



PLAINTREE

Quarterly Report, Q3-2009

For The Three and Nine Months Ended December 31, 2008

“Notice to Reader”

The accompanying unaudited interim consolidated financial statements of Plaintiff Systems Inc. for the three and nine months ended December 31, 2008 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

Date: February 26, 2009

“David Watson”

David Watson
CEO

PLAINTREE SYSTEMS INC.**Consolidated Balance Sheets****As at December 31, 2008**

(in Canadian dollars)

	December 31 2008	March 31 2008
	(unaudited)	(unaudited)
Current assets		
Cash	\$ 1,052,814	\$ 1,759,208
Trade accounts receivable, net of allowance for doubtful accounts of \$nil (March 31, 2008 - \$nil)	1,781,470	2,834,591
Unbilled revenue	1,053,973	300,898
Inventories	3,277,903	2,156,468
Prepays and other	54,670	91,959
Due from related party (note 3)	174,085	2,072,248
	<u>7,394,915</u>	<u>9,215,372</u>
Capital assets, net (note 4)	<u>3,143,892</u>	<u>2,671,812</u>
	<u>\$ 10,538,807</u>	<u>\$ 11,887,184</u>
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,734,907	\$ 2,496,818
Deferred revenue	63,032	1,473,387
Due to related parties - convertible debentures - current portion (note 7)	172,316	1,710,145
Due to related parties - other -current portion (note 8)	79,304	4,821,055
Long term debt - current portion (note 11)	1,214,302	1,006,901
	<u>3,263,861</u>	<u>11,508,306</u>
Due to related parties - convertible debentures (note 7)	247,672	-
Due to related parties - other (note 9)	2,420,579	-
Future income taxes	-	113,906
Due to related parties - line of credit (note 10)	1,048,468	-
Due to related parties - demand loan (note 10)	823,286	-
	<u>7,803,866</u>	<u>11,622,212</u>
Shareholders' equity		
Share capital		
Preferred shares 18,325 outstanding	1	-
Common shares 12,522,143 outstanding; (March 31, 2008 - 12,522,143)	97,561,140	97,586,741
Additional paid in capital	38,782	788,259
Equity component of convertible debentures	943,061	943,061
Deficit	(95,360,968)	(98,606,015)
Accumulated foreign currency translation adjustment	(447,075)	(447,075)
	<u>2,734,941</u>	<u>264,972</u>
	<u>\$ 10,538,807</u>	<u>\$ 11,887,184</u>

PLAINTREE SYSTEMS INC.**Consolidated Statements of Operations and Deficit**

Three and nine months ended December 31, 2008 and 2007

(in Canadian dollars)

	Three months ended December 31		Nine months ended December 31	
	2008 (unaudited)	2007 (unaudited)	2008 (unaudited)	2007 (unaudited)
Revenue				
Product and service revenue	\$ 4,880,039	\$ 3,224,423	16,716,443	\$ 10,100,646
Management services revenue	52,140	-	101,910	-
	<u>4,932,179</u>	<u>3,224,423</u>	<u>16,818,353</u>	<u>10,100,646</u>
Cost of revenue				
Cost of products sold	3,462,325	1,856,108	10,127,777	5,554,000
Cost of services	14,124	-	27,607	-
	<u>3,476,449</u>	<u>1,856,108</u>	<u>10,155,384</u>	<u>5,554,000</u>
Gross margin	<u>1,455,730</u>	<u>1,368,315</u>	<u>6,662,969</u>	<u>4,546,646</u>
Operating expenses				
Sales and marketing	214,152	325,080	773,004	853,543
Finance and administration	406,301	565,116	1,122,547	1,434,616
Research and development	384,123	245,587	1,179,735	974,119
Interest expense	50,313	160,336	193,275	361,818
(Gain) loss on foreign exchange	(360,183)	130,339	(422,874)	268,089
	<u>694,706</u>	<u>1,426,458</u>	<u>2,845,687</u>	<u>3,892,185</u>
Income from operations	<u>761,024</u>	<u>(58,143)</u>	<u>3,817,282</u>	<u>654,461</u>
Gain on disposal of assets	-	72,352	-	214,827
Gain on sale of investments	-	-	-	58,755
Partnership income (note 5)	-	-	-	308,415
Bank loan interest (note 5)	-	-	-	(8,415)
	<u>761,024</u>	<u>14,209</u>	<u>3,817,282</u>	<u>1,228,043</u>
Income before taxes	<u>761,024</u>	<u>14,209</u>	<u>3,817,282</u>	<u>1,228,043</u>
Income tax benefit	-	(8,052)	113,906	(8,052)
	<u>761,024</u>	<u>6,157</u>	<u>3,931,188</u>	<u>1,219,991</u>
Net Income and comprehensive income	<u>761,024</u>	<u>6,157</u>	<u>3,931,188</u>	<u>1,219,991</u>
Cummulative dividends on preferred shares	<u>366,500</u>	<u>-</u>	<u>1,099,500</u>	<u>-</u>
Net income attributed to common shares	<u>394,524</u>	<u>6,157</u>	<u>2,831,688</u>	<u>1,219,991</u>
Basic and diluted earnings per share	<u>0.03</u>	<u>0.00</u>	<u>0.23</u>	<u>0.10</u>
Diluted earnings (loss) per share	<u>0.03</u>	<u>0.00</u>	<u>0.21</u>	<u>0.09</u>
Weighted average common shares outstanding - basic	<u>12,522,143</u>	<u>12,522,143</u>	<u>12,522,143</u>	<u>12,522,143</u>
Weighted average common shares outstanding - diluted	<u>13,374,581</u>	<u>14,409,477</u>	<u>13,243,689</u>	<u>14,368,517</u>

PLAINTREE SYSTEMS INC.**Consolidated Statements of Cash Flows**

Three months and nine months ended December 31, 2008 and 2007

(in Canadian dollars)

	Three months ended		Nine months ended	
	December 31		December 31	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating				
Net income	\$ 761,024	\$ 6,157	\$ 3,931,188	\$ 1,219,991
Items not affecting cash:				
Amortization of capital assets	115,915	84,469	358,438	167,204
Gain on disposal of capital assets	-	(72,352)	-	(214,827)
Gain on disposal of investments	-	-	-	(58,755)
Accretion and interest on convertible debentures	3,694	36,225	3,694	113,434
Interest on due to related party - other	26,169	43,206	125,179	119,947
Interest on due to related party - line of credit	14,718	-	48,468	-
Interest on due to related party - demand loan	5,730	-	28,875	-
Stock-based compensation expense	1,448	-	38,782	-
Non-cash partnership income from satisfaction of loan	-	-	-	(300,000)
Changes in non-cash operating working capital	(874,191)	859,161	(1,172,109)	425,039
	54,507	956,866	3,362,515	1,472,033
Investing				
Purchases of capital assets	(164,721)	(557,496)	(830,518)	(1,229,418)
Proceeds from disposal of capital assets	-	185,143	-	475,143
Proceeds from disposal of investments	-	-	-	58,755
	(164,721)	(372,353)	(830,518)	(695,520)
Financing				
Distributions to shareholders	-	-	(1,500,000)	-
Repayment of long term debt	-	-	(21,503)	-
(Repayment) Increase in long term debt	(33,218)	258,947	228,904	392,740
Repayment of related parties - convertible debentures	-	-	(1,340,240)	-
(Repayment) increase of related parties - other	(166,906)	(434,667)	(2,399,963)	(107,516)
(Repayment) increase of related parties - line of credit	-	-	1,000,000	-
(Repayment) Increase in due to related parties - demand loan	400,000	-	794,411	-
	199,876	(175,720)	(3,238,391)	285,224
NET CASH INFLOW (OUTFLOW)	89,662	408,793	(706,394)	1,061,737
Cash, beginning of period	963,152	973,673	1,759,208	320,729
Cash, end of period	\$ 1,052,814	\$ 1,382,466	\$ 1,052,814	\$ 1,382,466
Portion of partnership distributions paid directly on bank loan	\$ -	\$ -	\$ -	\$ 2,000,000
Reduction of investment in partnership (non-cash)	\$ -	\$ -	\$ -	\$ (1,700,000)

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements for Plaintiff Systems Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada for the preparation of interim financial statements. These consolidated financial statements do not include all of the information and notes required by Canadian GAAP for annual financial statements. These interim consolidated financial statements are based upon accounting principles consistent with those used in the annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended March 31, 2008.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Plaintree Systems Inc. ("Plaintree") specializes in developing optical wireless communications equipment for local area, wide area, voice, internet and security networks. On April 1, 2008, Plaintiff completed its acquisition of all of the issued and outstanding share capital of Hypernetics Limited ("Hypernetics") and 4439112 Canada Inc., which through a wholly-owned subsidiary owns all of the share capital of Triodetic Building Products Inc. and other subsidiaries (the "Triodetic Group of Companies") in exchange for a payment of cash of \$1,500,000 cash. The issuance of 35,000,000 pre-consolidated common shares and the issuance of 18,325 Class A preferred shares. The Class A preferred shares have an 8% cumulative dividend; are redeemable at the option of Plaintiff at any time at \$1,000 per share plus accrued dividends; and are non-voting. Hypernetics was established in 1972 and is a manufacturer of avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids, high purity valves and permanent magnet alternators. The Triodetic Group of Companies, with over 40 years of experience, 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. Immediately following the completion of the Acquisition, Plaintiff also amalgamated the businesses of each of Hypernetics and the Triodetic Group of Companies into Plaintiff (the "Company") and businesses are operated by Plaintiff as separate divisions of the Company.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

The merger that resulted from the Acquisition was treated as a transaction between parties under common control and is accounted for under the continuity of interest method. Under this method, the various assets and liabilities are accounted for at the carrying value in the combining companies' records. The excess of cash consideration issued under the transaction over the carrying value of Hypernetics Inc.'s and Triodetic Holdings Inc.'s shareholders' equity was reduced against additional paid in capital.

In addition, on April 1, 2008, the Company completed a share consolidation by exchanging one new share for every ten existing shares. All references to common share, option, warrant and per common share amounts for all periods presented have been retroactively restated to reflect the share consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Basis of presentation

The consolidated financial statements include the accounts of Plaintiff, Hypernetics and Triodetic Group of Companies. Under the continuity of interest method, the current and comparative results are presented as if the companies have always been combined.

Inventories

Inventories are valued using a weighted average cost formula and are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The adoption of CICA 3031 does not constitute a change in the Company's accounting policy. The cost of inventories recognized as an expense during the period was \$9,051,131, and \$4,868,658 at December 31, 2008 and December 31, 2007, respectively. The total carrying value of inventory at December 31, 2008 was pledged as security through general security agreements under bank lines of credit and related party liabilities.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

Capital assets

Capital assets are stated at cost. Amortization is provided using the Straight Line Method:

Software	2 years
Computer	3 years
Vehicles	4 years
Equipment and furniture	10 years
Building Improvements	10 years
Building	20 years

The Company's policy is to review all long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount as an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Company will estimate the future cash flows expected to result from the use of the assets and their eventual disposition and record an impairment of the assets if required.

Revenue recognition and warranties

Revenue from product sales is recorded on shipment when all significant contractual obligations have been satisfied provided evidence of an arrangement exists, the price to the customer is fixed and determinable and collection is probable.

In addition, a provision for potential warranty claims is recorded at the time of sale, based on warranty terms and prior claims experience. Extended warranty contracts are sold separately from the product and the associated revenue is recognized over the term of the agreement. Service revenue is recognized when the service is performed.

Revenue on fixed-price contracts is recognized based on the estimated percentage of completion of services rendered that reflects the extent of work accomplished. Management estimates the percentage-of-completion by reference to measures of performance that are reasonably determinable and are directly related to the activities critical to completion of the contract. The Company uses this method of revenue recognition as projected contract revenue and costs may reasonably be estimated based on the Company's business practices, methods and historical experience. This method requires estimates of costs and profits over the entire term of the contract. Management regularly reviews underlying estimates of project profitability; revisions to estimates are reflected in the statement of earnings in the period in which the facts

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

that give rise to the revision become known. Provisions for estimated losses, if any, are recognized in the period in which the loss is determined. Contract losses are measured as the amount by which the estimated costs of the contract exceed the estimated total revenue from the contract.

Progress billings are recorded as deferred revenue to the extent that the billings exceed revenue recognized to date. Unbilled revenue is recorded to the extent that revenue has been recognized, but not yet billed to the customer.

Foreign currency translation

Monetary assets and liabilities, which are denominated in currencies foreign to the local currency of the operation, are translated to the local currency at fiscal year-end exchange rates, and transactions included in the statements of operations are translated at rates prevailing during the fiscal year. Exchange gains and losses resulting from the translation of these amounts are included in the statement of operations.

The accounts of the Company's wholly owned US subsidiary, which is considered to be an integrated foreign operation, has been translated into Canadian dollars using the temporal method of foreign currency translation. Under this method, monetary assets and liabilities are translated at the rate of exchange at year-end.

In prior years, the Company had active subsidiaries (reporting in foreign currencies) that were considered to be self-sustaining. The translation of the accounts of these subsidiaries resulted in the accumulated other comprehensive income reported in the consolidated balance sheets.

Stock option plans

The Company uses the fair value-based method to measure stock-based compensation for all stock-based awards.

Investment tax credits

Investment tax credits are recorded as a reduction of the related expense or cost of the asset acquired. The benefits are recognized when the Company has complied with the terms and conditions of the approved grant program or applicable tax legislation.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

Research and development expenditures

Current research costs are expensed as incurred. Expenditures for research and development equipment, net of related investment tax credits, are capitalized.

Development costs are deferred and amortized when the criteria for deferral under Canadian generally accepted accounting principles are met, or otherwise, are expensed as incurred. To date, no such costs have been capitalized.

Use of accounting estimates

The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Management makes estimates related to revenue recognition and allowance for doubtful accounts, useful lives of capital assets, valuation of the investment in partnership, inventory, stock-based compensation, accrued liabilities, deferred revenue and bifurcation of convertible debentures. Actual results could differ from the estimates made by management.

Income taxes

The Company uses the asset and liability method to account for income taxes. Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Future income tax assets and liabilities are measured using substantively enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in statutory tax rates is recognized in net income in the year of change. Future income tax assets whose recoverability is not sufficiently likely are not recorded in these financial statements.

Investment in Partnership

The Company accounted for its 49% investment in the Buhler Partnership using the equity method.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

Financial instruments

The Company adopted the CICA Handbook Section 1530; *Comprehensive Income*, Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861,

Financial Instruments – Disclosure and Presentation and Section 3865, *Hedges* as of April 1, 2007. The adoption of these standards did not have a significant impact on these financial statements.

(a) Comprehensive income

The elements of comprehensive income are net earnings as per the Consolidated Statement of Operations. There are no additional elements of Other Comprehensive Income.

(b) Financial assets and financial liabilities

Under the new standards, all financial assets and liabilities are initially recorded at fair value. Subsequent measurement is determined based on the classification of the financial instrument including the treatment of gains or losses which are recognized in either net earnings or other comprehensive income. Under Section 3855, financial instruments are classified into one of five categories: held-for-trading financial assets, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities.

Held-for- trading

Financial assets that are purchased and incurred with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in the fair value recognized in net income during the period. Cash was classified as held for trading.

Held-to-maturity

Financial assets that have a fixed maturity date and for which the Company has the positive intention and ability to hold to maturity are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. No financial assets were classified as held-to maturity on December 31, 2008.

Loans and receivables and other financial liabilities

Loans and receivables and other financial liabilities are measured at fair value at inception, which due to their short-term nature, are approximated. This classification is consistent with the classification under the prior accounting standards.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

Available-for-sale

Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income. When a decline in fair value is determined to be other-than-temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net income.

Gains and losses realized on disposal of available-for-sale securities are recognized in net income. No financial assets were classified as available-for-sale on December 31, 2008.

(c) Embedded derivatives

Derivatives may be embedded in other financial and non-financial instruments (the "host instrument"). Prior to the adoption of the new standards, embedded derivatives were not accounted for separately from the host instrument except in certain circumstances. Under the new standards, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in the Consolidated Statement of Loss as an element of general and administrative expenses. The Company will recognize embedded derivatives in its consolidated balance sheet, if applicable. There were no derivatives recorded in the financial statements for the nine months ended December 31, 2008 or December 31, 2007.

(d) Hedge accounting

This optional standard allows entities to designate certain qualifying transactions as hedges for accounting purposes in order to recognize the gains, losses, revenues and expenses associated with the items in a hedging relationship in net income in the same period when they would otherwise be recognized in different periods. The Company would be required to formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Derivatives that qualify as hedging instruments would be designated as either a 'cash flow hedge,' when the hedged item is a future cash flow, or a 'fair value hedge,' when the hedged item is a recognized asset or liability. The unrealized gains and losses related to a cash flow hedge are included in other comprehensive income. For a fair value hedge, both the derivative and the hedged item are recorded at fair value in the Consolidated Balance Sheet and the unrealized gains and losses from both items would be included in earnings. The Company does not use hedge accounting.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

3. Due From Related Party

Due from related party consists of accounts receivables and loans from companies under common control of Targa Group Inc. (“Targa”), the Company’s largest shareholder. As at March 31, 2008, the total amount outstanding was \$2,072,248. On April 1, the balance was repaid as part of the amalgamation. As at December 31, 2008, \$174,085 remained outstanding and is due on demand from a company that is also controlled by Targa, this amount resulted from management fees of \$101,910 and rent and other operating costs of \$72,175 charged in the nine months ended December 31, 2008.

4. Capital Assets

	December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 180,874	\$ -	\$ 180,874
Building	2,150,880	200,118	1,950,762
Construction in process	-	-	-
Factory equipment	2,698,240	1,806,420	891,820
Computer equipment	936,478	879,537	56,941
Office equipment and furniture	186,475	153,777	32,698
Vehicles	56,784	51,463	5,321
Software	76,925	74,390	2,535
Outside Compound	25,490	2,549	22,941
Intangibles	50,000	50,000	-
	\$ 6,362,146	\$ 3,218,254	\$ 3,143,892
	March 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 180,874	\$ -	\$ 180,874
Building	1,465,674	103,962	1,361,711
Factory equipment	2,574,425	1,616,121	958,304
Computer equipment	917,257	837,031	80,226
Office equipment and furniture	186,475	138,969	47,507
Vehicles	56,784	46,232	10,552
Software	74,651	66,864	7,787
Paving	5,490	637	24,853
Intangibles	50,000	50,000	0
	\$ 5,531,630	\$ 2,859,817	\$ 2,671,812

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

5. Investment in Partnership and Bank Loan

During the nine month period ended December 31, 2007, the Investment in Partnership was reduced by \$1,700,000. Also, a total of \$2,000,000 of distributions was received and the investment was reduced to zero with the remaining \$300,000 recorded as partnership income as the remaining \$2,000,000 outstanding on the loan was satisfied by the Partnership. Bank loan interest of \$8,415 was also incurred and satisfied by the Partnership. Plaintree has now ceased to be a partner and is no longer entitled to any further distributions nor is it any longer subject to any obligations as a general partner. In addition, the bank loan and all related expenses have been fully satisfied.

6. Line of Credit

The Company, through its Hypernetics division, has a \$450,000 operating line of credit available, secured by a general security agreement over all assets, assignment of all risk insurance on the assets of the Company and a postponement of the amount due to a senior officer. The facility bears interest at the bank's prime rate plus 0.50% and is renewable on an annual basis. As at December 31, 2008, \$nil has been drawn against this credit facility.

The Company through its Triodetic division has a \$550,000 line of credit available, secured by a general security agreement over all assets and an assignment of all risk insurance on the assets of the Company. The facility bears interest at the bank's prime rate plus 1% per annum and is renewable on an annual basis. As at December 31, 2008, \$nil has been drawn against this credit.

The Company executed a revised credit facility arrangement with its banker to replace the past credit facilities of Hypernetics and Triodetics. Pursuant to the revised credit facilities, the Company will have a \$1M operating bank line of credit available to be secured by a general security agreement pledged over all assets, assignment of all risk insurance on the assets of the Company and a postponement of the amounts due to Targa, companies controlled by Targa and to senior officers. The facility bears interest at the bank's prime rate plus 0.50%, is subject to borrower's covenants and conditions and is renewable on an annual basis. The Company is currently in the process of completing the paperwork necessary to put the revised facilities in place.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

7. Due to related parties (Convertible Debentures)

Balance of convertible debenture debt outstanding as at December 31, 2008 is as follows:

Debt Component Balance as at March 31, <u>2008</u>	Activity for the nine month period ended December 31, 2008		Debt Component Balance as at Dec. 31, <u>2008</u>
	Repayment of principal	Accrued <u>Interest</u>	
\$ 1,105,951	\$(900,000)	\$ -	\$ 205,951
244,918	(181,240)	2,907	66,585
241,192	(220,000)	-	21,192
118,084	-	8,175	126,259
<hr/>			
<u>\$1,710,145</u>	<u>\$(1,301,240)</u>	<u>\$ 11,082</u>	<u>\$ 419,987</u>

The convertible debentures balance of \$419,987 outstanding as at December 31, 2008 consists of principal of \$147,760 and interest of \$272,227. Interest is accrued on the principal portion of the debt at 10% per annum. The convertible debenture balance of \$419,987 consists of \$172,316, current liabilities and \$247,672 long-term liabilities reflecting the amounts described in Note 9 that the related party has agreed not to demand payment before March 31 2010.

8. Due to related parties – other (current)

As of December 31, 2008, \$79,304 (March 31, 2008 - \$276,500) remained owing to a senior officer for past services. This debt is non-interest bearing and payable on demand. This amount is included in “due to related parties – other”.

9. Due to related parties – other (long-term)

Due to related parties – other presented in long-term liabilities reflect amounts described below in this Note 9 that the related party has agreed not to demand payment before March 31 2010.

As at March 31, 2008, the Company had a loan outstanding from Targa Group Inc., its largest shareholder, of \$445,198 (\$310,386 principal plus \$134,812 of accumulated interest). On April 1, the principal was repaid leaving a balance at December 31, 2008 of \$134,812 that is non-interest bearing. The Loan is payable on demand and is secured by an already existing General Security Agreement over Plaintiff's assets. This amount is included in “due to related parties – other”.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

Until March 31, 2003, the Company leased facilities from a company controlled by Targa Group Inc. Lease arrears including interest, which accrues at bank prime plus 2%, of \$109,171 (\$98,567 on March 31, 2008) owing to this related party amounted to \$327,980 (\$317,375 on March 31, 2008). In 2003, this related party entered into a forbearance agreement with the Company whereby the Company agreed to repay the amounts owing and the related party was provided with a security interest in the form of a mortgage on the property owned by the Company. The forbearance agreement is now in default and the amounts owing are due and payable. This amount is still outstanding as at December 31, 2008 and is included in “due to related parties – other”.

As of April 1, 2002, the Company’s Senior Officers have agreed to defer payment of consulting fees and salaries payable. At December 31, 2008, these fees and salaries to senior officers of the Company, who are also majority shareholders of Targa Group Inc., amounted to \$1,573,507 (\$1,436,847 on March 31, 2008), plus interest charges, which accrues at bank prime plus 2%, of \$384,280 (\$310,243 on March 31, 2008) for a total payable of \$1,957,787 (1,747,091 on March 31, 2008). These amounts are included in “due to related parties – other”.

10. Due to related parties – line of credit and demand loan

During the first quarter of fiscal 2009, a demand loan of up to \$1.8 million and a revolving line of credit up to \$1 million has been established between Targa Group Inc. and the Company. Targa Group Inc. is a company controlled by David and Nora Watson and is Plaintiff’s largest shareholder. Under the loan agreements, all amounts advanced to Plaintiff are payable on demand and bear interest at bank prime plus 2%. The Targa Credit Facility is secured by a security interest granted over the assets of Plaintiff.

At December 31, 2008, \$1M remained outstanding on the line of credit and \$771,510 was drawn against the revolving demand loan. Interest of \$100,244 was accrued on these amounts for a total outstanding balance of \$1,871,754. Targa Group Inc. has agreed that it will not demand the loans until at least December 31, 2009 and, accordingly, the amounts are being shown as long term.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

11. Long-term debt

	December 2008 \$	March 2008 \$
	<hr/>	<hr/>
Bank loan bearing interest at the rate of prime plus 1.25% per annum, accruing interest only until May 2008 and due in monthly principal payments of \$4,080 from May 2008 through April 2013.	216,061	244,822
Bank loan bearing interest at the rate of prime plus 1.00% per annum, payable in monthly principal plus interest installments of \$4,220.61, maturing May 2027.	512,832	528,486
Term loan payable in monthly instalments of \$1,007, bearing interest at the rate of prime plus 0.85% per annum, secured by a mortgage on a property, maturing February 2012.	141,135	146,015
Term loan payable in monthly instalments of \$1,663, bearing interest at the rate of prime plus 0.75% per annum, secured by equipment and the general security agreement referred to in Note 5, maturing December 2011.	62,066	76,550
Term loan payable in monthly instalments of \$1,225, bearing interest at the rate of prime plus 1.00% per annum, secured by equipment and the general security agreement referred to in Note 5, maturing December 2008.	-	11,028
Demand non-revolving loan payable in monthly instalments of \$ 3,161.30 bearing interest at the rate of prime plus 1.00% per annum, maturing December 2018.	282,208	-
	<hr/>	<hr/>
Less Current Portion	\$1,214,302	\$1,006,901
	<hr/>	<hr/>
	-	-

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

The Company's credit facilities that were assumed as part of the acquisition of Hypernetics and Triodetic Group of Companies, including the bank loan and credit line (see Note 6), contain certain covenants with respect to maintenance of certain financial ratios. As of December 31, 2008, the Company was on side with all of its covenants except the one governing the amount of capital acquisitions the Company could make during the course of the year. Due to the recent acquisitions described in this MD&A, the Company's new covenant regarding this capital issue had not yet been updated. On this basis, the Company's bank had reviewed all capital acquisitions and approved them despite this outdated covenant. As a result, the outstanding bank loan balance has been classified as a current debt.

12. Share Capital

Authorized

Unlimited number of Class A 8% cumulative dividend; redeemable at the option of the Company at any time at \$1,000 per share plus accrued dividends; non-voting.

Unlimited number of common shares.

On April 1, 2008, the Company completed a 10 for 1 share consolidation of the outstanding common shares.

13. Basic and Diluted Earnings (Loss) per Common Share

Net income (loss) per common share represents net loss attributable to common shareholders divided by the weighted average number of common shares outstanding for the combined entities during the year. Net income (loss) attributable to common shareholders represents net income (loss) reduced by the amount of the 8% per annum dividend accumulated on the Class A preferred shares during the period.

Diluted income (loss) per common share is calculated by dividing the applicable net income (loss) by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. The dilutive effect of options is calculated using the treasury stock method.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

14. Segmented Information

The revenue for the three and nine month periods ending December 31, 2008 and December 31, 2007 are presented on the statement of operations.

Revenue by geographic location

	Three months ended Dec. 31, 2008	Three months ended Dec. 31, 2007	Nine months ended Dec. 31, 2008	Nine months ended Dec. 31, 2007
Canada	\$2,671,393	\$381,234	\$8,515,957	\$4,284,075
United States	2,154,165	2,809,474	6,328,009	5,642,786
Other	106,621	33,715	1,974,387	173,785
Total revenue	\$4,932,179	\$3,224,423	\$16,818,353	\$10,100,646

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

	Three months ended December 31, 2008	Three months ended December 31, 2007	Nine months ended December 31, 2008	Nine months ended December 31, 2007
Number of customers	2	2	1	2
% of total revenue	60	36	29	25

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

15. New accounting policies

Effective January 1, 2008, the Company adopted the following new CICA accounting pronouncements which did not have a material impact on the Company's financial statements and disclosure:

Assessing going concern – Section 1400

The Accounting Standards Board (AcSB) amended the Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.

Capital disclosures – Section 1535

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences.

The Company manages its capital, being cash, bank term and operating debt and related party debt, with the primary objective being safeguarding sufficient working capital to sustain operations and reducing the overall Company debt. The Company uses bank term debt to finance its capital purchases. The Board of Directors has not established capital benchmarks or other targets. The Company has available lines of credits with its bank that are subject to externally imposed covenants. As at December 31, 2008, the Company was not in compliance with these covenants but is renegotiating with its bank to reestablish covenants based on the post amalgamation operations.

Financial Instruments – Section 3862 & 3863 – Disclosures & Presentation

These new sections 3862 (on disclosures) and 3863 (on presentation) replace Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. Section 3862 complements the principles for recognizing, measuring and presenting financial assets and financial liabilities in Financial Instruments. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments.

Currency risk

The Company is exposed to foreign exchange fluctuations against the Canadian dollar as sales are denominated in US dollars and other foreign currencies, while expenditures are primarily denominated in Canadian dollars. The Company did not use derivative financial instruments to manage this risk in the quarters ended December 31, 2008 and 2007. For the quarters ended December 31, 2008 and 2007, the Company had a foreign exchange gain (loss) of \$422,357 and \$(268,089), respectively. A 10% change in the value of the Canadian dollar against the US dollar would cause an approximate foreign exchange gain or loss of \$214,383 and \$179,931, respectively.

Interest risk

The Company's exposure to interest rate risk relates primarily to variable interest rates on bank and related party debt totaling \$4,778,126. The variable interest rates range from prime plus 0.75% to prime plus 2.0%. A 1% change in the bank prime interest rate causes a \$47,781 change in annual interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate fluctuations.

Credit risk

The Company provides credit to its customers in the normal course of operations. The Company sells its products and services primarily to large corporations. The Company has established credit evaluation, approval and monitoring processes to mitigate credit risk. The Company maintains a provision in allowance for doubtful accounts for anticipated bad debts. The Company has concentrated credit risk with three customers that accounted for 52% of its accounts receivable as at December 31, 2008. As at December 31, 2008 the Company's aging of accounts receivable was approximately 73% under sixty days, 7% over 60 days and 20% over 90 days and the allowance for doubtful accounts was \$NIL.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's manages its liquidity risk by review on an ongoing basis its capital requirements. The Company completed its acquisition of Hypernetics Inc and Triodetic Group of Companies at the beginning of the current fiscal year. While the newly amalgamated entity showed significant revenue, net income and positive cash flow; there are no assurances that it will continue to achieve this profitability going forward.

As at December 31, 2008, the Company has a positive working capital with other long term related party debt including a line of credit and a demand loan. While the related parties have agreed not to demand the line of credit or the demand loan through at least December 31, 2009, there is no assurance that they will delay beyond that.

Accounts payable and accrued liabilities

The Company accrues expenses when incurred. Accounts are deemed payable once an event occurs that requires payment by a specific date. As at December 31, 2008 over 47% of accounts that are payable are current.

Fair values

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values due to their short term to maturity. "Cash", "accounts receivable", "accounts payable" and "accrued liabilities", "due to related parties – convertible debentures", "due to related parties – other", "long term debt", "due to related parties – line of credit" and "due to related parties – demand loan" are all financial instruments whose fair values approximate their carrying value.

Other comprehensive income (OCI)

The company has not included a statement of other comprehensive income because there are no adjustments arising from the implementation of the financial instruments standards that would affect OCI either retroactively or in the current period. As a result net income is equivalent to OCI for both the current and prior periods.

PLAINTREE SYSTEMS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended December 31, 2008

Recent accounting pronouncements

Goodwill and intangible assets – Section 3064

In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. This pronouncement comes into effect for years beginning after October 1, 2008.

The Company is evaluating the impact of these new accounting standards on its consolidated financial statements.

16. Subsequent Event

The board of directors of Plaintiff have declared a cash dividend of \$10.914052 per Class A Preferred Share (\$200,000 in the aggregate) payable on February 27, 2009 to the holders of record at the close of business on February 23, 2009. The Class A Preferred Shares are entitled to annual cumulative dividends of 8% on the \$1,000 redemption amount of the Class A Preferred Shares. The Class A Preferred Shares were issued as part of the consideration paid to acquire Hypernetics and the Triodetic Group of Companies and are held by related parties. The payment of the dividends will be credited against the amount accrued to date on the Class A Preferred Shares.

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

PLAINTREE SYSTEMS INC.

For the nine month period ended December 31, 2008

Date: February 26, 2009

Statement of Management Responsibility for Annual Filings

The following "Summary Financial Information and Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") was prepared by management of Plaintiff Systems Inc. ("Plaintree" or the "Company") and approved by the Board of Directors.

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.

David Watson, Chief Executive Officer, and Lynn Saunders, Chief Financial Officer, in accordance with National Instrument 52-109, have both certified that they have reviewed the financial statements and this MD&A ("the interim Filings ") and that, based on their knowledge having exercised reasonable diligence, that (a) the annual Filings do not contain any untrue fact or omit a material fact; 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, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR 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

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintiff for the nine months ended December 31, 2008 and 2007 should be read in conjunction with the unaudited Consolidated Financial Statements and Notes for the nine months ended December 31, 2008 (the "Consolidated Statements") as well as Management's Discussion and Analysis, and audited Consolidated Financial Statements and Notes of Plaintiff for the year ended March 31, 2008 ("Fiscal 2008 Statements"). Historical results of operations, percentage relationships and any trends that may be inferred therefrom are not necessarily indicative of the operating results of any future period. All amounts are in Canadian dollars, unless otherwise stated, and in accordance with Canadian generally accepted accounting principles ("GAAP").

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

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

from those projected and should not be relied upon as a prediction of future events. A variety of inherent risks, uncertainties and factors, many of which are beyond Plaintiff's control, affect the operations, performance and results of Plaintiff and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. Some of these risks, uncertainties and factors include the impact or unanticipated impact of: companies evaluating Plaintiff's products delaying purchase decisions; current, pending and proposed legislative or regulatory developments in the jurisdictions where Plaintiff operates; change in tax laws; political conditions and developments; intensifying competition from established competitors and new entrants in the free space optical ("FSO") 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, in integrating the former businesses of Hypernetics and the Triodetics Group of Companies into the Company's business. 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 and the United States Securities and Exchange Commission (SEC).

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

Overview

Located in Arnprior, Ontario, Plaintree historically developed and manufactured the WAVEBRIDGE series of FSO wireless links using Class 1, eye-safe light emitting diode technology providing high-speed network connections for cable companies, internet service providers, traditional telco's, global system for mobile or cellular operators, airports and campus networks. Acting as a replacement for cable, fiber or radio frequency systems, the WAVEBRIDGE links offer broadband access with no spectrum interference problems, and same day installation for rapid network deployment.

On April 1, 2008 the Company completed an acquisition (the "Acquisition") of all of the issued and outstanding share capital of (i) Hypernetics Limited ("Hypernetics"); and (ii) 4439112 Canada Inc. which owned all of the share capital of Triodetic Holdings Inc. and other subsidiaries including Triodetic Building Products Inc. (the "Triodetic Group of Companies"). See "Related Party Transactions – Acquisition of Hypernetics and the Triodetic Group of Companies" for additional information.

Hypernetics was established in 1972 and was a manufacturer of avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids, high purity valves and permanent magnet alternators. The legacy Hypernetics and Plaintree free space optics businesses are managed as the Electronics Division of newly amalgamated Plaintree Systems Inc.

The Structural Steel Division formally the Triodetic Group, with over 40 years of experience, 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.

In addition, on April 1, 2008, the Company completed a share consolidation by exchanging one new share for every ten existing shares. All references to common shares, options, warrants and per common share amounts for all periods presented herein have been retroactively restated to reflect the one for ten share consolidation.

Concurrent with the completion of the Acquisition, Targa Group Inc., a company controlled by William David Watson II and Nora Watson and Plaintree's largest shareholder, established a credit facility of up to \$2.8 million for Plaintree, consisting of (a) a demand loan of \$1.8 million; and (b) a revolving \$1 million credit line. See "Related Party Transactions – Long Term Due to Related Parties" for additional information.

In addition to the Acquisition and subsequent to its fiscal 2008 year end, Plaintree also:

- (a) created "Class A Preferred Shares" to be issued as consideration in the Acquisition. The Class A Preferred Shares are non-voting, have a redemption value of \$1,000 per share, are entitled to cumulative dividends of 8% per year, are redeemable at any time at the option of Plaintree Systems Inc. and have liquidation preference over the common shares equal to the redemption value plus cumulative dividends;
- (b) consolidated the outstanding common shares of the Company on a 10 pre-consolidation shares for 1 post-consolidation share basis; and
- (c) deleted an old class of preferred shares no longer being used by the Company.

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

The Company's common shares are quoted on the Canadian National Stock Exchange (CNSX) and the OTCBB in the United States.

Selected Financial Information

The Company's consolidated financial statements are stated in Canadian dollars and are prepared in accordance with Canadian GAAP, which also conforms in all material respects with accounting principles generally accepted in the United States, except as disclosed in notes 16 & 18 to the Fiscal 2008 Statements. The consolidated statements include the accounts of Plaintiffree, Hypernetics and the Triodetic Group of Companies and are presented under the continuity of interest method (the current and comparative results are presented as if the companies have always been combined).

The following table sets forth selected unaudited financial information from the Company's financial statements for the three and nine months ended December 31, 2008 and 2007.

<i>(\$000s, except per share data)</i> <i>(unaudited)</i>	Statement of Operations Data <i>(\$000s, except per share data)</i>			
	(unaudited) For the three months ended December 31,		(unaudited) For the nine months ended December 31,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue	\$ 4,932	\$ 3,224	\$ 16,818	\$ 10,101
Operating income	\$ 761	\$ (58)	\$ 3,817	\$ 654
Net income	\$ 761	\$ 6	\$ 3,931	\$ 1,220
Net income attributable to common shareholders	\$ 395	\$ 6	\$ 2,832	\$ 1,220
Basic earnings per share	\$ 0.03	\$ 0.00	\$ 0.23	\$ 0.10
Diluted earnings per share	\$ 0.03	\$ 0.00	\$ 0.21	\$ 0.09

	Balance Sheet Data (\$000s)	
	As at Dec. 31, <u>2008</u> (unaudited)	As at March 31, <u>2008</u> (unaudited)
	Total assets	\$10,539
Total liabilities	\$ 7,804	\$11,622
Long-term liabilities	\$ 4,540	\$ 114
Cash dividends declared per share	Nil	Nil

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

Results of Operations

The consolidated financial statements include the accounts of Plaintree, Hypernetics and Triodetic Group of Companies. Under the continuity of interest method, the current and comparative results are presented as if the companies have always been combined.

Plaintree Systems Inc.

(\$000s, except per share and % amounts)
(unaudited)

	Nine Months Ended Dec. 31,		Change from 2007 to 2008
	2008	2007	
Revenue	\$ 16,818	\$ 10,101	\$ 6,717
Cost of revenue	\$ 10,155	\$ 5,554	\$ 4,601
Gross margin	\$ 6,663	\$ 4,547	\$ 2,116
	40%	45%	(5)%
<i>Operating expenses:</i>			
Sales & marketing	\$ 773	\$ 853	\$ (80)
Finance & administration	\$ 1,123	\$ 1,435	\$ (312)
Research & development	\$ 1,180	\$ 974	\$ 206
Interest expense	\$ 193	\$ 362	\$ (169)
Gain on foreign exchange	\$ (423)	\$ 268	\$ (691)
	\$ 2,846	\$ 3,892	\$ (1,046)
Income from operations	\$ 3,817	\$ 655	\$ 3,162
Gain on disposal of assets	\$ 0	\$ 214	\$ (214)
Gain on sale of investments	-	\$ 59	\$ (59)
Partnership income	-	\$ 308	\$ (308)
Bank loan interest	-	\$ (8)	\$ 8
Income before taxes	\$ 3,817	\$ 1,228	\$ 2,589
Income tax benefit	\$ 114	\$ (8)	\$ 122
Net income	\$ 3,931	\$ 1,220	\$ 2,711

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

Plaintree Systems Inc.
(\$000s, except per share and % amounts)
(unaudited)

	Three Months Ended Dec. 31,		Change from 2007 to 2008
	2008	2007	
Revenue	\$ 4,932	\$ 3,224	\$ 1,708
Cost of revenue	\$ 3,476	\$ 1,856	\$ 1,620
Gross margin	\$ 1,456	\$ 1,368	\$ 88
	30%	43%	(13)%
<i>Operating expenses:</i>			
Sales & marketing	\$ 214	\$ 325	\$ (111)
Finance & administration	\$ 406	\$ 565	\$ (159)
Research & development	\$ 384	\$ 246	\$ 138
Interest expense	\$ 50	\$ 160	\$ (110)
Gain on foreign exchange	\$ (360)	\$ 130	\$ (490)
	\$ 695	\$ 1,426	\$ (731)
Income from operations	\$ 761	\$ (58)	\$ 819
Gain on disposal of assets	-	\$ 72	\$ (72)
Gain on sale of investments	-	-	-
Partnership income	-	-	-
Bank loan interest	-	-	-
Income before taxes	\$ 761	\$ 14	\$ 747
Income tax benefit	-	\$ (8)	8
Net income	\$ 761	\$ 6	\$ 755

Revenues

Total revenue for the nine months ended December 31, 2008 was \$16,818,353, compared to \$10,100,646 for the same period in fiscal 2008. The revenue increase can be attributed to a stronger demand for all of the Company's product lines as well as price increases and a stronger US dollar.

Gross Margin

Total gross margin decreased from 45% in the nine month period ended December 31, 2007 to 40% for the nine months period ended December, 31 2008. Gross Margin for the Company's Electronic Division tends to remain reasonably constant with the largest changes due primarily to currency fluctuations. The Structural Steel Division, however, enters into large contracts with varied gross margins depending upon the complexity and detail each job requires. The difference in profitability of these large contracts has a significant effect on the gross margin.

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

Operating Expenses

Sales and marketing expenses

Sales and marketing expenses of \$773,004 and \$853,543 in the nine months ended December 31, 2008 and 2007 respectively were relatively unchanged and are expected to remain constant. These expenses consist primarily of personnel and related costs associated with the Company's sales and marketing departments, which includes sales commission, advertising, travel, trade shows and other promotional activities.

Finance and administration expenses

Finance and administrative expenses were \$1,122,547 and \$1,434,616 in the nine months ended December 31, 2008 and 2007 respectively. Finance expenses were higher during fiscal 2008 as the Company had additional auditing and due diligence requirements associated with the acquisition and subsequent amalgamation transactions. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which includes financial staff, legal and audit activities.

Research and development expenses

Research and development expenses were \$1,179,735 and \$974,119 in the nine months ended December 31, 2008 and 2007 respectively. Expenses increased moderately in the first nine months of fiscal 2009 as the Company strengthens its engineering development capabilities. Research and development expenditures consist primarily of engineering personnel expenses and costs associated with development.

Interest expense

Interest expense consists of interest incurred on bank and related party debt. Interest expense of \$193,275 and \$361,818 for the nine months ended December 31, 2008 and 2007 respectively decreased due to the repayment of interest bearing related party debt during amalgamation and decrease in the bank prime lending rate of interest. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest.

Gain on foreign exchange

The Company reported a gain on foreign exchange of \$422,874 and a loss on foreign exchange of \$268,089 for the nine months ended December 31, 2008 and 2007 respectively. The gain/loss on foreign exchange represents the gain/loss, realized or unrealized, of transactions that are completed in currencies other than the Company's reporting currency. The Company's foreign currency exposure consisted of net US dollar assets for the periods presented. During the nine months ended December 31, 2008, the value of the US dollar increased in comparison to the Canadian dollar by approximately 20 % resulting in a gain on foreign exchange. A decrease in the value of the US dollar in relation to the Canadian dollar during the nine months ended December 31, 2007 produced a loss on foreign exchange.

Partnership income, other partnership related expenses and Bank loan interest

In July 2003, the Company acquired a 49% interest in a general manufacturing partnership formally operating as Buhler Manufacturing ("Partnership") for \$20,000,000. The Company

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

obtained a line of credit (bank loan) of \$20,300,000 to finance the acquisition and restructuring completed at the time. The investment by Plaintree in the Partnership was completed to provide Plaintree with a portion of the cash distributions expected to be received from the Partnership, net of repayment of the bank loan principal and interest and other Partnership related expenses. Plaintree's interest in the Partnership was limited to receiving its proportionate gross distributions from the income distributed by the Partnership to a maximum aggregate amount of approximately \$21,610,000. During fiscal 2008, the Partnership completed its total distributions to Plaintree of \$21,610,000 and Plaintree has now effectively ceased to be a partner and is no longer entitled to any further distributions nor is it any longer subject to any obligations as a general partner. In addition, the bank loan and all related expenses have been fully satisfied.

During the nine month period ended December 31, 2007, the "Investment in Partnership" was reduced by \$1,700,000. A total of \$2,000,000 of distributions were received in the nine months ended December 31, 2007 and the investment was reduced to zero with the remaining \$300,000 recorded as Partnership income as the remaining \$2,000,000 outstanding on the loan was satisfied by the Partnership. Bank loan interest of \$8,415 was also incurred and satisfied by the Partnership.

Income tax benefit

The Company realized a benefit in its first quarter of fiscal 2009 resulting from future tax liabilities in Hypernetics and the Triodetic Group of Companies that were extinguished upon the amalgamation with Plaintree.

Net Income and Comprehensive Income, and Net Income Attributable to Common Shareholders

Net income and comprehensive income for the nine months ended December 31, 2008 was \$3,931,188 compared to net income and comprehensive income of \$1,219,991 observed in the nine months ended December 31, 2007. Net income attributable to the common shareholders for the nine months ended December 31, 2008 was \$2,831,688. Net income attributable to the common shareholders represents the net income of the Company reduced by the cumulative dividends on the class A preferred shares accrued in the period. The cumulative dividends on the class A preferred shares accrue at 8% per annum on the \$18,325,000 face value of class A preferred shares, which shares were first issued on April 1, 2008.

Quarterly Results

The consolidated financial statements include the accounts of Plaintree, Hypernetics and the Triodetic Group of Companies. Under the continuity of interest method, the current and comparative results are presented as if the companies have always been combined. However, the table below reflects selected unaudited consolidated financial information that has been released by Plaintree for each of the last eight quarters. Only the fiscal 2009 quarter reflects the combined entities under the continuity of interests method. All previous quarters reflect the financial information for the old Plaintree on a stand alone basis:

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

Quarters ended

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

	Fiscal 2009			Jun 30 <u>2007</u>	Fiscal 2008			Fiscal 2007
	Dec 31 <u>2008</u>	Sept 30 <u>2008</u>	June 30 <u>2008</u>		Sept 30 <u>2007</u>	Dec 31 <u>2007</u>	Mar 31 <u>2008</u>	Jun 30 <u>2006</u>
Revenue	\$ 4,932	\$5,044	\$6,842	\$573	\$136	\$95	\$486	\$540
Inc./((loss) from operations	\$ 3,476	\$1,657	\$1,400	\$243	\$(315)	\$(332)	\$(22)	\$138
Net income/(loss)	\$ 761	\$1,657	\$1,513	\$543	\$(114)	\$(332)	\$(27)	\$147
Income/(loss) attributable to common shareholders	\$395	\$1,290	\$1,147	\$543	\$(114)	\$(332)	\$(27)	\$147
Net income/(loss) per share-basic	\$0.03	\$0.10	\$0.09	\$0.04	-	\$(0.02)	\$ -	\$ -
Net income/(loss) per share-diluted	\$0.03	\$0.10	\$0.09	\$0.04	-	\$(0.02)	\$ -	\$ -

Liquidity and Capital Resources

(unaudited, in \$000s of dollars)

	<u>As at December 31,</u> <u>2008</u> <u>(unaudited)</u>	<u>As at March 31,</u> <u>2008</u> <u>(unaudited)</u>	<u>Change</u>
Cash	\$ 1,053	\$ 1,759	\$ (706)
Working Capital	\$ 4,131	\$(2,293)	\$ 6,424
	<u>Nine months ended</u> <u>December 31, 2008</u> <u>(unaudited)</u>	<u>Nine months ended</u> <u>December 31, 2007</u> <u>(unaudited)</u>	<u>Change</u>
<i>Net cash provided by (used in):</i>			
Operating activities	\$ 3,363	\$ 1,472	\$ 1,891
Investing activities	\$ (831)	\$ (696)	\$ (135)
Financing activities	\$ (3,238)	\$ 285	\$ (3,523)

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

Cash

As at December 31, 2008, the Company held \$1,052,814 in cash, a decrease of \$706,394 from March 31, 2008.

Working Capital

Working capital represents current assets less current liabilities. As at December 31, 2008, the Company had a working capital surplus of \$4,131,055 compared to a working capital deficit of \$2,292,933 at March 31, 2008. The improvement in the working capital balance was the result of (i) general profitability of the amalgamated business for the year to date; (ii) the settlement of related party net liabilities; (iii) the treatment of related party debt, interest on loans, rent arrears, a demand loan and line of credit provided by Targa as long term as Targa has agreed not to demand payment until at least March 2010; and (iv) the treatment of related party debt owing to senior officers of the company as long term as these officers have agreed not to demand payment until at least March 2010.

Cash provided by Operating activities

Cash provided by operating activities in the first nine months of fiscal 2009 was \$3,362,515, compared to \$1,472,033 during the first nine months of the prior fiscal year. Cash provided in operating activities for the first nine months of fiscal 2009 relates primarily to net income earned. Cash provided by operating activities for the same period in the prior year, includes net income of \$1,219,991 reduced by \$300,000 of non-cash Partnership income realized upon satisfaction of the bank loan outstanding and an decrease in non-cash working capital of \$425,039.

Cash (used) in Investing activities

Cash used in investing activities for the first nine months of fiscal 2009 was \$830,518 related to the purchase of capital assets, compared to \$695,520 for the same period of the prior fiscal year resulting from \$1,229,418 for the purchase of capital assets offset by proceeds of \$533,898 from the sale of capital assets and investments. The company completed a 7000 square foot expansion to the existing plant along with further building improvements during the first nine months of 2009.

Cash (used in) provided by Financing activities

Cash used by financing activities for the first nine months of fiscal 2009 was \$3,238,391, compared to cash provided by financing activities of \$285,224 for the same period of the prior fiscal year. Cash used by financing activities in the first nine months of 2009 relates to the repayment of related party debt and distributions to shareholders and offset by the addition of a new line of credit and demand loan from a related party. Cash provided by financing activities during the first half of 2008 consisted of proceeds from related parties. The Company intends to further reduce its amounts due to related parties as it generates cash from operations.

Outlook

As a result of the completion of the Acquisition on April 1, 2008 (see "Related Party Transactions – Acquisition of Hypernetics and Triodetic Group of Companies" for additional information), the Company showed progress towards being able to fund its own operations from the revenue and positive income cash flow of the combined companies. The Company has achieved net income of

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

approximately \$3.9 million in this first nine months of fiscal 2009 and it has achieved positive working capital of approximately \$4.1 million during this period; primarily due the postponement of related party debt to at least March 31, 2010. However, the results that may be derived from the remainder of the year may be volatile and may not produce similar levels of profitability. The Company also continues to carry significant bank and related party debt. The Company has class A preferred shares with a face value \$18,365,000 that accrue cumulative dividends of 8% or \$1,466,000 per year in priority over distributions to common shareholders.

The new Plaintiff has two diversified product lines consisting of Structural Steel and Electronics.

The global decline in metals pricing has resulted in the reduction of the capital acquisition activities of the Structural Steel Division's mining customers. This slow down may spread to the division's other sectors.

The Electronics product line may also be affected by the world wide recession. The aerospace-electronics products of the Company continue to experience consistent demand. The declining economy in the US, does, however, seem to suggest that aviation industry purchases may start to slow in the upcoming quarters.

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

Related Party Transactions

Acquisition of Hypernetics and Triodetic Group of Companies

On April 1, 2008 the Company completed the Acquisition of all of the issued and outstanding share capital of (i) Hypernetics; and (ii) the Triodetic Group of Companies. The total purchase price of \$20 million for both Hypernetics and the Triodetic Group of Companies was paid by the Company by the combination of \$1,500,000 cash, the issuance of 35,000,000 pre-consolidation common shares (3,500,000 common shares post-consolidation) of the Company and the issuance of 18,325 class A preferred shares of the Company. Following the Acquisition, Hypernetics and the Triodetic Group of Companies (except for US incorporated subsidiaries) were amalgamated into Plaintiff. Following the completion of the amalgamation, the businesses of Hypernetics and the Triodetic Group of Companies are now being operated as separate divisions of Plaintiff.

The merger was treated as a transaction between parties under common control and is accounted for under the continuity of interest method. Under this method, the various assets and liabilities were accounted for at the carrying value in the combining companies' records. The excess of cash consideration issued under the transaction over the carrying value of Hypernetics Inc.'s and 4439112 Canada Inc.'s. shareholders' equity was reduced against additional paid in capital.

Due from Related Party

Due from related party consists of accounts receivables and loans from companies under common control of Targa Group Inc. ("Targa"), the Company's largest shareholder. As at March 31, 2008, the total amount outstanding was \$2,072,248. On April 1, the balance was repaid as

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

part of the amalgamation. As at December 31, 2008, \$174,085 remained outstanding is and due on demand from a company that is also controlled by Targa, resulting from management fees of \$101,910 and rent and other operating costs of \$72,175 charged in the nine months ended December 31, 2008.

Due to Related Parties - Convertible Debentures

The debentures are convertible into common shares of the Company at the holder's option at any time. As at December 31, 2008, all of the debentures have become due and payable and are accruing interest at 10% on the full principal balance of the obligations. A significant portion of the debentures were repaid on April 1, 2008 and the balance of \$419,987 outstanding as at December 31, 2008 consists of principal of \$147,760 and interest of \$272,227. Interest is accrued on the principal portion of the debt at 10% per annum. Targa has agreed not to demand payments of interest owing before March 31, 2010.

Debentures may be repaid at any time by the Company with 30 days notice subject to the holders' right to convert within that time period. All of the Company's assets were pledged as security for these convertible debentures under an already existing general security agreement.

All of the convertible debentures are held by related parties including Targa Group Inc and an independent director of the Company and a company controlled by that director.

Balance of convertible debenture debt outstanding as at December 31, 2008 is as follows:

Debt Component Balance as at March 31, <u>2008</u>	Activity for the nine month period ended December 31, 2008		Debt Component Balance as at <u>Dec. 31, 2008</u>
	Repayment of <u>principal</u>	Accrued <u>Interest</u>	
\$ 1,105,951	\$ (900,000)	\$ -	\$ 205,951
244,918	(181,240)	2,907	66,585
241,192	(220,000)	-	21,192
118,084	-	8,175	126,259
\$ 1,710,145	\$(1,301,240)	\$ 11,082	\$ 419,987

Due to Related Parties – other (current)

As of December 31, 2008, \$79,304 (March 31, 2008 - \$276,500) remained owing to a senior officer for past services. This debt is non-interest bearing and payable on demand. This amount is included in "due to related parties – other".

Due to Related Parties – Other

Due to related parties – other presented in long-term liabilities reflect amounts described below in this Note 9 that the related party has agreed not to demand payment before March 31 2010.

As at March 31, 2008, the Company had a loan outstanding from Targa Group Inc., its largest shareholder, of \$445,198 (\$310,386 principal plus \$134,812 of accumulated interest). On April 1, the principal was repaid leaving a balance at December 31, 2008 of \$134,812 that is non-interest

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

bearing. The Loan is payable on demand and is secured by an already existing General Security Agreement over Plaintiff's assets. This amount is included in "due to related parties – other".

Until March 31, 2003, the Company leased facilities from a company controlled by Targa Group Inc. Lease arrears including interest, which accrues at bank prime plus 2%, of \$109,171 (\$98,567 on March 31, 2008) owing to this related party amounted to \$327,980 (\$317,375 on March 31, 2008). In 2003, this related party entered into a forbearance agreement with the Company whereby the Company agreed to repay the amounts owing and the related party was provided with a security interest in the form of a mortgage on the property owned by the Company. The forbearance agreement is now in default and the amounts owing are due and payable. This amount is still outstanding as at December 31, 2008 and is included in "due to related parties – other".

As of April 1, 2002, the Company's Senior Officers have agreed to defer payment of consulting fees and salaries payable. At December 31, 2008, these fees and salaries to senior officers of the Company, who are also majority shareholders of Targa Group Inc., amounted to \$1,573,507 (\$1,436,847 on March 31, 2008), plus interest charges, which accrues at bank prime plus 2%, of \$384,280 (\$310,243 on March 31, 2008) for a total payable of \$1,957,787 (\$1,747,091 on March 31, 2008). These amounts are included in "due to related parties – other".

Long Term Due to Related Parties - Other

Concurrent with the completion of the Acquisition, a demand loan of up to \$1.8 million and a revolving line of credit up to \$1 million has been established between Targa Group Inc. and the Company. Targa Group Inc. is a company controlled by David and Nora Watson and is Plaintiff's largest shareholder. Under the loan agreements, all amounts advanced to Plaintiff are payable on demand and bear interest at bank prime plus 2%. The Targa Credit Facility is secured by a security interest granted over the assets of Plaintiff. \$1.5 million of the \$1.8 demand loan was used to pay to William David Watson II and Nora Watson the cash portion of the purchase price for the shares of the Triodetic Group of Companies as part of the Acquisition.

At December 31, 2008, \$1M remained outstanding on the line of credit and \$771,510 was drawn against the revolving demand loan. Interest of \$100,244 was accrued on these amounts for a total outstanding balance of \$1,871,754. Targa Group Inc. has agreed that it will not demand the loans until at least December 31, 2009 and, accordingly, the amounts are being shown as long term.

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

Other Contracts and Commitments

The following table provides a summary of the Company's obligations outstanding as at December 31, 2008:

	Payments due by period (unaudited)		
	Total	Less than 1 year	1-3 Years
Due to related parties – convertible debentures	\$ 419,988	\$ 172,316	247,672
Due to related parties – other	\$ 2,499,883	\$ 79,304	2,420,579
Bank debt	\$ 1,214,302	\$ 1,214,302	-
Long Term due to related parties – line of credit	\$ 1,048,468	\$ -	1,048,468
Long Term due to related parties – demand loan	\$ 823,286	\$ -	823,286
	<u>\$ 6,005,927</u>	<u>\$ 1,465,922</u>	<u>\$ 4,540,005</u>

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.

Facilities

As a result of the amalgamation, the Company obtained facilities previously owned by the Triodetic Group of Companies consisting of 18,000 square feet of plant and office space. In addition, the Company has recently completed the construction of additional plant and office space at its facilities in Arnprior, Ontario, providing another 7,000 square feet.

The Company considers that the new premises along with the addition that the Company is building will provide it with adequate space to house its operations for the near future.

Critical accounting estimates

The following critical accounting policies and significant estimates are used in the preparation of our consolidated financial statements:

Revenue recognition and warranties

Revenue from product sales is recorded on shipment when all significant contractual obligations have been satisfied provided evidence of an arrangement exists, the price to the customer is fixed and determinable and collection is probable.

In addition, a provision for potential warranty claims is recorded at the time of sale, based on warranty terms and prior claims experience. Extended warranty contracts are sold separately from the product and the associated revenue is recognized over the term of the agreement. Service revenue is recognized when the service is performed.

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

Revenue on fixed-price contracts is recognized based on the estimated percentage of completion of services rendered that reflects the extent of work accomplished. Management estimates the percentage-of-completion by reference to measures of performance that are (a) reasonably determinable and are (b) directly related to the activities critical to completion of the contract. The Company uses this method of revenue recognition because projected contract revenue and costs may reasonably be estimated based on the Company's business practices, methods and historical experience. This method requires estimates of costs and profits over the entire term of the contract. Management regularly reviews underlying estimates of project profitability and any revisions to estimates are reflected in the statement of earnings for the period in which the facts that give rise to the revision become known. Provisions for estimated losses, if any, are recognized in the period in which the loss is determined. Contract losses are measured as the amount by which the estimated costs of the contract exceed the estimated total revenue from the contract.

Progress billings are recorded as deferred revenue to the extent that the billings exceed revenue recognized to date. Unbilled revenue is recorded to the extent that revenue has been recognized, but not yet billed to the customer.

Research and development costs

Research costs are expensed as incurred. Development costs are deferred once technical feasibility has been established and all criteria for deferral under GAAP are met. Such costs are amortized, commencing when the product is released, over the lesser of the expected life of the related product and three years.

Inventories

Finished goods are valued at the lower of cost (first-in, first-out) and net realizable value. Work in process and raw materials are valued at the lower of cost and replacement cost. Provisions for the excess and obsolete inventory are made in the period in which management determines the inventory to be excess or obsolete.

Use of accounting estimates

The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Management makes estimates related to revenue recognition and allowance for doubtful accounts, useful lives of assets, valuation of its investment in partnership, valuation of its

inventory, stock-based compensation, certain accrued liabilities, deferred revenue and convertible debentures. Actual results could differ from the estimates made by management.

Stock option plan

The Company has stock option plans as described in Note 10 to the Fiscal 2008 Financial Statements. The Company uses the fair value based method to measure stock-based compensation for all stock-based awards made to non-employees, and for direct awards made to directors and employees of common shares, stock appreciation rights, and awards that result from settlement for cash or other assets. Awards that the Company has the ability to settle in shares are recorded as equity whereas awards that the Company is required to or has a practice of settling in cash are recorded as liabilities.

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

Changes in accounting policies

Effective January 1, 2008, the Company adopted the following new CICA accounting pronouncements which did not have a material impact on the Company's financial statements and disclosure:

Assessing going concern – Section 1400

The Accounting Standards Board (AcSB) amended Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.

Capital disclosures – Section 1535

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, provides information whether the entity has complied with them, and if not, the consequences of non-compliance.

Financial Instruments – Section 3862 & 3863 – Disclosures & Presentation

These new sections 3862 (on disclosures) and 3863 (on presentation) replace Section 3861, revising and enhancing its disclosure requirements, and carrying forward without any changes, its presentation requirements. Section 3862 complements the principles for recognizing, measuring and presenting financial assets and financial liabilities in Financial Instruments. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

Summary of Outstanding Share Data

As at December 31, 2008, the following equity instruments of the Company were issued and outstanding:

Common Shares: 12,522,143

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:** \$147,760 principal value

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

** The Company has issued various tranches of convertible debentures to related parties for total outstanding value at December 31, 2008, of \$419,989 (\$147,760 principal value and \$272,227 accrued interest). The debentures plus accrued interest are convertible at any time into common shares of the Company at varying conversion rates that were determined at the time of issuance of each tranche. If all the debentures plus accrued interest were converted at the current time, the total number of common shares issued would be 608,135.

Options:^{***} Options to acquire 607,500 common shares

*** The options, having exercise prices ranging from \$0.12 to \$1.05, were granted pursuant to the Company's stock option plan.

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