



# PLAINTREE SYSTEMS INC.

**Q3 - 2014**

**FOR THE NINE MONTHS ENDING**

**December 31, 2013**

**(UNAUDITED)**

## **“Notice to Reader”**

The accompanying unaudited interim consolidated financial statements of Plaintiff Systems Inc. for the nine months ended December 31, 2013 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 21, 2014

“David Watson”

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David Watson  
CEO

# PLAINTREE SYSTEMS INC.

## Condensed Interim Consolidated Statement of Financial Positions

(in Canadian dollars)

	December 31, 2013	March 31, 2013
	(unaudited)	audited
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ 145,760
Trade receivables	3,254,610	1,751,364
Unbilled revenue	636,778	1,024,553
Inventories (Note 4 )	1,728,750	1,346,334
Other assets	220,825	149,100
Note receivable - current portion	44,650	-
Due from related party (Note 5)	1,636,884	1,510,345
Assets held for sale (Note 6)	1,165,702	1,165,702
	<b>8,688,198</b>	<b>7,093,158</b>
<b>Non-current assets</b>		
PROPERTY, PLANT AND EQUIPMENT, NET (Note 7)	5,503,271	4,364,613
NOTE RECEIVABLE (Note 9)	368,371	446,509
INTANGIBLE ASSETS (Note 8)	1,086,131	1,182,903
	<b>\$ 15,645,973</b>	<b>\$ 13,087,183</b>
<b>Current liabilities</b>		
Bank indebtedness	\$ 1,036,546	\$ -
Trade and other payables	1,990,073	1,831,967
Deferred Revenue	540,968	474,996
Note payable (Note 10 )	-	762,000
Current portion of long-term debt (Note 12)	954,980	3,285,478
	<b>4,522,567</b>	<b>6,354,441</b>
LONG-TERM DEBT (Note 12)	3,183,073	-
DUE TO RELATED PARTIES (Note 11)	5,545,657	4,927,046
	<b>8,728,729</b>	<b>11,281,487</b>
	<b>13,251,296</b>	<b>11,281,486</b>
<b>Shareholders' equity</b>		
Issued capital (Note 13 )	2	2
Equity	2,394,674	1,805,694
	<b>2,394,676</b>	<b>1,805,696</b>
	<b>\$ 15,645,973</b>	<b>\$ 13,087,183</b>

APPROVED BY THE BOARD

"David Watson"

"Girvan Patterson"

**PLAINTREE SYSTEMS INC.****Condensed Interim Consolidated Statements of Comprehensive Profit (Loss)**

(in Canadian dollars)

	<b>Three Months Ended December 31, 2013 (unaudited)</b>	Three Months Ended December 31, 2012 (unaudited)	<b>Nine Months ended December 31, 2013 (unaudited)</b>	Nine Months ended December 31, 2012 (unaudited)
<b>Revenue</b>	<b>\$ 6,143,956</b>	\$ 4,091,181	<b>\$ 15,614,980</b>	\$ 9,673,322
<b>Cost of sales</b>	<b>5,618,963</b>	2,945,241	<b>12,367,436</b>	7,120,575
<b>Gross margin</b>	<b>524,992</b>	1,145,940	<b>3,247,543</b>	2,552,747
<b>Operating expenses</b>				
Research and development	<b>358,690</b>	285,067	<b>1,027,785</b>	982,016
Finance and administration	<b>329,990</b>	358,197	<b>951,613</b>	867,586
Sales and marketing	<b>164,831</b>	92,834	<b>529,034</b>	398,815
Interest expense	<b>78,831</b>	40,298	<b>206,175</b>	150,737
(Gain) on disposal of asset	-	(3,430)	-	(32,941)
(Gain) on foreign exchange	<b>(56,405)</b>	(364)	<b>(56,044)</b>	24,942
	<b>875,937</b>	772,602	<b>2,658,563</b>	2,391,155
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ (350,945)</b>	\$ 373,339	<b>\$ 588,980</b>	\$ 161,592
<b>Basic and diluted (loss) per common share (Note 13 &amp; 14)</b>	<b>\$ (0.06)</b>	\$ 0.00	<b>\$ (0.04)</b>	\$ (0.07)
<b>Weighted average common shares outstanding</b>	<b>12,925,253</b>	12,925,253	<b>12,925,253</b>	12,925,253

	December 31, 2013 (unaudited)	December 31, 2012 (unaudited)
<b>Cash flows from operating activities</b>		
Profit for the period	\$ 588,980	\$ 161,593
Depreciation of intangible assets	100,397	107,987
Depreciation of property, plant and equipment	388,563	400,619
(Gain on sale of property, plant and equipment)	-	(32,941)
	<u>1,077,941</u>	<u>637,258</u>
Movements in working capital		
(Increase) in trade and other receivables	(1,503,246)	(838,213)
Decrease (increase) in unbilled revenue	387,775	(164,102)
(Increase) in inventories	(382,416)	(124,396)
(Increase) decrease in other assets	(38,237)	120,380
(Increase) in due from related parties	(126,539)	(198,131)
Increase in trade and other payables	158,109	915,848
Increase in deferred revenue	65,972	103,608
Cash used in operations	<u>(360,643)</u>	<u>(185,006)</u>
Interest paid on related party debt	139,718	115,753
Net cash provided by operating activities	<u>(220,925)</u>	<u>(69,253)</u>
<b>Cash flows from investing activities</b>		
Payments to acquire property, plant and equipment	(1,527,221)	(912,369)
Proceeds from disposal of property, plant and equipment	(3,626)	41,000
Net cash (used in) investing activities	<u>(1,530,847)</u>	<u>(871,369)</u>
<b>Cash flows from financing activities</b>		
Borrowings to acquire financial assets	1,180,283	632,615
(Repayment) of borrowings	(716,235)	(805,331)
Increase (repayment) of borrowings - related party	105,419	(12,002)
Net cash from financing activities	<u>569,466</u>	<u>(184,718)</u>
Net (decrease) in cash and cash equivalents	<u>(1,182,305)</u>	<u>(488,083)</u>
Cash and cash equivalents at the beginning of the year	\$ 145,760	\$ 680,000
Cash and cash equivalents at the end of the period	<u>\$ (1,036,546)</u>	<u>\$ 191,917</u>

PLAINTREE SYSTEMS INC.

Consolidated Statement of changes in equity  
as at December 31, 2013 and December 31, 2012

	Common Shares Number	Issued Capital	Preferred Shares (1) Number	Issued Capital	Equity (Deficit)	Shareholders' Equity
Balances at December 31, 2012	12,925,253	\$ 1	18,325	\$ 1	\$ 1,594,001	\$ 1,594,003
Net loss	-	-	-	-	211,693	211,693
Balances at March 31, 2013	12,925,253	1	18,325	1	1,805,694	1,805,696
Net income					588,980	588,980
Balances at December 31, 2013	12,925,253	\$ 1	18,325	\$ 1	\$ 2,394,674	\$ 2,394,676

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

# **PLAINTREE SYSTEMS INC.**

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

**for the Quarters ended December 31, 2013 and 2012 (unaudited)**

**(in Canadian dollars)**

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### **1. DESCRIPTION OF THE BUSINESS**

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the CNSX 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 and Arnprior Fire Trucks Corp.). Plaintree was historically a designer and manufacturer of wireless connections transmitting data on beams of light versus conventional radio frequency, commonly referred to as free space optics ("FSO"). The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminium and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings. On February 6, 2012, Plaintree purchased the assets of Summit Tool Corporation, located in Pocono Summit, Pennsylvania. This company continued in its existing location as Summit Aerospace USA Inc. a wholly-owned subsidiary of Plaintree and specializes in the high end machining of super-alloys for the aircraft and helicopter markets. In May 2013 the Company along with its wholly-owned US subsidiary acquired a 16,300 sq. ft. manufacturing facility in Pocono Summit and expects to relocate from the present leased facilities by spring 2014. 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 21, 2014. 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, 2013.

#### **(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.

# PLAINTREE SYSTEMS INC.

## Notes to the condensed Consolidated Interim Statements

for the Quarters ended December 31, 2013 and 2012 (unaudited)

(in Canadian dollars)

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### (c) Basis of Consolidation

The consolidated financial statements include the accounts of Plaintiff Systems Inc. and its wholly-owned subsidiaries Summit Aerospace USA Inc. and Triodetic Inc. (U.S. companies) and Arnprior Fire Trucks Inc. (Canadian company). 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 policies adopted by the Company. All inter-company transactions have been eliminated.

### 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 2013 annual consolidated financial statements, and have been applied consistently to the periods presented in these condensed consolidated interim financial statements

*New and revised IFRS in issue but not effective*

#### ***IFRS 9 Financial Instruments***

IFRS 9, *Financial Instruments* 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, 2015 with early adoption permitted. The Company is currently evaluating the impact on its consolidated 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 consolidated financial statements.



# **PLAINTREE SYSTEMS INC.**

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

for the Quarters ended December 31, 2013 and 2012 (unaudited)

(in Canadian dollars)

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### ***IFRS 11 Joint Arrangements***

On May 12, 2011 the IASB issued IFRS 11, *Joint Arrangements*. IFRS 11 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 consolidated financial statements

### ***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 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 consolidated financial statements.

### ***IFRS 13 Fair Value Measurement***

On May 12, 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13, 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 consolidated 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 consolidated financial statements.

# PLAINTREE SYSTEMS INC.

## Notes to the condensed Consolidated Interim Statements for the Quarters ended December 31, 2013 and 2012 (unaudited) (in Canadian dollars)

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### *IAS 28 Investments in Associates and Joint Ventures*

IAS 28, *Investments in Associated and Joint Ventures* 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.

#### 4. INVENTORIES

	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Raw materials	<b>\$797,021</b>	\$ 373,909
Work in process	<b>649,649</b>	675,822
Finished goods	<b>282,080</b>	296,603
	<b><u>\$1,728,750</u></b>	<b><u>\$ 1,346,334</u></b>

The cost of inventories recognized as an expense during the nine month period ended December 31, 2013 was \$9,651,636 (December 31, 2012 - \$7,094,903). The total carrying value of inventory at December 31, 2013 was pledged as security through general security agreements under bank lines of credit and related party liabilities. Write-downs of inventory for the nine months ended December 31, 2013 was \$NIL (December 31, 2012 - \$NIL). Recoveries of inventory write-downs for the first nine months of fiscal 2014 was \$70,076 (2013- \$104,825).

#### 5. DUE FROM RELATED PARTY

As of December 31, 2013 \$1,636,884 (March 31, 2013 - \$1,510,345) is owed from Spotton Corporation, a company that is a related party of Targa Group Inc. ("Targa"), a material shareholder of the Company. The balance accrues interest at prime plus 2% and is due from the related party on demand. The balance relates to rent, utilities charges, advances and related interest.

#### 6. ASSETS HELD FOR SALE

Assets held for sale as of December 31, 2013 consist of a manufacturing property owned by the Company that is vacant and available-for-sale. The assets are recorded

## PLAINTREE SYSTEMS INC.

### Notes to the condensed Consolidated Interim Statements

for the Quarters ended December 31, 2013 and 2012 (unaudited)

(in Canadian dollars)

at the lower of carrying value and fair value less estimated selling costs. The property has mortgage loans totalling \$481,054 that would need to be satisfied at the time of sale of the properties.

#### 7. PROPERTY, PLANT AND EQUIPMENT

Carrying amounts as of:

	Land	Building	Building improvements	Factory equipment	Computer equipment	Office equipment	Vehicles	Total
<b>March 31, 2013</b>	<b>50,000</b>	<b>106,777</b>	<b>684,293</b>	<b>3,399,376</b>	<b>23,928</b>	<b>22,759</b>	<b>77,480</b>	<b>4,364,613</b>
Additions	128,696	1041,264	162,496	141,869	3,135	-	49,761	1,527,221
Depreciation	-	(32,329)	(64,514)	(241,707)	(15,713)	(3,419)	(30,881)	(388,563)
<b>December 31, 2013</b>	<b>171,000</b>	<b>1,053,448</b>	<b>782,275</b>	<b>3,299,537</b>	<b>11,350</b>	<b>19,340</b>	<b>96,360</b>	<b>\$5,503,271</b>

#### 8. INTANGIBLE ASSETS

Carrying amounts as of:

	Customer Relationship	Non-competition Agreement	Computer Software	Total
<b>Balance as at March 31, 2013</b>	<b>1,172,943</b>	<b>8,461</b>	<b>1,499</b>	<b>1,182,903</b>
Additions	-	-	3,626	3,626
Depreciation	(97,745)	(1,154)	(1,499)	(100,398)
<b>Balance as of December 31, 2013</b>	<b>1,075,198</b>	<b>7,307</b>	<b>3,626</b>	<b>1,086,131</b>

#### 9. NOTE RECEIVABLE

On March 28, 2012, the Company sold one of its two manufacturing buildings that were recorded as assets held-for-sale. The building was sold for \$470,000. The Company assumed a vendor take-back first mortgage of \$446,500 for a three-year term. As at December 31, 2013 a balance of \$413,021 remained owing to the Company with principal payments, beginning in year two, amortized over ten years plus interest at prime plus 2% per annum.

#### 10. NOTE PAYABLE

On February 6, 2012 Plaintiff Systems Inc., along with its wholly-owned subsidiary Summit Aerospace USA Inc., completed its acquisition of the assets of Summit Tool Corp., consisting primarily of precision machining equipment. The total consideration was US\$3 million, of which US\$1.5 million was paid on closing through debt financing, and the balance, which included US\$500,000 in contingent consideration, is to be paid in

# PLAINTREE SYSTEMS INC.

## Notes to the condensed Consolidated Interim Statements for the Quarters ended December 31, 2013 and 2012 (unaudited) (in Canadian dollars)

three tranches: US\$375,000 paid on August 2012; US\$375,000 paid on February 2013 ; and US\$750,000 paid on August 2013.

### 11. DUE TO RELATED PARTIES

	<u>December 31 2013</u>	<u>March 31, 2013</u>
Due to Senior officers	<b>\$3,604,506</b>	\$ 3,392,540
Dividends payable	<b>60,000</b>	60,000
Due to Targa Group Inc., Convertible Debentures	<b>247,672</b>	247,672
Due to Tidal Quality Management Inc.	<b>706,516</b>	332,370
Due to Targa Group Inc., Line of Credit	<b>785,570</b>	763,070
Due to Targa Group Inc., Demand Loan	<b>66,581</b>	66,581
Due to Targa Group Inc., loan interest	<b>134,812</b>	134,813
	<u><b>5,605,657</b></u>	<u>4,987,046</u>
Less: current portion	<u><b>(60,000)</b></u>	<u>(60,000)</u>
	<u><b>\$5,545,657</b></u>	<u>\$4,927,046</u>

As at December 31, 2013 a balance of \$3,604,506 (\$2,691,281 principal and \$913,225 interest) remained owing to senior officers. Interest at bank prime plus 2% accrues on principal balances. These amounts are classified as long-term as the parties have agreed not to demand repayment before March 2015.

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

As at December 31, 2013 a balance of \$247,672 (March 31, 2013 - \$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 March 2015.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears, including interest of \$165,084 owing to this related party,

## **PLAINTREE SYSTEMS INC.**

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

**for the Quarters ended December 31, 2013 and 2012 (unaudited)**

**(in Canadian dollars)**

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amounted to \$322,150 (March 31, 2013 - \$322,370). The Company accepted partial financing in the form of a note payable in the amount of \$373,473 with accumulated interest of \$10,893 as of December 31, 2013 from Tidal for a new facility in Pocono Summit. Interest at bank prime plus 2% accrues on principal balances. The party has agreed not to demand repayment before March 2015 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 December 31, 2013, \$600,000, (March 31, 2013 - \$600,000) remained outstanding on the line of credit with accumulated interest of \$185,570, (March 31, 2013 - \$163,070) for a balance of \$785,570; \$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 March 2015 and, accordingly, the amounts is classified as long-term.

Accumulated interest in the amount of \$134,812 (March 31, 2013 - \$134,812) - on a loan from Targa remains outstanding as of December 31, 2013. The party has agreed not to demand repayment before March 2015 and the amount is classified as long-term.

The Company leases premises located at 10 Didak Drive, owned by Tidal Quality Management Corporation, a company owned by Targa Group Inc., Plaintiff's largest shareholder. During the first three quarters of fiscal 2014, the Company paid \$36,620 to Tidal in lease payments

# PLAINTREE SYSTEMS INC.

## Notes to the condensed Consolidated Interim Statements for the Quarters ended December 31, 2013 and 2012 (unaudited) (in Canadian dollars)

### 12. LONG-TERM DEBT

	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Bank loan bearing interest at the rate equal to the bank's LIBOR Rate plus 3.5%, due in monthly principal instalments of \$4,028, secured by a general security agreement, matures May 2020.	\$ 741,122	\$ -
Bank loan bearing interest at the rate of prime plus 1.25% per annum, payable in monthly principal plus interest instalments of \$4,221, secured by a general security agreement, maturing October 2027.	346,407	372,785
Term loan payable in monthly instalments of \$732.79, bearing interest at the rate of prime minus 0.65% per annum, secured by a mortgage on a property, maturing November 2016.	99,509	104,282
Demand non-revolving loan payable in monthly blended installments of principal and interest, at the rate of prime plus 1.5%, secured by general security agreement, maturing five years from the date of each draw-down or February 2022.	82,739	88,910
Demand non-revolving loan payable in monthly blended instalments of principal and interest, at the rate of Prime + 1.5%, secured by general security agreement, maturing five years from the date of each draw-down or October 2021.	326,210	351,873
Demand non-revolving loan payable in monthly blended instalments of principal and interest, at the rate of Prime + 1.5%, secured by general security agreement, maturing ten years following full draw-down of, \$500,000 the loan or June 2016.	266,489	310,312
Demand non-revolving loan payable in monthly installments of \$65,000 USD plus LIBOR + 3% per annum, maturing January 2016.	1,729,506	1,427,480
Demand non-revolving loan payable in monthly blended instalments of \$9,906, of principal and interest, at the rate of 3.63%, secured by general security agreement, maturing June 2017.	411,424	471,475
Term non-revolving loan payable in monthly instalments of \$3,161 bearing interest at the rate of prime plus 1.25% per annum, maturing September 2018.	134,647	158,361
	<b>\$ 4,138,053</b>	<b>\$ 3,285,478.14</b>
Current Portion	<b>954,980</b>	<b>3,285,478</b>
Balance	<b>\$ 3,183,073</b>	<b>\$ -</b>

# PLAINTREE SYSTEMS INC.

## Notes to the condensed Consolidated Interim Statements for the Quarters ended December 31, 2013 and 2012 (unaudited) (in Canadian dollars)

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### 13. SHARE CAPITAL

Authorized

Unlimited number of common shares

Unlimited number of Class A preferred shares

Class A 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at \$1,000 per share plus accrued dividends; liquidation preference of the redemption value plus cumulative dividends (when and if declared) to common shares; non-voting. As of December 31, 2013, the accrued and unpaid dividends on the Class A preferred shares were \$8,729,000.

### 14. BASIC AND DILUTED EARNINGS PER COMMON SHARE

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

	Three Months December 31, 2013 (unaudited)	Three Months December 31, 2012 (unaudited)
Net (loss) income	\$ (350,945)	\$ 373,339
Cumulative dividends on preferred shares - three months	<u>(366,500)</u>	<u>(366,500)</u>
Net (loss) income attributable to common shares (basic and diluted)	\$ (717,445)	\$ 6,839
Basic and diluted weighted average shares outstanding	<u>12,925,253</u>	<u>12,925,253</u>
Basic and diluted (loss) per share	<u>\$ (0.06)</u>	<u>\$ 0.00</u>

# PLAINTREE SYSTEMS INC.

## Notes to the condensed Consolidated Interim Statements for the Quarters ended December 31, 2013 and 2012 (unaudited) (in Canadian dollars)

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	Nine Months December 31, 2013 (unaudited)	Nine Months December 31, 2012 (unaudited)
Net Income	\$ 588,980	\$ 161,592
Cumulative dividends on preferred shares - three months	<u>(1,099,500)</u>	<u>(1,099,500)</u>
Net income (loss) attributable to common shares (basic and diluted)	\$ (510,520)	\$ (937,908)
Basic and diluted weighted average shares outstanding	<u>12,925,253</u>	<u>12,925,253</u>
Basic and diluted earnings (loss) per share	<u>\$ (0.04)</u>	<u>\$ (0.07)</u>

### 15. BUSINESS SEGMENT INFORMATION

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments - the design, development, manufacture, marketing and support of electronic products, and the specialty structural products. The Company determines the geographic location of revenues based on the location of its customers. All of the Company's assets are primarily located in Canada.



**PLAINTREE SYSTEMS INC.**  
**Notes to the condensed Consolidated Interim Statements**  
for the Quarters ended December 31, 2013 and 2012 (unaudited)  
(in Canadian dollars)

**Revenues by division**

	For the three months ended		For the nine months ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<i>Electronics</i>	\$ 1,391,825	\$ 1,420,160	\$ 4,157,548	\$ 4,390,908
<i>Specialty Structures</i>	4,752,131	2,671,021	11,457,432	5,282,414
<i>Total earnings (loss)</i>	<u>\$ 6,143,956</u>	<u>\$ 4,091,181</u>	<u>\$ 15,614,980</u>	<u>\$ 9,673,322</u>

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

	For the three months ended		For the nine months ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<i>Electronics</i>	\$ 170,835	\$ 199,814	\$ 588,231	\$ 775,589
<i>Specialty Structures</i>	(521,780)	173,525	749	(613,997)
<i>Total earnings (loss)</i>	<u>\$ (350,945)</u>	<u>\$ 373,339</u>	<u>\$ 588,980</u>	<u>\$ 161,592</u>

**Revenue by geographical location**

	For the three months ended		For the nine months ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<i>Canada</i>	\$ 4,608,021	\$ 2,850,947	\$ 11,310,416	5,226,276
<i>United States</i>	1,154,042	1,172,715	3,552,291	3,993,159
<i>Other</i>	362,343	3,401	651,870	290,444
<i>Europe</i>	19,550	64,118	100,403	163,443
<i>Total Revenue</i>	<u>\$ 6,143,956</u>	<u>\$ 4,091,181</u>	<u>\$ 15,614,980</u>	<u>\$ 9,673,322</u>

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

	For the three months ended		For the nine months ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<i>Number of customers</i>	1	4	2	2
<i>% of total revenue</i>	20%	60%	50%	28%

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

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## PLAINTREE SYSTEMS INC.

*For the nine months ended December 31, 2013 and 2012*

**Date – February 21, 2014**

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 nine months ended December 31, 2013 and 2012. Historical results of operations, percentage relationships and any trends that may be inferred there from are not necessarily indicative of the operating results of any future periods. Unless otherwise stated all amounts are in Canadian dollars following the requirements of the International Financial Reporting Standards ("IFRS"). The information contained herein is dated as of February 21, 2014 and is current to that date, unless otherwise stated. Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the interim filings. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying financial statements.

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

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

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

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### ***Caution Regarding Forward Looking Information***

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

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

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### **Overview**

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

### **Recent Developments**

On May 23, 2013 the Company completed the acquisition of a 16,300 sq ft manufacturing facility in Pocono Summit, PA and will relocate its Summit Aerospace business during the spring of 2014.

The Company’s common shares are quoted on the CNSX under symbol “NPT” in Canada.

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

### *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.

### 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 nine months ended December 31, 2013:

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

	<b><u>December 31,</u></b> <b><u>2013</u></b> <b><u>(unaudited)</u></b>	<b><u>March 31, 2013</u></b> <b><u>audited</u></b>
Total assets	\$ 15,646	\$ 13,087
Total liabilities	\$ 13,251	\$ 11,281
Long-term liabilities	\$ 8,729	\$ 4,927
Cash dividends declared per share (\$1,000 per share)	\$ nil	\$ nil

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

	<b><u>For the three months ended</u></b> <b><u>December 31,</u></b>	
	<b><u>2013</u></b> <b><u>(unaudited)</u></b>	<b><u>2012</u></b> <b><u>(unaudited)</u></b>
Revenue	\$ 6,144	\$ 2,804
Net (loss) and total comprehensive (loss)	\$ (351)	\$ (35)
Net loss attributable to common shareholders	\$ (717)	\$ (401)
Basic and diluted loss per share	\$ (0.06)	\$ (0.03)

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

(\$000s, except per share data)

	For the nine months ended December 31,	
	<u>2013</u> <u>(unaudited)</u>	<u>2012</u> <u>(unaudited)</u>
Revenue	\$ 15,615	\$ 5,582
Net income (loss) and total comprehensive income (loss)	\$ 589	\$ (212)
Net loss attributable to common shareholders	\$ (511)	\$ (945)
Basic and diluted loss per share	\$ (0.04)	\$ (0.07)

	(\$000s, except per share and % amounts) (unaudited) Three Months Ended December 31,		Change from
	2013	2012	2012 to 2013
Revenue	\$ 6,144	\$ 4,091	\$ 2,053
Cost of sales	5,619	2,945	2,674
Gross margin	525	1,146	(621)
	9%	28%	
<i>Operating expenses:</i>			
Research and development	358	285	73
Finance and administration	330	358	(28)
Sales and marketing	165	93	72
Interest expense	79	40	39
(Gain) on disposal of asset	-	(3)	3
(Gain) Loss on foreign exchange	(56)	-	(56)
	876	773	103
Net income (loss) and comprehensive income (loss)	(351)	373	(724)

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

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	<i>(\$000s, except per share and % amounts) (unaudited)</i>		Change from
	Nine Months Ended December 31,		
	2013	2012	2012 to 2013
Revenue	\$ 15,615	\$ 9,973	\$ 5,642
Cost of sales	12,367	7,120	5,247
Gross margin	3,248	2,853	395
	21%	26%	
<i>Operating expenses:</i>			
Research and development	1,028	982	46
Finance and administration	952	868	84
Sales and marketing	529	399	130
Interest expense	206	151	55
Loss on disposal of asset	-	(33)	33
(Gain) on foreign exchange	(56)	25	(81)
	2,659	2,391	(267)
Net income (loss) and comprehensive income (loss)	589	462	128

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

### Results of Operations

#### Business Segment Information

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

#### Revenues by division

	For the three months ended December 31, 2013		December 31, 2012		For the nine months ended December 31, 2013		December 31, 2012	
<i>Electronics</i>	\$	1,391,825	\$	1,420,160	\$	4,157,548	\$	4,390,908
<i>Specialty Structures</i>		4,752,131		2,671,021		11,457,432		5,282,414
<i>Total earnings (loss)</i>	\$	6,143,956	\$	4,091,181	\$	15,614,980	\$	9,673,322

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

	For the three months ended December 31, 2013		December 31, 2012		For the nine months ended December 31, 2013		December 31, 2012	
<i>Electronics</i>	\$	170,835	\$	199,814	\$	588,231	\$	775,589
<i>Specialty Structures</i>		(521,780)		173,525		749		(613,997)
<i>Total earnings (loss)</i>	\$	(350,945)	\$	373,339	\$	588,980	\$	161,592

#### Revenue by geographical location

	For the three months ended December 31, 2013		December 31, 2012		For the nine months ended December 31, 2013		December 31, 2012	
<i>Canada</i>	\$	4,608,021	\$	2,850,947	\$	11,310,416		5,226,276
<i>United States</i>		1,154,042		1,172,715		3,552,291		3,993,159
<i>Other</i>		362,343		3,401		651,870		290,444
<i>Europe</i>		19,550		64,118		100,403		163,443
<i>Total Revenue</i>	\$	6,143,956	\$	4,091,181	\$	15,614,980	\$	9,673,322

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

	For the three months ended December 31, 2013		December 31, 2012		For the nine months ended December 31, 2013		December 31, 2012	
<i>Number of customers</i>		1		4		2		2
<i>% of total revenue</i>		20%		60%		50%		28%



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

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### **Revenues**

#### Revenue

Total product revenue for nine months ended December 31, 2013 was \$15,614,980 compared to \$9,673,322 for the nine months ended December 31, 2012.

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

Plaintree's Electronics Division revenues for the first nine months of fiscal 2014 of \$4,157,548 held relatively constant from the same period in fiscal 2013 of \$4,390,908.

Plaintree's Specialty Structures Division revenues for the first nine months of fiscal 2014 of \$11,457,432 were up from the same period in fiscal 2013 by \$6,175,018. Sales from the Triodetic business significantly contributed to the increase in this division.

Although sales and profits were up for the first nine months of this fiscal year, in the third quarter the Company did experience setbacks on its large dome contract in Saskatchewan. Delays in the start of the project forced the majority of the installation work to occur during the last three months of winter. To exacerbate the challenges faced, the winter proved to be the coldest winter in 100 years. Installation costs will be more than double the estimated amounts and this has reduced the overall year to date profitability.

### **Gross Margin**

The total gross margin year over year remains relatively constant at 21% – 26%.

### **Operating Expenses**

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

Research and development expenses were \$1,027,785 and \$982,016 in the first nine months of fiscal 2014 and 2013 respectively. Research and development expenditures consist primarily of development engineering and personnel expenses.

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

Finance and administration expenses were \$951,631 and \$867,586 in the first nine months of fiscal 2014 and 2013 respectively. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which included financial staff, legal and audit activities.

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

Sales and marketing expenses were \$529,034 and \$398,815 in the first nine months of fiscal 2014 and 2013 respectively. These expenses consisted primarily of personnel and

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

related costs associated with the Company's sales and marketing departments, which include sales commissions, advertising, travel, trade shows and other promotional activities.

### Interest expense

Interest expense consists of interest incurred on bank and related party debt. Interest expenses were \$206,175 and \$150,737 for the first nine months of fiscal 2014 and 2013, 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 (gains) losses on foreign exchange of \$(56,044) and \$24,942 in the first nine months of fiscals 2014 and 2013 respectively. The gain/loss on foreign exchange represents the gain/loss, realized or unrealized, of transactions and year end foreign balances that are completed in currencies other than the Company's reporting currency.

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

Net profit (loss) and comprehensive (loss) for the first three quarters of Fiscal 2014 and 2013 was \$(510,520) and \$(937,908) respectively. Net income (loss) attributed to common shareholders is calculated by reducing net income by the \$1,466,000 cumulative yearly dividends that accrue annually on the Class A preferred shares. The cumulative dividends accrue at 8% per annum on the face value of the \$18,325,000 for the Class A preferred shares and as of December 31, 2013, the accrued and unpaid dividends on the Class A preferred shares were \$8,729,000.

### Quarterly Results

The following table sets out selected unaudited consolidated financial information for each quarter in fiscals 2014, 2013 and fiscal 2012:

#### Quarters ended

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

	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
	<u>2013</u>	<u>2013</u>	<u>2013</u>	<u>2013</u>	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2012</u>
Revenue	\$6,144	\$5,859	\$3,612	\$4,118	\$4,091	\$2,804	\$2,778	\$2,556
Net (loss) profit and total comprehensive (loss) income	\$(351)	\$801	\$139	\$212	\$373	\$(35)	\$(177)	\$(446)
Net (loss) profit								

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

attributed to								
common shareholders	\$(717)	\$435	\$(228)	\$(155)	\$6	\$(402)	\$(543)	\$(835)
Basic and diluted (loss) earnings per share	\$0.04	\$(0.02)	\$(0.02)	\$0.00	\$(0.03)	\$(0.04)	\$(0.06)	\$(0.08)

### Liquidity and Capital Resources

(\$000s)

	<u>As at December 31,</u> <u>2013</u> <u>(unaudited)</u>	<u>As at December 31,</u> <u>2012</u> <u>(unaudited)</u>	<u>Change</u>
(Bank indebtedness)Cash	\$ (1,037)	\$ 192	\$ (1,229)
Working Capital	\$ 4,166	\$ 2,582	\$ 1,584

	<u>Nine months ended</u> <u>December 31, 2013</u> <u>(unaudited)</u>	<u>Nine months ended</u> <u>December 31, 2012</u> <u>(unaudited)</u>	<u>Change</u>
<i>Net cash (used in) provided by:</i>			
Operating activities	\$ (221)	\$ (69)	\$ (152)
Investing activities	\$ (1,531)	\$ (817)	\$ (714)
Financing activities	\$ 569	\$ (185)	\$ 754

### Cash

As at December 31, 2013, the Company was indebted to the bank for \$1,182,305 in cash, an decrease of \$1,182,305 from March 31, 2013.

### Working Capital

Working capital represents current assets less current liabilities. As at December 31, 2013, the Company had positive working capital of \$4,165,631 compared to working capital of \$738,717 at March 31, 2013 after the bank debt was reclassified as a current liability due to breaches of two bank covenants. The Company is subject to various covenants on the long-term debt (including debt to tangible net worth, current assets to current liabilities, capital and debt service ratios). On March 31, 2013, the Company was in breach of the debt service ratio and the current assets to current liabilities covenants to which the bank has provided forbearance until April 1, 2014. The bank expects the Company to be back in covenant by March 31, 2014. 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

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

financial statements are authorized for issue. The Company's working capital without this reclassification of current bank debt is \$4,165,631 and \$2,894,737 for periods ending December 31, 2013 and March 31, 2013 respectively.

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

Cash used in operating activities for the first nine months of fiscal 2014 and fiscal 2013 was \$(220,925) and \$ (69,253) respectively. Cash used in operating activities during the first nine months of fiscal 2014 mainly relates to an increase in trade accounts receivable from increased sales and inventory.

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

Cash used in investing activities for the first nine months of fiscal 2014 was \$(1,530,847) representing an increase of \$659,478 in cash used of \$(871,369) in the same period during fiscal 2013. The primary use of cash for this fiscal pertains to the purchase of the newly acquired manufacturing facility in Pocono Summit, PA for Summit Aerospace business.

### **Cash provided by (used in )Financing activities**

Cash provided by financing activities for the first nine months of fiscal 2014 was \$569,466 representing a increase of \$754,184 from cash used of \$(184,718) in the same period during fiscal 2013. Cash provided by financing activities in the first nine months of fiscal 2014 relates primarily to the increase of both related party and bank financing incurred to complete the purchase of the newly acquired manufacturing facility in Pocono Summit, PA for Summit Aerospace business.

### **Outlook**

The first nine months of fiscal 2014 concluded with a net income of \$588,980 before adjusting for accrued and unpaid dividends on the Class A preferred shares. Continued growth for the Company is expected from Summit Aerospace and Arnprior Fire Trucks Corp in the next several years. The Company has increased their investment into high end, robust and versatile manufacturing equipment throughout all of its divisions. Plaintree moved to a larger facility in late fiscal 2011 and has recently acquired a larger facility in Pennsylvania to ensure it had sufficient capacity for growth for both its Canadian and US operations.

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

### **Related Party Transactions**

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

As of December 31, 2013 \$1,636,884 (March 31, 2013 - \$1,510,345) is owed from Spotton Corporation, a company that is a related party of Targa Group Inc. ("Targa"), a

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

material shareholder of the Company. 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.

	<b>December 31 2013</b>	March 31, 2013
Due to Senior officers	<b>\$3,604,506</b>	\$3,392,540
Dividends payable	<b>60,000</b>	60,000
Due to Targa Group Inc., Convertible Debentures	<b>247,672</b>	247,672
Due to Tidal Quality Management Inc.	<b>706,516</b>	332,370
Due to Targa Group Inc., Line of Credit	<b>785,570</b>	763,070
Due to Targa Group Inc., Demand Loan	<b>66,581</b>	66,581
Due to Targa Group Inc., loan interest	<b>134,812</b>	134,813
	<b>5,605,657</b>	4,987,046
Less: current portion	<b>(60,000)</b>	(60,000)
	<b>\$5,545,657</b>	\$4,927,046

As at December 31, 2013 a balance of \$3,604,506 (\$2,691,281 principal and \$913,225 interest) remained owing to senior officers. Interest at bank prime plus 2% accrues on principal balances. These amounts are classified as long-term as the parties have agreed not to demand repayment before March 2015.

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

As at December 31, 2013 a balance of \$247,672 (March 31, 2013 - \$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 March 2015.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears, including interest of \$165,084 owing to this related party, amounted to \$322,150 (March 31, 2013 - \$322,370). The Company accepted partial financing in the form of a note payable in the amount of \$373,473 with accumulated interest of \$10,893 as of December 31, 2013 from Tidal for a new facility in Pocono

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

Summit. Interest at bank prime plus 2% accrues on principal balances. The party has agreed not to demand repayment before March 2015 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 December 31, 2013, \$600,000, (March 31, 2013 - \$600,000) remained outstanding on the line of credit with accumulated interest of \$185,570, (March 31, 2013 - \$163,070) for a balance of \$785,570; \$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 March 2015 and, accordingly, the amounts is classified as long-term.

Accumulated interest in the amount of \$134,812 (March 31, 2013 - \$134,812) - on a loan from Targa remains outstanding as of December 31, 2013. The party has agreed not to demand repayment before March 2015 and the amount is classified as long-term.

The Company leases premises located at 10 Didak Drive, owned by Tidal Quality Management Corporation, a company owned by Targa Group Inc., Plaintiff's largest shareholder. During the first three quarters of fiscal 2014, the Company paid \$36,620 to Tidal in lease payments

### **Facilities**

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

On May 23, 2013 the Company along with its wholly-owned US subsidiary completed the acquisition of a 16,300 sq ft manufacturing facility in Pocono Summit, PA. The relocation of Summit Aerospace USA Inc. from its present leased location is expected to be complete by spring 2014.

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

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

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

IFRS 10 Consolidated Financial Statements ("IFRS 10") establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation - Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. IFRS 11 Joint Arrangements ("IFRS 11") establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current

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

IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities - Non Monetary Contributions by Venturers. IFRS 12 - Disclosure of Interests in Other Entities ("IFRS 12") applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

### ***IFRS 13 Fair Value Measurement***

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

### ***Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures***

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

### ***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

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

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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.

### Summary of Outstanding Share Data

As at February 21, 2014, 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, 2013, 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](http://www.sedar.com) or the Company's website at [www.plaintree.com](http://www.plaintree.com).