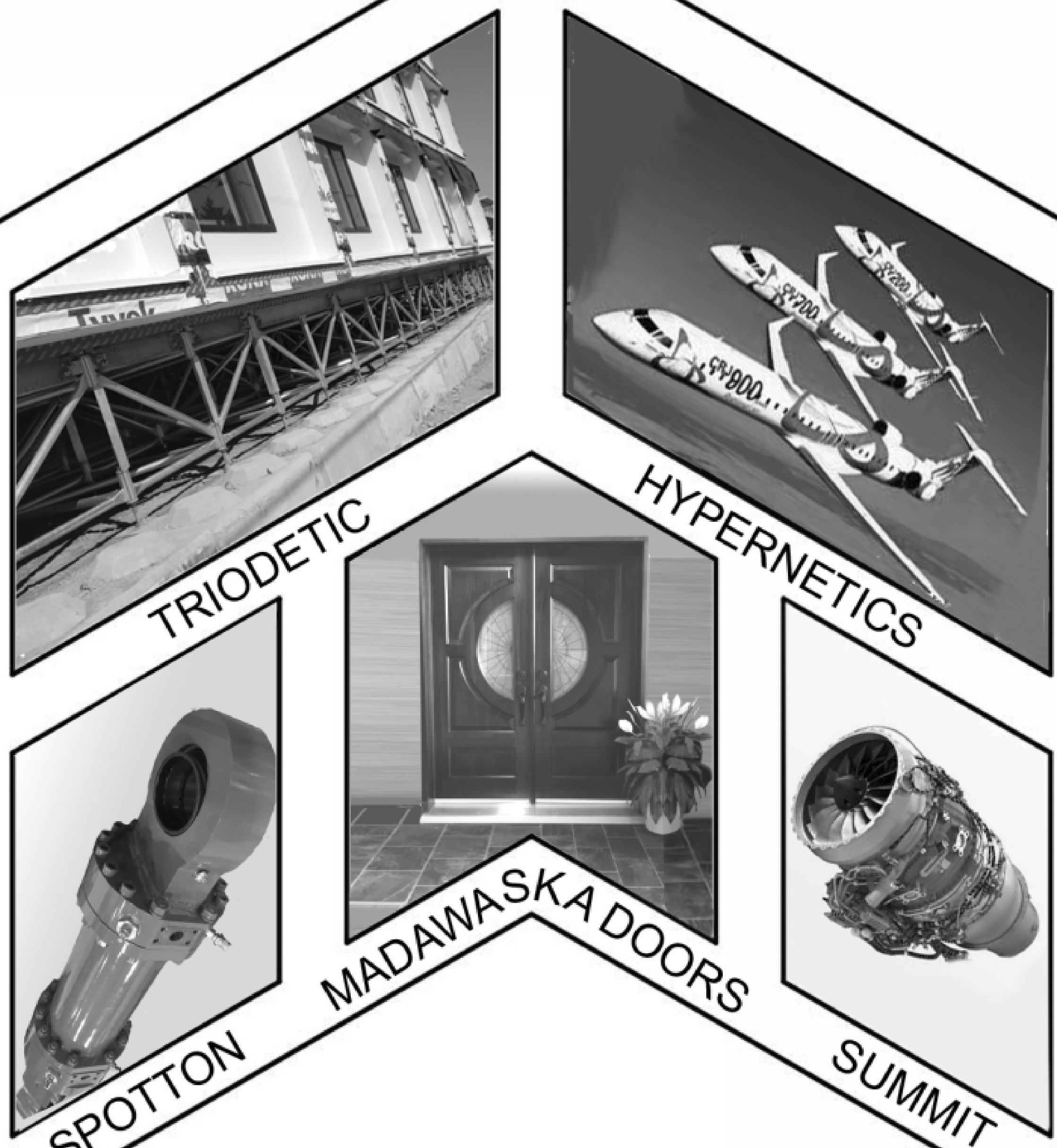
PLAINTREE SYSTEMS INC.



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FOR THE THREE MONTHS ENDING JUNE 30, 2018

“Notice to Reader”

The accompanying unaudited interim consolidated financial statements of Plaintree Systems Inc. for the three months ended June 30, 2018 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: August 23, 2018

“David Watson”

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David Watson
CEO

Plaintree Systems Inc.

Consolidated statements of financial position
as of June 30, 2018 and March 31, 2018
(unaudited)
(in Canadian dollars)

	June 30, 2008	March 31, 2018 *
	$	$
Assets		
Current assets		
Cash	-	-
Trade receivables and other receivables	**4,941,520**	3,458,343
Unbilled revenue	**1,274,936**	1,733,249
Inventories (note 5)	**2,063,133**	1,745,189
Prepaid expenses and other receivables	**488,926**	252,903
	8,768,515	7,189,684
Property, plant and equipment (note 9)	**4,369,412**	4,467,526
Intangible assets (note 10)	**498,233**	527,312
	13,636,160	12,184,522
Liabilities		
Current liabilities		
Cash deficit	**1,070,265**	314,710
Trade and other payables	**2,441,318**	2,438,218
Deferred revenue	**1,666,605**	1,472,109
Current portion of long-term debt - bank (note 6)	**255,098**	255,098
Current portion of due to related parties (note 11)	**320,000**	356,000
Current portion of deferred government assistance (note 8)	**19,000**	19,000
Current portion of obligations under lease capital (note 7)	**191,695**	178,375
Current portion of government assistance (note 8)	**39,000**	39,000
	6,002,981	5,072,510
Long-term debt - bank (note 6)	**841,448**	867,305
Deferred government assistance (note 8)	**84,655**	86,710
Obligations under lease capital (note 7)	**385,824**	386,560
Repayable government assistance - other (note 8)	**583,157**	580,951
Due to related parties (note 11)	**5,728,143**	5,757,466
	13,626,208	12,751,502
Shareholders' equity		
Issued capital	**2**	2
Contributed surplus	**2,090,750**	2,090,750
Deficit	**(2,080,800)**	(2,657,732)
	9,952	(566,980)
	13,636,160	12,184,522

* The Company adopted IFRS 15 as descibed in Note 3. Under this adoption, the comparative information is not restated.

Approved by the Board

"David Watson"
"David Watson"

"Girvan Patterson"
"Girvan Patterson"

Plaintree Systems Inc.

Consolidated statements of comprehensive earnings
three months ended June 30, 2018 and June 30, 2017
(unaudited)
(in Canadian dollars)

	June 30, 2018	June 30, 2017 *
	$	$
Revenue	**5,031,376**	3,616,516
Cost of sales	**3,949,540**	2,665,592
Gross margin	**1,081,836**	950,924
Operating expenses		
Research and development	**379,285**	275,986
Finance and administration	**333,163**	346,801
Sales and marketing	**149,005**	145,593
Interest expense	**93,272**	62,872
Loss on foreign exchange	**6,490**	15,489
	961,215	846,741
Net earnings before other gains	**120,621**	104,183
Other		
Gain from discontinued operations (note 4)	**-**	248,580
Net earnings and comprehensive earnings	**120,621**	352,763
Basic and diluted earnings (loss) per common share (note 13)		
From continuing and discontinuing operations	**(0.02)**	(0.00)
From continuing operations	**(0.02)**	(0.02)
Weighted average common shares outstanding	**12,925,253**	12,925,253

* The Company adopted IFRS 15 as descibed in Note 3. Under this adoption, the comparative information is not restated.

Plaintree Systems Inc.

Consolidated statements of cash flows (unaudited)

for the three months ended June 30, 2018 and June 30, 2017
(unaudited)
(in Canadian dollars)

	June 30, 2018	June 30, 2017 *
	$	$
Operating activities		
Net earnings	**120,621**	104,183
Add (deduct) items not affecting cash		
Other income from discontinued operations	**-**	248,580
Depreciation of intangible assets	**34,004**	35,078
Depreciation of property, plant and equipment	**225,777**	236,775
Changes in non-cash operating working capital items		
Trade and other receivables	**(1,483,177)**	402,985
Unbilled revenue	**924,208**	73,781
Inventories	**(317,944)**	(157,240)
Prepaid expenses and other receivables	**(236,023)**	33,853
Trade and other payables	**(6,484)**	(1,104,132)
Deferred revenue	**194,497**	390,469
Cash provided by operations	**(544,521)**	264,332
Investing activities		
Payments to acquire intangible assets	**(4,926)**	(8,620)
Payments to acquire property, plant and equipment	**(127,663)**	(15,025)
Proceeds from disposal of property, plant and equipment	**-**	10,686
Cash used in investing activities	**(132,589)**	(12,959)
Financing activities		
Repayment of government assistance	**151**	(34,427)
Repayment of long-term debt	**(25,857)**	(267,580)
Increase in capital lease obligations	**49,000**	-
Repayment of capital lease obligations	**(36,416)**	(43,498)
Decrease in related party borrowings (note 11)	**(65,323)**	479,433
Cash used in financing activities	**(78,445)**	133,928
Net cash inflow	**(755,555)**	385,301
(Bank Indebteness) (beginning of the year)	**(314,710)**	(324,566)
(Bank indebtedness), end of the year	**(1,070,265)**	60,735

* The Company adopted IFRS 15 as descibed in Note 3. Under this adoption, the comparative information is not restated.

PLAINTREE SYSTEMS INC.
Consolidated Statement of changes in equity
for the three months ended June 30, 2018 and June 30, 2017
(unaudited)

	Common Shares		Preferred Shares (1)				
	Number	Issued Capital	Number	Issued Capital	Contributed Surplus	Equity (Deficit)	Shareholders' Equity *
		$		$	$	$	$
Balances at March 31, 2017	12,925,253	1	18,325	1	2,090,750	(5,205,246)	(3,114,494)
Net earnings and comprehensive earnings						352,763	352,763
Balances at June 30, 2017	12,925,253	1	18,325	1	2,090,750	(4,852,483)	(2,761,731)

	Common Shares		Preferred Shares (1)				
	Number	Issued Capital	Number	Issued Capital	Contributed Surplus	Equity (Deficit)	Shareholders' Equity
		$		$	$	$	$
Balances at March 31, 2018	12,925,253	1	18,325	1	2,090,750	(2,657,732)	(566,980)
Adjustment on initial application of IFRS 15 (note x)						456,311	456,311
Adjusted balance, April 1, 2018	12,925,253	1	18,325	1	2,090,750	(2,201,421)	-110,669
Net earnings and comprehensive loss						120,621	120,621
Balances at June 30, 2018	12,925,253	1	18,325	1	2,090,750	(2,080,800)	9,952

(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.

* The Company adopted IFRS 15 as descibed in Note 3. Under this adoption, the comparative information is not restated.

1. Description of the business

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the Canadian Securities Exchange ("CSE") under "NPT". The Company operates an Electronics division (the Hypernetics business), Summit Aerospace USA Inc. ("Summit Aerospace") and a Specialty Structures division (the Triodetic business), Spotton Corporation and 9366920 Canada Inc. (operating as Madawaska Doors). Plaintree is a diversified company with proprietary technologies and manufacturing capabilities in structural design and aerospace. The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids, and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminum, and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames, and industrial dome coverings. Summit Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic valves and cylinders for the industrial, oil and gas markets. Madawaska Doors business involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and materials. Until June 2017 the Specialty Structures division included Arnprior Fire Trucks Corp. ("AFTC") and on June 6, 2017, the Company completed the sale of assets and business of AFTC.

The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

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

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 August 23, 2018. The unaudited consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* using the accounting polices 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, 2018.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for share-based compensation and for purchase price allocation for business combination, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

(c) Basis of consolidation

The consolidated financial statements include the accounts of Plaintree Systems Inc. and its wholly-owned subsidiaries: Summit Aerospace USA Inc. and Triodetic Inc. (U.S. companies) and Spotton Corp. (Canadian company) and Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by the Company. All inter-company transactions have been eliminated.

2. Basis of presentation (continued)

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

3. Significant accounting policies

Except as described below, the accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements for the year ending March 31, 2018.

The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ended March 31, 2019.

New Standards effective April 2018

(a) IFRS 9 – Financial instruments

IFRS 9 Financial Instruments ("IFRS 9") The IASB issued the final version of IFRS 9 on July 24, 2014, which replaces IAS 39 Financial Instruments: Recognition and Measurement. This final version of IFRS 9 represents the completion of this project and it includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 does not address the specific accounting for open portfolios or macro hedging as these items are part of a separate IASB project that is currently ongoing. This final Standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. Certain amendments have been made to the financial asset classification and measurement principles in prior versions of IFRS 9.

This new Standard supersedes all prior versions of IFRS 9. The effective date for this standard began for annual periods beginning on or after April 1, 2018. The Company will begin to report under this standard for its reporting periods in fiscal 2019. IFRS 9 requires the Company to record expected credit losses on all trade receivables, either on a 12-month or lifetime basis.

The adoption of IFRS 9 has not had an effect on the Company's accounting policies related to financial liabilities.

There was no material impact of the transition to IRFS 9 on the Company's statement of financial position at March 31, 2018.

(In Canadian dollars)

3. Significant accounting policies (continued)

New Standards effective April 2018 (continued)

(b) IFRS 15 – Revenue from contracts with customers

IFRS 15 Revenue from Contracts with Customers ("IFRS 15") IFRS 15 was issued by the IASB on May 28, 2014, and replaced IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard.

The Company has transitioned to this standard effective April 1, 2018 and is using the modified retrospective approach. The impact of the transition is shown below.

	Impact of adopting IFRS 15 at April 1, 2018
	$
Accelerated recognition of contract performance for manufactured products	455,337
Related commission expenses	(9,584)
Impact at April 1, 2018	445,753

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for the products or services. The Company's contracts can contain both products and services, which are generally capable of being distinct and accounted for as a separate performance obligation.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled receivables. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of the deferred revenue.

Effective April 1, 2018, the Company adopted IFRS 15 using the cumulative effect method, with the effect of adopting this standard recognized on April 1, 2018, the date of initial application. Accordingly, the information presented for 2018 has not been restated. It remains as previously reported under IAS 18, IAS 11 and related interpretations.

Prior to adopting IFRS 15, contract costs including commissions paid to employees were expensed upon completion of the related contract revenue.

In its adoption of IFRS 15, the Company has elected to apply the requirements of the new standard only to contracts that are incomplete at the date of initial application. The Company has also elected to apply contract modification practical expedient and reflect the aggregate effect of all contract modifications prior to the transition date.

Impact of adopting IFRS 15:

The following tables summarize the impact of adopting IFRS 15 on the Company's condensed consolidated interim statements of financial position as at June 30, 2018 and its interim statements of comprehensive income for the three months ended June 30, 2018. There was no material impact on the Company's interim statements of cash flows for the three months ended June 30, 2018.

(In Canadian dollars)

Impact on the condensed consolidated interim statements of financial position as at June 30, 2018:

	As reported	IFRS15 Adjustment	Amount without IFRS 15
	$	$	$
Assets			
Current assets			
Cash	-	-	-
Trade receivables and other receivables	4,941,520	-	4,941,520
Unbilled revenue	1,274,936	(93,037)	1,181,899
Inventories	2,063,133	79,292	2,142,425
Prepaid expenses and other receivables	488,926	-	488,926
	8,768,515	(13,745)	8,754,770
Property, plant and equipment	4,369,412	-	4,369,412
Intangible assets	498,233	-	498,233
	13,636,160	(13,745)	13,622,415
Liabilities			
Current liabilities			
Cash deficit	1,070,265	-	1,070,265
Trade and other payables	2,449,437	8,119	2,457,556
Deferred revenue	1,666,605	-	1,666,605
Current portion of long-term debt - bank	255,098	-	255,098
Current portion of due to related parties	320,000	-	320,000
Current portion of deferred government assistance	19,000	-	19,000
Current portion of obligations under lease capital	191,695	-	191,695
Current portion of government assistance	39,000	-	39,000
	6,011,100	8,119	6,019,219
Long-term debt - bank	841,448	-	841,448
Deferred government assistance	84,655	-	84,655
Obligations under lease capital	385,824	-	385,824
Repayable government assistance - other	583,157	-	583,157
Due to related parties	5,728,143	-	5,728,143
	13,634,327	8,119	13,642,446
Shareholders' equity			
Issued capital	2	-	2
Contributed surplus	2,090,750	-	2,090,750
Deficit	(2,201,421)	-	(2,201,421)
	(110,669)	-	(110,669)
	13,523,658	8,119	13,531,776

* The Company adopted IFRS 15 as descibed in Note 3. Under this adoption, the comparative information is not restated.

(In Canadian dollars)

Impact on the condensed consolidated interim statements of comprehensive income for th three months ended March 31, 2018:

	As reported	IFRS 15 Adjustment	Amount without IFRS 15
	$		
Revenue	5,031,376	(88,003)	4,943,373
Cost of sales	3,949,540	(76,589)	3,872,951
Gross margin	1,081,836	(11,414)	1,070,422
Operating expenses			
Research and development	379,285	-	379,285
Finance and administration	333,163	-	333,163
Sales and marketing	-	8,119	8,119
Interest expense	93,272	-	93,272
Loss on foreign exchange	6,489	2,330	8,820
	812,210	10,449	822,659
Net earnings (loss) before other gains	269,626	(21,863)	247,763
Basic and diluted earnings (loss) per common share	(0.03)	-	(0.03)

New and revised IFRS in issue but not yet effective:

(c) IFRS 16 – Leases

IFRS 16 Leases ("IFRS 16") The IASB issued a new standard, IFRS 16 on January 13, 2016, which supersedes IAS 17 Leases. The new standard brings most leases on the balance sheet for lessees under a single model and eliminates the distinction between operating and finance leases. Lessor accounting remains largely unchanged. The new standard will come into effect for periods beginning on or after April 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

4 Discontinued Operations of Arnprior Fire Trucks Corp.

In May 2017, the company completed the sale of assets and business of Arnprior Fire Trucks Corp. (AFTC), which constituted the Company's business of the manufacturing of high end fire and emergency vehicles (the "Fire Truck Business"), to 9584358 Canada Ltd. o/a Eastway Fire and Rescue Vehicles ("Eastway"). The Company and Eastway entered into an asset purchase agreement (the "Purchase Agreement"), dated May 25, 2017 pursuant to which Eastway agreed to acquire the Fire Truck Business from the Company as a going concern. The purchase price paid by Eastway consisted of nominal cash consideration and the obligation for Eastway to complete the outstanding existing fire truck contracts. Eastway leased the Company's premises to carry on the business until February 2018 when it ceased operations.

(In Canadian dollars)

5. Inventories

	June 30, 2018	March 31, 2018 *
	$	$
Raw materials	1,504,008	915,389
Work in process	541,638	698,496
Finished goods	17,487	131,304
	2,063,133	1,745,189

* The Company adopted IFRS 15 as described in Notes 3. Under this adoption, the comparative information is not restated.

The cost of inventories recognized as an expense during the three month period was $3,936,061 (June 30, 2018 - $2,618,505). The total carrying value of inventory as at June 30, 2018, was pledged as security through general security agreements under bank lines of credit and related party liabilities.

6. Long-term debt

	June 30, 2018	March 31, 2018
	$	$
Bank loan bearing interest at a rate equal to the bank's LIBOR Rate plus 3.93%, due in monthly principal installments of $4,028 secured by a general security agreement, matures May 2020	631,149	633,596
Bank loan bearing interest at a rate of prime plus 1.25% per annum, payable in monthly principal plus interest installments of $4,221, secured by a general security agreement, maturing March 2035	173,167	183,718
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.5%, secured by general security agreement, maturing five years from the date of each draw-down or February 2022	40,589	43,093
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.5%, secured by general security agreement, maturing five years from the date of each draw-down or October 2021	151,641	161,996
Demand non-revolving loan, interest only monthly payments at a rate of prime plus 2.0%, secured by general security agreement, payable on demand maturing five years from date of advance	100,000	100,000
	1,096,546	1,122,403
Current portion	(255,098)	(255,098)
	841,448	867,305

(In Canadian dollars)

7. Capital Leases

Capital lease payable in monthly installments of $639, bearing interest at 2.49% per annum, maturing October 2019	**10,044**	**11,890**
Capital lease payable in monthly installments of $1,205, bearing interest at 5.994% per annum, maturing January 2020	**20,869**	**24,138**
Capital lease payable in monthly installments of $2,959 USD, bearing interest at 7.0 % per annum, maturing June 2021	**126,201**	**132,765**
Capital lease payable in monthly installments of $1,110, bearing interest at 8.11 % per annum, maturing May 2022	**46,008**	**-**
Capital lease payable in monthly installments of $6,899 USD, bearing interest at 4.50% per annum, maturing October 2021	**336,886**	**352,684**
Capital lease payable in monthly installments of $2,158, bearing interest at 5.094% per annum, maturing January 2020	**37,511**	**43,458**
	577,519	**564,935**
Current portion	**(191,695)**	**(178,375)**
	385,824	**386,560**

(In Canadian dollars)

8. Government assistance

The Company's Summit Aerospace USA Inc. division accepted a loan of $720,000 USD ($948,096 CAD) from the Pennsylvania Industrial Development Authority (PIDA) as partial financing towards the manufacturing facility in Pocono Summit, PA purchased in May 2013. Monthly repayments are amortized over fifteen years at a fixed rate of 1.5%. The loan facility is for a term of seven years, funding 45% of the cost of the building, land and renovations.

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

	Loan present value	Deferred Government Assistance	Repayable government assistance
	$	$	$
Opening Balance	682,509	127,058	809,567
Loan adjustment for exchange	(49,300)	(20,547)	-69,847
Repayments	(15,270)	1,362	-13,908
Accretion	4,218	(4,218)	0
March 31, 2018	622,157	103,655	725,812
Current Portion	(39,000)	(19,000)	(58,000)
Balance	583,157	84,655	667,812

(In Canadian dollars)

9. Property, plant and equipment

	Factory equipment	Computer equipment	Furniture	Vehicles	Lease improvements	Building	Land	Total
	$	$	$	$	$	$	$	$
Cost, balance								
March 31, 2017	7,605,358	1,097,099	204,082	444,666	2,191,361	1,857,088	275,431	13,675,085
Additions	191,211	3,597	—	14,587	69,890	—	—	279,285
Disposals	(18,885)	—	(664)	(5,000)	—	—	—	(24,549)
March 31, 2018	7,777,684	1,100,696	203,418	454,253	2,261,251	1,857,088	275,431	13,929,821
Additions	118,735	4,208	-	-	4,720	-	-	127,663
June 30, 2018	**7,896,419**	**1,104,904**	**203,418**	**454,253**	**2,265,971**	**1,857,088**	**275,431**	**14,057,484**
Accumulated depreciation, balance								
March 31, 2017	(5,237,487)	(1,071,894)	(199,559)	(372,415)	(1,136,204)	(531,076)	—	(8,548,635)
Depreciation	(554,261)	(11,218)	(1,060)	(38,943)	(206,223)	(101,955)	—	(913,660)
March 31, 2018	(5,791,748)	(1,083,112)	(200,619)	(411,358)	(1,342,427)	(633,031)	—	(9,462,295)
Depreciation	(137,791)	(2,657)	(221)	(6,953)	(52,331)	(25,824)		(225,777)
June 30, 2018	**(5,929,539)**	**(1,085,769)**	**(200,840)**	**(418,311)**	**(1,394,758)**	**(658,855)**	**—**	**(9,688,072)**
Carrying amount,								
March 31, 2018	1,985,936	17,584	2,799	42,895	918,824	1,224,057	275,431	4,467,526
June 30, 2018	**1,966,880**	**19,135**	**2,578**	**35,942**	**871,212**	**1,198,233**	**275,431**	**4,369,412**

10. Intangibles

	Customer relationship	Non-competition agreement	Computer software	Total
	$	$	$	$
Cost, balance				
March 31, 2017	1,303,270	10,000	192,410	1,505,680
Additions	—	—	8,620	8,620
Disposals	—	—	(18,197)	(18,197)
March 31, 2018	1,303,270	10,000	182,833	1,496,103
Additions	—	—	4,926	4,926
June 30, 2018	**1,303,270**	**10,000**	**187,759**	**1,501,029**
Accumulated depreciation, balance				
March 31, 2017	(651,635)	(7,693)	(190,639)	(849,967)
Depreciation	(130,327)	(1,539)	(5,155)	(137,021)
Disposals			18,197	18,197
March 31, 2018	(781,962)	(9,232)	(177,597)	(968,791)
Depreciation	(32,582)	(385)	(1,037)	(34,004)
June 30, 2018	**(814,544)**	**(9,617)**	**(178,634)**	**(1,002,795)**
Carrying amount,				
March 31, 2018	**521,308**	**768**	**5,236**	**527,312**
June 30, 2018	**488,726**	**383**	**9,125**	**498,233**

(In Canadian dollars)

11. Due to related parties

	June 30, 2018	March 31, 2018
	$	$
Due to senior officers and directors	**4,261,540**	**4,309,565**
Dividends payable	**60,000**	**60,000**
Due to Targa Group Inc., convertible debentures	**247,672**	**247,672**
Due to Tidal Quality Management Inc.	**756,774**	**762,073**
Due to Targa Group Inc., demand loan	**66,581**	**66,581**
Due to Targa Group Inc., line of credit	**520,763**	**532,763**
Due to Targa Group Inc., demand loan interest	**134,812**	**134,812**
	6,048,143	**6,113,466**
Less: current portion	**(320,000)**	**(356,000)**
	5,728,143	**5,757,466**

As at June 30, 2018, a balance of $4,261,540 ($3,025,906 principal and $1,235,634 interest) ($4,309,565 ($3037,931 principal and $1,235,634 interest – March 31, 2018) remained owing to senior officers of the Company. As at June 30, 2018, a balance of $NIL ($36,000 – March 31, 2018) remained owing to a director of the Company for additional consulting services. The senior officers have agreed to cancel their current consulting agreements taking nominal payments only and discontinue interest payments accruing on balances as of April 1, 2016. During the three months ending June 30, 2018 payments in the amount of $42,025 were repaid to senior officers. The balance of amount of $3,941,540 is classified as long-term as the party has agreed not to demand repayment before September 2019.

On July 14, 2011, the board of directors of the Company declared a cash dividend of $10.91405 per Class A preferred share ($200,000 in the aggregate) payable on July 22, 2011, to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the $1,000 redemption amount of the Class A preferred share. An amount of $60,000 ($60,000 - March 31, 2018) of the dividend remains outstanding as at June 30, 2018. The balance is classified as long-term as the related party has agreed not to demand payment before September 2019.

As at June 30, 2018, a balance of $247,672 ($247,672 – March 31, 2018) of the due to related parties is convertible into common shares of the Company at a rate of $0.0115 at the option of Targa. The balance is classified as long-term as the related party has agreed not to demand payment before September 2019.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears owing to this related party amounted to $174,974 ($174,974 -March 31, 2018). The Company accepted partial financing in the form of a note payable in the amount of $373,473 during fiscal 2014 from Tidal for a new facility in Pocono Summit. As at June 30, 2018 a balance of $254,767 remains outstanding. Loans totaling $420,003 owed to Spotton by Tidal have been consolidated into the net balance as of April 1, 2014, with the acquisition of Spotton Corp by the Company. The party agreed to discontinue interest accruing on unpaid balances as at April 1, 2016. Until then the interest was at bank prime plus 2% and accrues on the principal balance for a balance of $182,889 as of June 30, 2018 ($182,889 - March 31, 2017). The party has agreed not to demand repayment of the total balance of $202,326 ($207,626 - March 31, 2018) before September 2019 and the amount is classified as long-term.

11. Due to related parties (continued)

On May 31, 2017, Tidal refinanced it's approximately $345,000 mortgage on one of its properties, increasing the mortgage to $900,000. Plaintree has guaranteed the Tidal loan and granted a security interest over its assets as security for this guarantee. Tidal used a portion of the proceeds from the refinancing to loan $554,447 to the Company. The related party loan bears interest at a rate of 14% per annum. Interest is payable monthly and the principal is due on maturity. The balance is classified as long-term as the related party has agreed not to demand payment before September 2019.

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. The party has agreed to discontinue interest payments accruing on balances as of April 1, 2016. Under the loan agreements, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The Targa Demand Loan is secured by a security interest granted over the assets of the Company. As at June 30, 2018, nil, (nil – March 31, 2018) remained outstanding on the demand loan with accumulated interest of $66,581 ($66,581 – March 31, 2018). As at June 30, 2018, $278,165 ($290,165 – March 31, 2018) remained outstanding on the line of credit with accumulated interest of $242,598 ($242,598 – March 31, 2018) for a balance of $520,763 ($532,763 – March 31, 2018). Targa has agreed that it will not demand repayment before September 2019 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of $134,812 ($134,812 – March 31, 2018), on a loan from Targa remains outstanding as of June 30, 2018. The party has agreed not to demand repayment before September 2019 and, accordingly, the amount is classified as long-term.

(In Canadian dollars)

12. Share capital

Authorized, unlimited number

Common shares

Class A preferred shares

Class A 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at $1,000 per share plus accrued dividends; liquidation preference of the redemption value plus cumulative dividends (when and if declared) to common shares; non-voting. As at June 30, 2018, the accrued and unpaid dividends on the Class A preferred shares were $14,226,500.

Issued

	$
Common shares	**12,925,253**
Class A preferred shares	**18,325**

Stock option plans

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

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

There are no stock options outstanding as at June 30, 2018 or March 31, 2018.

Net (loss) income attributable to common shares used in the numerator of basic and diluted earnings per share is calculated as follows:

For the years ended March 31, 2018 and 2017, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

(In Canadian dollars)

	June 30, 2018	June 30, 2017 *
	$	$
Net profit	102,621	352,763
Cumulative dividends on preferred shares - per annum	(366,500)	(366,500)
Net profit attributable to common shares (basic and diluted)	(263,879)	(13,737)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted earnings per share from continuing operations	(0.02)	0.00

* The Company adopted IFRS 15 as described in Note 3. Under this adoption, the comparative information is not restated.

14. Business segment information

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

Revenue by division

	June 30, 2018	June 30, 2017 *
	$	$
Electronics	2,071,856	1,511,998
Specialty Structures	2,959,520	2,104,518
	5,031,376	3,616,516

Revenue by geographical location

	June 30, 2018	June 30, 2017 *
	$	$
Canada	2,321,102	1,337,440
United States	2,259,877	2,186,353
Chile	262,401	92,723
Other	187,996	-
	5,031,376	3,616,516

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

PLAINTREE SYSTEMS INC.

For the three months ended June 30, 2018 and June 30, 2017

Date: August 23, 2018

The following discussion and analysis is the responsibility of management and has been reviewed by the Audit Committee of Plaintree Systems Inc ("Plaintree" or the "Company") and approved by the Board of Directors of Plaintree. The Board of Directors carries out its responsibilities for the financial statements and management's discussion and analysis principally through the Audit Committee, which is comprised exclusively of independent directors.

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintree is for the three months ended June 30, 2018 and June 30, 2017. Historical results of operations, percentage relationships and any trends that may be inferred there from are not necessarily indicative of the operating results of any future periods. Unless otherwise stated all amounts are in Canadian dollars following the requirements of the International Financial Reporting Standards ("IFRS). The information contained herein is dated as of August 23, 2018 and is current to that date, unless otherwise stated. Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the annual filings. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying financial statements.

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

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

Caution Regarding Forward Looking Information

This MD&A of the Company contains certain statements that, to the extent not based on historical events, are forward-looking statements based on certain assumptions and reflect Plaintree'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 Plaintree's control, affect the operations, performance and results of Plaintree 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 Plaintree's products delaying purchase decisions; current, pending and proposed legislative or regulatory developments in the *jurisdictions where Plaintree 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; Plaintree'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 Plaintree's forward-looking statements. Plaintree 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.*

Overview

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the Canadian Securities Exchange ("CSE") under "NPT". The Company operates an Electronics division (the Hypernetics business), Summit Aerospace USA Inc. ("Summit Aerospace") and a Specialty Structures division (the Triodetic business), Spotton Corporation and 9366920 Canada Inc. (operating as Madawaska Doors). Plaintree is a diversified company with proprietary technologies and manufacturing capabilities in structural design and aerospace. The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids, and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminum, and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames, and industrial dome coverings. Summit Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic valves and cylinders for the industrial, oil and gas markets. Madawaska Doors business involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and materials. Until June 2017 the Speciality Structures division included Arnprior Fire Trucks Corp. ("AFTC") and on June 6, 2017, the Company completed the sale of assets and business of AFTC.

The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

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

Control Activities

The Company's Chief Executive Officer and Chief Financial Officer exercise reasonable diligence around the controls and procedures designed to provide reasonable assurance that financial information disclosed is recorded, processed and disclosed reliability.

Selected Financial Information

Company's consolidated financial statements are stated in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS"). The following table sets forth selected financial information from the Company's interim financial statements:

($000s, except per share amounts)

	June 30, 2018	March 31, 2018 *
	$	$
Total assets	**13,636**	12,135
Total liabilities	**13,626**	12,702
Long-term liabilities	**7,623**	7,660
Cash dividends declared per share	**nil**	nil

($000s, except per share amounts)

	For the three months ended	
	June 30, 2018	June 30, 2018 *
	$	$
Revenue	**5,031**	3,617
Net earnings and comprehensive earnings	**121**	353
Net earnings (loss) attributed to common shareholders	**(246)**	(14)
Basic and diluted earnings (loss) per share	**(0.02)**	0.00

* The Company adopted IFRS 15 as described in Note 3. Under this adoption, the comparative information is not restated.

Results of Operations

($000s, except per share amounts)

	June 30, 2018	June 30, 2017 *	Change from
	$	$	$
Revenue	5,031	3,617	1,414
Cost of sales	3,949	2,666	1,283
Gross margin	1,082	951	131
	22%	26%	
Operating expenses:			
Research and development	379	276	103
Finance and administration	333	347	(14)
Sales and marketing	149	146	3
Interest expense	93	63	30
Loss on foreign exchange	7	15	(8)
	961	847	114
Net earnings (loss) and comprehensive earnings (loss) before other income	121	104	17
Other gain (losses)			
Gain (loss) from discontinued operations	-	249	(249)
Net earnings (loss) and comphrensive earnings (loss)	121	353	(232)

* The Company adopted IFRS 15 as described in Note 3. Under this adoption, the comparative information is not restated.

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 revenue based on the location of its customers.

Revenue by division

	June 30, 2018	June 30, 2017 *
	$	$
Electronics	2,071,856	1,511,998
Specialty Structures	2,959,520	2,104,518
	5,031,376	3,616,516

Revenue by geographical location

	June 30, 2018	June 30, 2017 *
	$	$
Canada	**2,321,102**	1,337,440
United States	**2,259,877**	2,186,353
Chile	**262,401**	92,723
Other	**187,996**	-
	5,031,376	3,616,516

Net earnings (loss) before taxes by division

	June 30, 2018	June 30, 2017 *
	$	$
Electronics	**491,450**	140,048
Specialty structures	**(370,830)**	(35,865)
	120,620	104,183

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

	June 30, 2018	June 30, 2017 *
Number of customers	**2**	1
% of total revenue	**11%, 14%**	16%

* The Company adopted IFRS 15 as described in Note 3. Under this adoption, the comparative information is not restated.

Revenues

Total product revenue for the first three months of fiscal 2019 was $5,031,376 compared to $3,616,516 in first three months of fiscal 2018. The Company adopted IFRS 15 as at April 1, 2018 as descripted in Note 3. Under this adoption, the comparative information is not restated.

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

Plaintree's Electronics Division revenues for the first three months of fiscal 2019 were $2,071,856 compared to $1,511,998 for the first three months fiscal 2018.

Plaintree's Specialty Structures Division revenue for the first three months of fiscal 2019 $2,959,520 in fiscal 2018 from $2,140,518 in the first three months of fiscal 2018.

Gross Margin

Total gross margin in the first quarter of fiscal 2019 decreased to 22% compared to 26% in the first quarter of fiscal 2018.

Operating Expenses

Research and development expenses

Research and development expenses were $379,285 and $275,986 in the first three months of fiscals 2019 and 2018, 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 2019.

Finance and administration expenses

Finance and administration expenses were $333,163 and $346,801 in the first three months of fiscals 2019 and 2018 respectively. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which included financial staff, legal and audit activities. Expenses increased during fiscal 2018 due to increased legal and consulting fees associated with the Company's financing and banking activities.

Finance and administration expenses are expected to return to 2017 levels throughout fiscal 2019.

Sales and marketing expenses

Sales and marketing expenses were $149,005 and $145,593 in the first three months of fiscals 2019 and 2018, respectively. These expenses consisted primarily of personnel and related costs associated with Company's sales and marketing departments, which include sales commissions, advertising, travel, trade shows and other promotional activities.

Sales and marketing expenses are expected to increase moderately in fiscal 2019.

Interest expense

Interest expense consists of interest incurred on bank and related party debt. Interest expenses amounted to $93,272 and $62,872 for the three months ended June 30 2018 and June 30, 2017, respectively. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest. During fiscal 2018, a related party refinanced it's approximately $345,000 mortgage on one of its properties, increasing the mortgage to $900,000. Plaintree guaranteed the loan and granted a security interest over its assets as security for this guarantee. The related party used a portion of the proceeds from the refinancing to loan $554,447 to the Company. The related party loan bears interest at a rate of 14% per annum. Interest is payable monthly and the principal is due on maturity. All other related parties with loans to the Company agreed to discontinue interest payments accruing on balances as of April 1, 2016.

Gain on foreign exchange

The Company reported loss on foreign exchange of $6,490 and $15,489 for the three months ended June 30, 2018 and June 30, 2017, 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 earnings (loss), Comprehensive earnings (loss) and Net earnings (loss) Attributable to Common Shareholders

Net earnings (loss) and comprehensive earnings (loss) for the three months ended June 30, 2018 and June 30, 2017 was $263,879 and $(13,737). Net income attributed to common shareholders is calculated by reducing net income by the $1,466,000 cumulative dividends that accrue annually on the Class A preferred shares. The cumulative dividends accrue at 8% per annum on the face value of the $18,325,000 for the Class A preferred shares and as June 30, 2018 the accrued and unpaid dividends on the Class A preferred shares were $14,226,500 (March 31, 2018 - $13,860,000).

Quarterly Results
The following table sets out selected unaudited consolidated financial information for the last eight quarters in fiscals 2019 and 2018 and 2017:

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

	June 30 2018 Q1-2019	**Mar 31 2018 Q4-2018**	**Dec 31 2017 Q3-2018**	**Sept 30 2017 Q2-2018**	**June 30 2017 Q1-2018**	**Mar 31 2017 Q4-2017**	**Dec 31 2016 Q3-2017**	**Sept 30 2016 Q2-2017**
Revenue (1) (2)	$ 5,031	$ 6,517	$ 4,462	$ 4,410	$ 3,617	$ 2,811	$ 3,057	$ 3,543
Net earnings (loss) and total comprehensive earnings (loss)	121	803	817	576	352	(1,600)	(564)	(327)
Net earnings (loss) attributed to common shareholders	(264)	435	451	210	(14)	(1,894)	(930)	(693)
Basic and diluted earnings (loss) per share	(0.02)	0.03	0.03	0.02	0.00	(0.15)	(0.07)	(0.05)

(1) Revenue of discontinued operations has been removed for all periods.
(2) The Company adopted IFRS 15 as of April 1, 2018 (Q1-2019) as described in Note 3. Under this adoption, the comparative information is not restated.

Liquidity and Capital Resources
($000s)

	June 30, 2018	June 30, 2017	Change
	$	$	$
Cash	**(1,070)**	61	(1,131)
Working Capital	**2,766**	(1,413)	4,179

	June 30, 2018	June 30, 2017	Change
	$	$	$
Net cash (used in) provided by:			
Operating activities	**(545)**	264	(809)
Investing activities	**(133)**	(13)	(120)
Financing activities	**(78)**	134	(212)

Cash

As at June 30, 2018, the Company was in a cash deficit balance of $1,070,265, a decrease of $755,555 from cash deficit balance of $314,710 in March 31, 2018.

Working Capital

Working capital represents current assets less current liabilities. As at June 30, 2018, the Company had working capital of $2,765,534 compared to working capital of $2,117,174 at March 31, 2018. The Company is subject to various covenants on the long-term debt (including debt to tangible net worth, current assets to current liabilities and debt service ratios).

Operating activities
Cash used in operating activities for the three months ending June 30, 2018 was $544,521 representing an decrease of $808,853 from surplus cash provided of $264,332 for the respective period during fiscal 2018. Cash used in operating activities during this period was primarily the result of increased trade receivables.

Investing activities
Cash used in investing activities for the first three months ending June 30, 2018 was $132,589 representing an increase of $119,630 in cash used from $12,959 in the respective period during fiscal 2018. The increase in cash used during this period was primarily due to the payments to acquire capital.

Financing activities
Cash used in financing activities for the first three months of fiscal 2019 was $78,445, a decrease of $212,373 for the same period in fiscal 2018 where net cash utilized in financing activities was $133,928. Cash used in financing activities during the period relates primarily to repayment of long term debt.

Outlook

The Company has in place a credit facility of up to $2,100,000 through its bank based on acceptable trade receivables and inventory. The total amount available to the Company as at June 30, 2018 was $2,100,000 of which $1,415,917 was in use and a letter of credit in the amount of US$287,200 ($378,185 CAD) leaving $458,117 available. The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow as a result of contracts bid and/or signed, and their expected margins on these projects. As a result, the Company believes that it has sufficient cash resources to meet its obligations, beyond the next 12 months.

Due to related parties

	June 30, 2018	March 31, 2018
	$	$
Due to senior officers and directors	**4,261,540**	**4,309,565**
Dividends payable	**60,000**	**60,000**
Due to Targa Group Inc., convertible debentures	**247,672**	**247,672**
Due to Tidal Quality Management Inc.	**756,774**	**762,073**
Due to Targa Group Inc., demand loan	**66,581**	**66,581**
Due to Targa Group Inc., line of credit	**520,763**	**532,763**
Due to Targa Group Inc., demand loan interest	**134,812**	**134,812**
	6,048,143	**6,113,466**
Less: current portion	**(320,000)**	**(356,000)**
	5,728,143	**5,757,466**

As at June 30, 2018, a balance of $4,261,540 ($3,025,906 principal and $1,235,634 interest) ($4,309,565 ($3037,931 principal and $1,235,634 interest – March 31, 2018) remained owing to senior officers of the Company. As at June 30, 2018, a balance of $NIL ($36,000 – March 31, 2018) remained owing to a director of the Company for additional consulting services. The senior officers have agreed to cancel their current consulting agreements taking nominal payments only and discontinue interest payments accruing on balances as of April 1, 2016. During the three months ending June 30, 2018 payments in the amount of $42,025 were repaid to senior officers. The balance of amount of $3,941,540 is classified as long-term as the party has agreed not to demand repayment before September 2019.

On July 14, 2011, the board of directors of the Company declared a cash dividend of $10.91405 per Class A preferred share ($200,000 in the aggregate) payable on July 22, 2011, to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the $1,000 redemption amount of the Class A preferred share. An amount of $60,000 ($60,000 - March 31, 2018) of the dividend remains outstanding as at June 30, 2018. The balance is classified as long-term as the related party has agreed not to demand payment before September 2019.

As at June 30, 2018, a balance of $247,672 ($247,672 – March 31, 2018) of the due to related parties is convertible into common shares of the Company at a rate of $0.0115 at the option of Targa. The balance is classified as long-term as the related party has agreed not to demand payment before September 2019.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears owing to this related party amounted to $174,974 ($174,974 -March 31, 2018). The Company accepted partial financing in the form of a note payable in the amount of $373,473 during fiscal 2014 from Tidal for a new facility in Pocono Summit. As at June 30, 2018 a balance of $254,767 remains outstanding. Loans totaling $420,003 owed to Spotton by Tidal have been consolidated into the net balance as of April 1, 2014, with the acquisition of Spotton Corp by the Company. The party agreed to discontinue interest accruing on unpaid balances as at April 1, 2016. Until then the interest was at bank prime plus 2% and accrues on the principal balance for a balance of $182,889 as of June 30, 2018 ($182,889 - March 31, 2017). The party has agreed not to demand repayment of the total balance of $202,326 ($207,626 - March 31, 2018) before September 2019 and the amount is classified as long-term.

On May 31, 2017, Tidal refinanced it's approximately $345,000 mortgage on one of its properties, increasing the mortgage to $900,000. Plaintree has guaranteed the Tidal loan and granted a security interest over its assets as security for this guarantee. Tidal used a portion of the proceeds from the refinancing to loan $554,447 to the Company. The related party loan bears interest at a rate of 14% per annum. Interest is payable monthly and the principal is due on maturity. The balance is classified as long-term as the related party has agreed not to demand payment before September 2019.

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. The party has agreed to discontinue interest payments accruing on balances as of April 1, 2016. Under the loan agreements, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The Targa Demand Loan is secured by a security interest granted over the assets of the Company. As at June 30, 2018, nil, (nil – March 31, 2018) remained outstanding on the demand loan with accumulated interest of $66,581 ($66,581 – March 31, 2018). As at June 30, 2018, $278,165 ($290,165 – March 31, 2018) remained outstanding on the line of credit with accumulated interest of $242,598 ($242,598 – March 31, 2018) for a balance of $520,763 ($532,763 – March 31, 2018). Targa has agreed that it will not demand repayment before September 2019 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of $134,812 ($134,812 – March 31, 2018), on a loan from Targa remains outstanding as of June 30, 2018. The party has agreed not to demand repayment before September 2019 and, accordingly, the amount is classified as long-term.

New Standards effective April 2018

(a) IFRS 9 – Financial instruments

IFRS 9 Financial Instruments ("IFRS 9") The IASB issued the final version of IFRS 9 on July 24, 2014, which replaces IAS 39 Financial Instruments: Recognition and Measurement. This final version of IFRS 9 represents the completion of this project and it includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 does not address the specific accounting for open portfolios or macro hedging as these items are part of a separate IASB project that is currently ongoing. This final Standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. Certain amendments have been made to the financial asset classification and measurement principles in prior versions of IFRS 9.

This new Standard supersedes all prior versions of IFRS 9. The effective date for this standard began for annual periods beginning on or after April 1, 2018. The Company will begin to report under this standard for its reporting periods in fiscal 2019. IFRS 9 requires the Company to record expected credit losses on all trade receivables, either on a 12-month or lifetime basis.

The adoption of IFRS 9 has not had an effect on the Company's accounting policies related to financial liabilities.

There was no material impact of the transition to IRFS 9 on the Company's statement of financial position at March 31, 2018.

New Standards effective April 2018 (continued)

(b) IFRS 15 – Revenue from contracts with customers

IFRS 15 Revenue from Contracts with Customers ("IFRS 15") IFRS 15 was issued by the IASB on May 28, 2014, and replaced IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard.

The Company has transitioned to this standard effective April 1, 2018 and is using the modified retrospective approach. The impact of the transition is shown below.

	Impact of adopting IFRS 15 at April 1, 2018
	$
Accelerated recognition of contract performance for manufactured products	455,337
Related commission expenses	(9,584)
Impact at April 1, 2018	445,753

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for the products or services. The Company's contracts can contain both products and services, which are generally capable of being distinct and accounted for as a separate performance obligation.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled receivables. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of the deferred revenue.

Effective April 1, 2018, the Company adopted IFRS 15 using the cumulative effect method, with the effect of adopting this standard recognized on April 1, 2018, the date of initial application. Accordingly, the information presented for 2018 has not been restated. It remains as previously reported under IAS 18, IAS 11 and related interpretations.

Prior to adopting IFRS 15, contract costs including commissions paid to employees were expensed upon completion of the related contract revenue.

In its adoption of IFRS 15, the Company has elected to apply the requirements of the new standard only to contracts that are incomplete at the date of initial application. The Company has also elected to apply contract modification practical expedient and reflect the aggregate effect of all contract modifications prior to the transition date.

Impact of adopting IFRS 15:

The following tables summarize the impact of adopting IFRS 15 on the Company's condensed consolidated interim statements of financial position as at June 30, 2018 and its interim statements of comprehensive income for the three months ended June 30, 2018. There was no material impact on the Company's interim statements of cash flows for the three months ended June 30, 2018.

Impact on the condensed consolidated interim statements of financial position as at June 30, 2018:

	As reported	IFRS15 Adjustment	Amount without IFRS 15
	$	$	$
Assets			
Current assets			
Cash	-	-	-
Trade receivables and other receivables	4,941,520	-	4,941,520
Unbilled revenue	1,274,936	(93,037)	1,181,899
Inventories	2,063,133	79,292	2,142,425
Prepaid expenses and other receivables	488,926	-	488,926
	8,768,515	(13,745)	8,754,770
Property, plant and equipment	4,369,412	-	4,369,412
Intangible assets	498,233	-	498,233
	13,636,160	(13,745)	13,622,415
Liabilities			
Current liabilities			
Cash deficit	1,070,265	-	1,070,265
Trade and other payables	2,449,437	8,119	2,457,556
Deferred revenue	1,666,605	-	1,666,605
Current portion of long-term debt - bank	255,098	-	255,098
Current portion of due to related parties	320,000	-	320,000
Current portion of deferred government assistance	19,000	-	19,000
Current portion of obligations under lease capital	191,695	-	191,695
Current portion of government assistance	39,000	-	39,000
	6,011,100	8,119	6,019,219
Long-term debt - bank	841,448	-	841,448
Deferred government assistance	84,655	-	84,655
Obligations under lease capital	385,824	-	385,824
Repayable government assistance - other	583,157	-	583,157
Due to related parties	5,728,143	-	5,728,143
	13,634,327	8,119	13,642,446
Shareholders' equity			
Issued capital	2	-	2
Contributed surplus	2,090,750	-	2,090,750
Deficit	(2,201,421)	-	(2,201,421)
	(110,669)	-	(110,669)
	13,523,658	8,119	13,531,776

* The Company adopted IFRS 15 as descibed in Note 3. Under this adoption, the comparative information is not restated.

Impact on the condensed consolidated interim statements of comprehensive income for th three months ended March 31, 2018:

	As reported	IFRS 15 Adjustment	Amount without IFRS 15
	$		
Revenue	5,031,376	(88,003)	4,943,373
Cost of sales	3,949,540	(76,589)	3,872,951
Gross margin	1,081,836	(11,414)	1,070,422
Operating expenses			
Research and development	379,285	-	379,285
Finance and administration	333,163	-	333,163
Sales and marketing	-	8,119	8,119
Interest expense	93,272	-	93,272
Loss on foreign exchange	6,489	2,330	8,820
	812,210	10,449	822,659
Net earnings (loss) before other gains	269,626	(21,863)	247,763
Basic and diluted earnings (loss) per common share	(0.03)	-	(0.03)

New and revised IFRS in issue but not yet effective:

(c) IFRS 16 – Leases

IFRS 16 Leases ("IFRS 16") The IASB issued a new standard, IFRS 16 on January 13, 2016, which supersedes IAS 17 Leases. The new standard brings most leases on the balance sheet for lessees under a single model and eliminates the distinction between operating and finance leases. Lessor accounting remains largely unchanged. The new standard will come into effect for periods beginning on or after April 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

Facilities

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

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

The Company, through a wholly-owned subsidiary owns a 33,000 sq. ft. manufacturing facility in Barry's Bay, ON for the manufacturing of its Madawaska Door business.

Summary of Outstanding Share Data

As at August 23, 2018 the following equity instruments of the Company were issued and outstanding:

Common Shares: 12,925,253

Class A Preferred Shares: * 18,325

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

Convertible Debentures:** $nil principal value

** The Company has issued various tranches of convertible debentures to related parties for total outstanding value at March 31, 2018 of $247,672 in accrued interest only. Interest is convertible in cash only.

Options:*** None

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