

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS of  
Plaintree Systems Inc.

Q3-2019  
Interim Report

# 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, 2018 and December 31, 2017***

**Date: February 20, 2019**

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, 2018 and December 31, 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 February 20, 2019 and is current to that date, unless otherwise stated. Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the annual filings. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying financial statements.

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

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

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

*This MD&A of the Company contains certain statements that, to the extent not based on historical events, are forward-looking statements based on certain assumptions and reflect Plaintiff's current expectations. Forward-looking statements include, without limitation, statements evaluating market and general economic conditions, and statements regarding growth strategy and future-oriented project revenue, costs and expenditures. Actual results could differ materially from those projected and should not be relied upon as a prediction of future events. A variety of inherent risks, uncertainties and factors, many of which are beyond Plaintiff's control, affect the operations, performance and results of Plaintiff and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. Some of these 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*

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

*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.*

## **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) and Spotton Corporation. 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. 9366920 Canada Inc. (operating as 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. Until October 31, 2018, the Specialty Structures division included Madawaska Doors business. This business and its assets are currently held for sale. The business was closed in the Company's third fiscal quarter.

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:

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(\$000s, except per share amounts)

	Three months ending		Six months ending	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Revenue	\$ 5,121	\$ 4,341	\$ 17,358	\$ 12,053
Net earnings and comprehensive earnings	339	817	1,694	1,748
Net earnings (loss) attributed to common shareholders	(28)	451	895	647
Basic and diluted earnings (loss) per share	0.00	0.03	0.05	0.05

(\$000s, except per share amounts)

	December 31, 2018	March 31, 2018
Total assets	\$ 11,902	\$ 12,185
Total liabilities	10,319	12,752
Long-term liabilities	7,754	7,679
Cash dividends declared per share	nil	nil

## Results of Operations

	Three months ending			Nine months ending		
	December 31, 2018	December 31, 2017	Change from	December 31, 2018	December 31, 2017	Change from
Revenue	\$ 5,121	\$ 4,341	\$ 780	\$ 17,358	\$ 12,053	\$ 5,305
Cost of sales	3,713	2,786	927	12,505	8,067	4,438
Gross margin	1,408	1,555	(147)	4,853	3,986	867
	27%	36%		28%	33%	
Operating expenses:						
Research and development	440	332	108	1,227	947	280
Finance and administration	427	388	39	1,075	993	82
Sales and marketing	88	94	(6)	314	359	(45)
(Gain) loss of disposal of assets	-	-	-	-	-	-
Interest expense	75	104	(29)	292	251	41
Loss on foreign exchange	(10)	(37)	27	14	(12)	26
	1,020	881	139	2,922	2,538	384
Net profit (loss) and comprehensive profit (loss) before other income	388	674	(286)	1,931	1,448	483
Other gain (losses)						
Gain (loss) from discontinued operations	(49)	143	(192)	(237)	298	(535)
Net earnings (loss) and comprehensive earnings (loss)	339	817	(478)	1,694	1,746	(52)

## 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.

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

*Revenue by division*

	Three months ending		Nine months ending	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	\$	\$	\$	\$
Electronics	2,338,580	1,343,421	6,107,057	4,499,671
Specialty Structures	2,782,654	2,997,484	11,250,543	7,553,482
	<b>5,121,234</b>	<b>4,340,905</b>	<b>17,357,600</b>	<b>12,053,153</b>

*Revenue by geographical location*

	Three months ending		Nine months ending	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Canada	1,131,165	1,645,596	6,218,915	5,291,368
United States	2,930,717	1,364,366	6,920,070	5,180,534
Kuwait	387,936	-	2,645,226	-
Chile	474,538	-	1,287,916	-
Argentina	-	921,140	-	921,140
Other	196,878	409,803	285,473	660,111
	<b>5,121,234</b>	<b>4,340,905</b>	<b>17,357,600</b>	<b>12,053,153</b>

*Net earnings before taxes by division*

	Three months ending		Nine months ending	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Electronics	474,275	175,016	1,432,945	636,665
Specialty Structures	(86,106)	499,451	498,465	811,273
	<b>388,169</b>	<b>674,467</b>	<b>1,931,410</b>	<b>1,447,938</b>

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

	Three months ending		Nine months ending	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Number of customers	2	2	1	-
% of total revenue	14%, 15%	16%, 17%	10%	-

\* 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 nine months of fiscal 2019 was \$17,357,600 compared to \$12,053,153 in first nine months of fiscal 2018. The Company adopted IFRS 15 as at April 1, 2018 as described 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 nine months of fiscal 2019 were \$6,107,057 compared to \$4,499,671 for the first nine months fiscal 2018.

Plaintree's Specialty Structures Division revenue for the first nine months of fiscal 2019 \$11,250,543 in fiscal 2018 from \$7,553,482 in the first nine months of fiscal 2018.

### **Gross Margin**

Total gross margin in the first nine months of fiscal 2019 decreased to 28% compared to 33% in the first nine months of fiscal 2018.

### **Operating Expenses**

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

Research and development expenses were \$1,226,751 and \$947,347 in the first nine 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 \$1,075,221 and \$992,676 in the first nine 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.

Finance and administration expenses are expected to remain at comparable levels throughout fiscal 2019.

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

Sales and marketing expenses were \$313,654 and \$358,745 in the first nine 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 \$291,752 and \$250,896 for the nine months ended December 31, 2018 and December 31, 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 its approximately \$345,000 mortgage on one of its properties, increasing the mortgage to \$900,000. Plaintiff 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 currently bears interest at a rate of 19% 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 (gain) on foreign exchange of \$14,421 and \$(12,020) for the nine months ended December 31, 2018 and December 31, 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 and comprehensive earnings for the nine months ended December 31, 2018 and December 31, 2017 was \$594,645 and \$646,854. 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 December 31, 2018 the accrued and unpaid dividends on the Class A preferred shares were \$14,959,500 (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)

	<b>Dec 31 2018 Q2- 2019</b>	<b>Sept 30 2018 Q2- 2019</b>	<b>June 30 2018 Q1- 2019</b>	<b>Mar 31 2018 Q4- 2018</b>	<b>Dec 31 2017 Q3- 2018</b>	<b>Sept 30 2017 Q2-2018</b>	<b>June 30 2017 Q1- 2018</b>	<b>Mar 31 2017 Q4- 2017</b>
Revenue (1) (2)	\$ 5,121	\$ 7,456	\$ 5,031	\$ 6,517	\$ 4,462	\$ 4,410	\$ 3,617	\$ 2,811
Net earnings (loss) and total comprehensive earnings (loss)	339	1,235	121	803	817	576	352	(1,600)
Net earnings (loss) attributed to common shareholders	(28)	868	(264)	435	451	210	(14)	(1,894)
Basic and diluted earnings (loss) per share	0.00	0.07	(0.02)	0.03	0.03	0.02	0.00	(0.15)

(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)

	December 31, 2018	December 31, 2017	Change
	\$	\$	\$
Cash	(120)	(1,120)	1,000
Working Capital	4,115	10	4,105

	December 31, 2018	December 31, 2017	Change
	\$	\$	\$
Net cash (used in) provided by:			
Operating activities	1,287	(249)	1,536
Investing activities	(1,183)	(246)	(937)
Financing activities	90	(300)	390

**Cash**

As at December 31, 2018, the Company was in a cash deficit balance of \$120,347, an increase of \$194,363 from cash deficit balance of \$314,710 in March 31, 2018.

**Working Capital**

Working capital represents current assets less current liabilities. As at December 31, 2018, the Company had working capital of \$4,114,827 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 provided by operating activities for the nine months ending December 31, 2018 was \$1,287,486 representing a decrease of \$1,536,830 from cash used by \$249,344 for the respective period during fiscal 2018. Cash provided by operating activities during this period was primarily the result of increased earnings.

**Investing activities**

Cash used in investing activities for the first nine months ending December 31, 2018 was \$1,182,691 representing an increase of \$937,181 in cash used of \$245,510 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 provided in financing activities for the first nine months of fiscal 2019 was \$89,569, an increase of \$389,791 for the same period in fiscal 2018 where net cash utilized in financing activities was \$300,222. Cash provided by financing activities during the period relates primarily to newly acquired capital leases.

## 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 December 31, 2018 was \$1,820,340 of which \$472,434 was in use and a letter of credit in the amount of US\$287,200 (\$391,798 CAD) leaving \$956,108 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

	<b>December 31, 2018</b>	<b>March 31, 2018</b>
	\$	\$
Due to senior officers and directors	<b>4,108,490</b>	<b>4,309,565</b>
Dividends payable	<b>60,000</b>	<b>60,000</b>
Due to Targa Group Inc., convertible debentures	<b>247,672</b>	<b>247,672</b>
Due to Tidal Quality Management Inc.	<b>754,777</b>	<b>762,073</b>
Due to Targa Group Inc., demand loan	<b>66,581</b>	<b>66,581</b>
Due to Targa Group Inc., line of credit	<b>474,763</b>	<b>532,763</b>
Due to Targa Group Inc., demand loan interest	<b>134,812</b>	<b>134,812</b>
	<b>5,847,095</b>	<b>6,113,466</b>
Less: current portion	<b>(255,000)</b>	<b>(356,000)</b>
	<b>5,592,095</b>	<b>5,757,466</b>

As at December 31, 2018, the amount owing to senior officers of the Company was \$4,107,490 (consisting of \$2,871,856 principal and \$1,235,634 interest) as compared to \$4,273,565 (consisting of \$3,037,931 principal and \$1,235,634 interest) as at March 31, 2018. As at December 31, 2018, an amount of \$1000 (\$36,000 as at March 31, 2018) is owed to a director of the Company for additional consulting services, who received \$21,000 in the nine month ending December 31, 2018. 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 nine months ending December 31, 2018 and December 31, 2017 payments in the amount of \$312,075 (\$166,075 from historical debt and \$146,000 current year consulting expenses) and \$136,075 (\$120,075 from historical debt and \$16,000 current year consulting expenses) were paid to senior officers and a director. The amount \$3,853,490 is classified as long-term as the party has subordinated the debt to the Company's bank.

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 December 31, 2018. The balance is classified as long-term as the related party has agreed not to demand payment before March 2020.

As at December 31, 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 March 2020.

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 December 31, 2018 a balance of \$262,471 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 December 31, 2018 (\$182,889 - March 31, 2017). The party has agreed not to demand repayment of the total balance of \$200,330 (\$207,626 - March 31, 2018) before March 2020 and the amount is classified as long-term.

On May 31, 2017, Tidal refinanced its 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 currently bears interest at a rate of 19% 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 March 2020.

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 December 31, 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 December 31, 2018, \$232,165 (\$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 \$474,763 (\$532,763 - March 31, 2018). Targa has agreed that it will not demand repayment before March 2020 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 December 31, 2018. The party has agreed not to demand repayment before March 2020 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 IFRS 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	465,895
Related commission expenses	(9,584)
<b>Impact at April 1, 2018</b>	<b>456,311</b>

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 September 30, 2018 and its interim statements of comprehensive income for the six months ended September 30, 2018. There was no material impact on the Company's interim statements of cash flows for the six months ended September 30, 2018.

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Impact on the condensed consolidated interim statements of financial position as at December 31, 2018:

	As reported	IFRS15 Adjustment	Amount without IFRS 15
	\$	\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash	-	-	-
Trade receivables and other receivables	2,888,658	-	2,888,658
Unbilled revenue	1,808,131	(382,914)	1,425,217
Inventories	1,743,455	41,349	1,784,804
Prepaid expenses and other receivables	98,571	-	98,571
Assets classified as held for sale (Note 4)	140,710	-	140,710
	6,679,525	(341,565)	6,337,960
Property, plant and equipment	4,793,555	-	4,793,555
Intangible assets	429,274	-	429,274
	11,902,353	(341,565)	11,560,788
<b>Liabilities</b>			
<b>Current liabilities</b>			
Cash deficit	120,347	-	120,347
Trade and other payables	1,508,043	9,584	1,517,627
Deferred revenue	74,455	-	74,455
Current portion of long-term debt - bank	258,713	-	258,713
Current portion of due to related parties	255,000	-	255,000
Current portion of deferred government assistance	19,000	-	19,000
Current portion of obligations under lease capital	290,140	-	290,140
Current portion of government assistance	39,000	-	39,000
	2,564,698	9,584	2,574,282
Long-term debt - bank	780,287	-	780,287
Deferred government assistance	79,679	-	79,679
Obligations under lease capital	719,678	-	719,678
Repayable government assistance - other	582,441	-	582,441
Due to related parties	5,592,095	-	5,592,095
	10,318,878	9,584	10,328,462
<b>Shareholders' equity</b>			
Issued capital	2	-	2
Contributed surplus	2,090,750	-	2,090,750
Deficit	(507,276)	(351,149)	(858,425)
	1,583,476	(351,149)	1,232,327
	11,902,354	(341,565)	11,560,790

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

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

Impact on the condensed consolidated interim statements of comprehensive income for the nine months ended December 31, 2018:

	As reported	IFRS 15 Adjustment	Amount without IFRS 15
	\$		
Revenue	17,357,600	(382,914)	16,974,687
Cost of sales	12,504,391	(41,349)	12,463,041
Gross margin	4,853,209	(341,565)	4,511,645
Operating expenses			
Research and development	1,226,751	-	1,226,751
Finance and administration	1,075,221	-	1,075,221
Sales and marketing	313,654	9,584	323,238
Interest expense	291,752	-	291,752
Loss on foreign exchange	14,421	-	14,421
	2,921,800	9,584	2,931,384
Net earnings before other gains	1,931,409	(351,149)	1,580,262
Other			
Loss from discontinued operations	(237,265)	-	(237,265)
Net earnings and comprehensive earnings	1,694,145	(351,149)	1,342,996
Basic and diluted earnings per common share			
From continuing and discontinuing operations	0.05		0.02
From continuing operations	0.06		0.04

*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 and is currently held for sale.

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

As at February 20, 2019 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](http://www.sedar.com) or the Company's website at [www.plaintree.com](http://www.plaintree.com).