inventory obsolescence; ability to utilize tax losses and investment tax credits; and measurement of deferred taxes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis where required.

These estimates have been applied in a manner consistent with that in the prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

Income taxes

The Company's deferred income tax assets and liabilities are recognized for the future tax consequences attributable to tax loss carryforwards and to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change of statutory tax rates is recognized in income in the period of enactment or substantive enactment. Deferred income tax assets are recognized to the extent it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

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Earnings per share

Earnings per share has been calculated on the basis of net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the period. Income attributable to common shareholders is equal to net income less the dividends accumulated on the preferred shares. Diluted earnings per common share is calculated by dividing the applicable net income attributable to common shareholders by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. The Company uses the treasury stock method in determining the denominator for earnings per share. Under this method it is assumed that the proceeds from the exercise of options are used to repurchase common shares at the weighted average market price of the shares for the period.

Financial instruments

All financial instruments are initially recognized at fair value including transaction costs, except those at fair value through profit or loss ("FVTPL") for which transaction costs are expensed when incurred.

Available for Sale

Available-for-sale financial assets are non-derivative financial assets that are carried at fair value with unrealized gains and losses included in other comprehensive income until realized when the cumulative gain or loss is transferred to other income.

Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest rate method.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They subsequently accounted for at amortized cost using the effective interest rate method.

Other Liabilities

Other liabilities are contractual obligations which are subsequently recorded at amortized cost using the effective interest method.

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

Fair value through profit or loss

Financial asset or liability that is held for trading, or is a derivative financial instrument measured at fair value each period with gains and losses through income.

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Cash, trade receivable are classified as loans and receivables and trade and other payables are classified as other financial liabilities. Due to the short-term nature of these assets and liabilities, the carrying amounts approximate fair value.

Due from related parties are classified as loans and receivables and due to related parties and borrowings are classified as other liabilities.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs fall into three levels that may be used to measure fair value:

- Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- Level 3 – Applies to assets or liabilities for which there is no observable market data.

Changes in Accounting Policies

The following discussion explains the significant differences between the Company's Canadian GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retroactively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first time adopters.

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

Share-Based Payments

Under Canadian GAAP fair value of share-based awards with graded vesting and service conditions were treated as one grant by the Company and the expense recognized on a straight line basis over the vesting period.

Under IFRS, each tranche of share-based award with graded vesting is considered a separate grant for the calculation of fair value, and the related expense recognized on a straight line basis over the vesting period of each tranche of the award. Recognition of share-based payments expense is accelerated resulting in no additional in share-based payment compensation being recognized during the year ended March 31, 2011 due to the limited number of the Company's stock options outstanding.

New and Revised IFRS in Issue but not Effective

Financial Instruments

IFRS 9 *Financial Instruments* ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("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. The new standard also required a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is currently evaluating the impact on its financial statements.

IFRS 10 Consolidated Financial Statements

On May 12, 2011 the IASB issued IFRS 10 *Consolidated Financial Statements*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more of the other entities.

IFRS 10 replaces the consolidated requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company is currently evaluating the impact on its financial statements.

IFRS 11 Joint Arrangements

On May 12, 2011 the IASB issued IFRS 11 *Joint Arrangements*. IFRS 11 Joint Arrangements provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. The Company is currently evaluating the impact on its financial statements

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

IFRS 12 Disclosure of Interests in Other Entities

On May 12, 2011 the IASB issued IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 *Disclosure of Interests in Other Entities* is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company is currently evaluating the impact on its financial statements.

IFRS 13 Fair Value Measurement

On May 12, 2011 the IASB issued IFRS 13 *Fair Value Measurement*. IFRS13, which is effective from January 1, 2013, defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The Company is currently evaluating the impact on its financial statements

Amendments to IAS 1 Presentation of items of Other Comprehensive Income

The amendments retain the option to present profit or loss and other comprehensive income either in one continuous statement or in two separate but consecutive statements. Items of other comprehensive income are required to be grouped into those that will and will not be subsequently reclassified to profit or loss. Tax on items of other comprehensive income is required to be allocated on the same basis. The measurement and recognition of items of profit or loss and other comprehensive income are not affected by the amendments. The amendments to IAS 1 are effective for financial years beginning on or after January 1, 2012, with earlier application permitted. The Company is evaluating the impact of the amendments to IAS 1 on its financial statements.

IAS 28 Investments in Associates and Joint Ventures

IAS 28 was re-issued by the IASB on May 12, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. The amended version of IAS 28 is effective for financial years beginning on or after January 1, 2013, with earlier application permitted. The Company is evaluating the impact of IAS 28 on its consolidated financial statements

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

Summary of Outstanding Share Data

As at September 30, 2011, the following equity instruments of the Company were issued and outstanding:

Common Shares: 12,925,253

Class A Preferred Shares: * 18,325

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

Convertible Debentures:** \$nil principal value

** The Company has issued various tranches of convertible debentures to related parties for total outstanding value at September 30, 2011, of \$247,671 in accrued interest only. The accrued interest is convertible at any time into common shares of the Company at varying conversion rates that were determined at the time of issuance of each tranche. If all the debentures plus accrued interest were converted at the current time, the total number of common shares issued would be 229,935.

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

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

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