

Consolidated Financial Statements of

Plaintree Systems Inc.

March 31, 2008
(in Canadian dollars)

PLAINTREE SYSTEMS INC.

MARCH 31, 2008 PRESIDENT'S LETTER TO SHAREHOLDERS.

As you all know, the fiscal year ending March 31, 2008 was a dramatic one for Plaintiff Systems Inc. ("Plaintree" or the "Company"). Senior management was intently focused on the due diligence and planning of the acquisition by Plaintiff of the Triodetic group of companies and Hypernetics Limited, and the subsequent amalgamation of the companies, which was completed on April 1, 2008.

So far, revenue from Plaintiff's historic free space optics product line has failed to reach the level required to support the Company. This prompted Plaintiff to begin to looking at other potential growth markets and after much analysis Plaintiff decided upon the two aforementioned acquisitions, which were related-party transactions.

Hypernetics Limited was a small but exciting manufacturer of avionics and the Triodetic group of companies were world renowned designers and manufacturers of architectural steel and mining covers. Both had long histories of profitability and excellent reputations within their respective arenas.

The "New Plaintiff" is a diversified entity with established product lines and large potential markets and we hope to be able to communicate positive results to you in the upcoming year.

As for Plaintiff's financial performance last year, despite management fees of less than half of that from the previous year and the higher accounting and legal fees resulting from the acquisition and amalgamation, the Company ended the year profitably. This conclusion to fiscal 2008 represents a trend that we certainly hope will continue.

Thank you all for your support,

David Watson
July 18, 2008
CEO

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of
Plaintree Systems Inc.

We have audited the accompanying consolidated balance sheets of Plaintree Systems Inc. as at March 31, 2008 and 2007 and the consolidated statements of income (loss) and comprehensive income (loss), shareholders' deficiency and cash flows for each of the years in the three-year period ended March 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries as at March 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2008, in accordance with Canadian generally accepted accounting principles.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Deloitte + Touche LLP

Chartered Accountants
Licensed Public Accountants
Ottawa, Canada

July 17, 2008

Comments by Auditor on Canada-United States of America Reporting Difference

The standards of the Public Company Accounting Oversight Board (United States) require the addition of an explanatory paragraph when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Although we conducted our audits in accordance with both Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), our report to the Board of Directors and shareholders dated July 17, 2008 is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditors' report when these are adequately disclosed in the financial statements.

Deloitte + Touche LLP

Chartered Accountants
Licensed Public Accountants
Ottawa, Canada

July 17, 2008

PLAINTREE SYSTEMS INC.
Consolidated Financial Statements
March 31, 2008 and 2007
(In Canadian dollars)

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PLAINTREE SYSTEMS INC.

Consolidated Balance Sheets

as at March 31, 2008 and 2007

(in Canadian dollars)

	<u>2008</u>	<u>2007</u>
Current assets		
Cash	\$ 41,949	\$ 34,892
Trade accounts receivable, net of allowance for doubtful accounts of \$nil (2007 - \$nil)	10,901	13,887
Due from Partnership (Note 3)	-	112,061
Inventories (Note 4)	133,140	134,443
Prepaid expenses and other assets	18,173	8,738
Due from related parties (Note 5)	5,103,993	3,744,230
	<u>5,308,156</u>	<u>4,048,251</u>
Investment in Partnership (Note 3)	-	1,700,000
Capital assets, net (Note 6)	97,179	163,683
	<u>\$ 5,405,335</u>	<u>\$ 5,911,934</u>
Current liabilities		
Bank loan (Note 3)	\$ -	\$ 2,000,000
Due to related parties - convertible debentures (Note 7)	1,749,145	1,596,486
Due to related parties - other (Note 8)	4,508,183	3,474,839
Accounts payable and accrued liabilities (Note 9)	495,433	255,817
Deferred revenue	-	2,671
	<u>6,752,761</u>	<u>7,329,813</u>
Shareholders' equity		
Share capital (Note 10)		
Common shares 90,221,634 outstanding; (March 31, 2007 - 90,221,634)	97,561,140	97,561,140
Additional paid in capital	788,259	788,259
Equity component of convertible debentures (Note 7)	943,061	943,061
Deficit	(100,192,811)	(100,263,264)
Accumulated other comprehensive loss	(447,075)	(447,075)
	<u>(1,347,426)</u>	<u>(1,417,879)</u>
	<u>\$ 5,405,335</u>	<u>\$ 5,911,934</u>

APPROVED BY THE BOARD:

PLAINTREE SYSTEMS INC.**Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
for the years ended March 31, 2008, 2007 and 2006
(in Canadian dollars)**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue			
Management services revenue - related party (Note 5)	999,350	\$ 2,014,500	\$ 1,545,750
Product and service revenue	<u>290,351</u>	<u>148,296</u>	<u>145,584</u>
	1,289,701	2,162,796	1,691,334
Cost of revenue			
Cost of services	285,367	575,220	439,875
Cost of products sold	113,463	61,956	56,946
Write down of inventories	<u>3,812</u>	<u>64,116</u>	<u>22,011</u>
	402,642	701,292	518,832
Gross margin	<u>887,059</u>	<u>1,461,504</u>	<u>1,172,502</u>
Operating expenses			
Sales and marketing	393,835	59,463	569,277
Finance and administration (Notes 8)	556,241	181,735	343,521
Research and development	262,614	164,214	324,488
Interest expense (Notes 7 and 8)	92,837	183,847	147,137
Accretion of debt discount (Note 7)	<u>7,384</u>	<u>143,059</u>	<u>373,145</u>
	1,312,911	732,318	1,757,568
Income (loss) from operations	(425,852)	729,186	(585,066)
Gain on sale of investments	55,117	-	-
Partnership income (Note 3)	308,415	516,577	602,130
Other partnership related expenses (Note 3)	-	(59,677)	(83,785)
Bank loan interest (Note 3)	(8,415)	(214,994)	(272,290)
Gain/(loss) on disposal of assets	<u>141,188</u>	<u>(1,340)</u>	<u>9,000</u>
Net income (loss) and comprehensive income (loss)	<u>70,453</u>	<u>969,752</u>	<u>(330,011)</u>
Basic and diluted earnings/(loss) per share (Note 11)	<u>\$0.00</u>	<u>\$0.01</u>	<u>(\$0.00)</u>
Weighted average common shares outstanding - basic	<u>90,221,634</u>	<u>90,221,634</u>	<u>90,221,634</u>
Weighted average common shares outstanding - diluted	<u>108,918,408</u>	<u>107,696,750</u>	<u>90,221,634</u>

PLAINTREE SYSTEMS INC.
Consolidated Statements of Cash Flows
for the years ended March 31, 2008, 2007 and 2006
(in Canadian dollars)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating			
Net income (loss)	\$ 70,453	\$ 969,752	\$ (330,011)
Items not affecting cash:			
Amortization of capital assets	16,832	11,466	11,614
Write-off of inventories	3,812	64,116	22,011
(Gain) Loss on disposal of capital assets	(141,188)	1,340	(9,000)
Gain on sale of investments	(55,117)	-	-
Interest and accretion on convertible debentures	152,659	235,978	373,145
Stock-based compensation expense	-	2,244	59,296
Non-cash partnership income from satisfaction of loan	(300,000)	-	-
Salary and interest deferral (Note 8)	-	-	278,359
Changes in non-cash operating working capital (Note 12)	(1,131,776)	(2,217,907)	(1,437,344)
	<u>(1,384,325)</u>	<u>(933,011)</u>	<u>(1,031,930)</u>
Investing			
Purchases of capital assets	(99,140)	(10,000)	-
Proceeds from disposal of capital assets	290,000	-	9,000
Proceeds from (investment in) partnership	112,061	(62,744)	332
Proceeds from disposal of investments	55,117	-	-
	<u>358,038</u>	<u>(72,744)</u>	<u>9,332</u>
Financing			
Increase in due to related parties	1,033,344	1,086,426	581,067
Proceeds from issuance of convertible debentures	-	-	365,000
Costs related the issuance of convertible debentures	-	-	(2,000)
	<u>1,033,344</u>	<u>1,086,426</u>	<u>944,067</u>
NET CASH (OUTFLOW) INFLOW	<u>7,057</u>	<u>16,555</u>	<u>(78,531)</u>
Cash, beginning of period	<u>34,892</u>	<u>18,337</u>	<u>96,868</u>
Cash, end of period	<u>\$ 41,949</u>	<u>\$ 34,892</u>	<u>\$ 18,337</u>
Supplementary information			
Interest paid	\$ -	\$ -	\$ -
Taxes paid	\$ -	\$ -	\$ -
Portion of partnership distributions paid directly on bank loan	\$ (2,000,000)	\$ 3,900,000	\$ 5,100,000
Reduction of investment in partnership (non-cash)	\$ (1,700,000)	\$ (3,900,000)	\$ (5,100,000)

PLAINTREE SYSTEMS INC.
Consolidated Statements of Shareholders' Deficiency
as at March 31, 2008 and 2007

	Common Shares		Accumulated other Comprehensive Income Adjustment	(Deficit)	Equity component of Convertible Debentures	Additional paid in Capital	Shareholders' (Deficiency)
	Number	Amount					
Balances at March 31, 2005	90,221,634	\$ 97,561,140	\$ (447,075)	\$ (100,903,005)	\$ 845,000	\$ 726,719	\$ (2,217,221)
Equity component of Convertible Debenture (Note 8)					98,061		98,061
Stock-based compensation expense						59,296	59,296
Net loss-Fiscal 2006				\$ (330,011)			\$ (330,011)
Balances at March 31, 2006	90,221,634	\$ 97,561,140	\$ (447,075)	\$ (101,233,016)	\$ 943,061	\$ 786,015	\$ (2,389,875)
Stock-based compensation expense						2,244	2,244
Net income-Fiscal 2007				969,752			969,752
Balances at March 31, 2007	90,221,634	\$ 97,561,140	\$ (447,075)	\$ (100,263,264)	\$ 943,061	\$ 788,259	\$ (1,417,879)
Stock-based compensation expense						-	-
Net income-Fiscal 2008				\$ 70,453			\$ 70,453
Balances at March 31, 2008	90,221,634	\$ 97,561,140	\$ (447,075)	\$ (100,192,811)	\$ 943,061	\$ 788,259	\$ (1,347,426)

See accompanying Notes to the Consolidated Financial Statements

1. DESCRIPTION AND CONTINUATION OF THE BUSINESS

Plaintree Systems Inc. (the "Company" or "Plaintree") provides management services and specializes in developing optical wireless communications equipment for Local Area, Wide Area, Voice, Internet and Security Networks. On April 1, 2008, Plaintree 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 the payment of cash of \$1,500,000, the issuance of 35,000,000 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 the Company 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, Plaintree also amalgamated the businesses of each of Hypernetics and the Triodetic Group of Companies into Plaintree and going forward those businesses will be operated by Plaintree as separate divisions of the Company. The unaudited proforma consolidated revenue and net loss for the year ended March 31, 2008, giving effect to the transaction as between parties under common control as if the transaction occurred April 1, 2007, are \$12,330,599 and \$78,801 respectively.

In addition, 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 Plaintree's largest shareholder. All amounts advanced to Plaintree are payable on demand and bear interest at a rate per annum equal to 2% above the prime lending rate as determined by Targa Group Inc.'s banker. The Credit Facility is secured by a security interest granted over the assets of Plaintree. \$1.5 million of the \$1.8 demand loan has been used by Plaintree to pay to David and Nora Watson the cash portion of the purchase price for the shares of the Triodetic Group of Companies. The balance of the demand loan and the credit line are available for drawdown by Plaintree for general capital working purposes.

In addition, on April 1, 2008, the Company completed a share consolidation by exchanging ten existing shares for every new share issued.

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, there is substantial doubt about the Company's ability to continue as a going concern because of the Company's history of losses and an accumulated deficit of \$100,192,811 as at March 31, 2008. The Company's continued existence is dependent on the success of Hypernetics and the Triodetic Group of Companies and the continued availability of the demand loan and revolving credit from Targa Group until the Company is able to accumulate sufficient capital from its operations.

The Company believes that sales-related efforts of the amalgamated Company will provide sufficient cash flow for it to continue as a going concern in its present form. However, there can be no assurances that the Company will achieve such results. The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These principles conform in all material respects with accounting principles generally accepted in the United States of America except as disclosed in Note 16.

Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. They do not include the accounts of Hypernetics or the Triodetic Group of Companies which were acquired after year end. All significant intercompany accounts and transactions have been eliminated. The Company had a 49% interest in a partnership up to and including a portion of the year ended March 31, 2008 as disclosed in Note 3.

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 estimated realizable value.

Provisions for excess and obsolete inventory are made in the period in which management determines the inventory to be excess or obsolete.

Capital assets

Capital assets are stated at cost. Amortization is provided using the following methods and rates:

Computer and office equipment	3 years straight-line
Furniture and fixtures	20% declining balance basis
Automobile	30% declining balance basis
Building	Straight line over the life of the building
Leasehold improvements	Straight line over the life of lease

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 generally accepted accounting principles are met. Such costs are amortized, commencing when the product is released, over the expected life of the related product. No development costs have been deferred to date.

Revenue recognition and warranties

Revenue from product sales is recorded on shipment provided evidence of an arrangement exists 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. Deferred revenue arises when extended warranty contracts are paid in advance.

Management fees are recognized when management is confident that the terms of the management services agreement with each customer have been satisfied and that management is confident fees will be paid.

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.

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.

Use of accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

CHANGES IN ACCOUNTING POLICIES

In July 2006, the Canadian Institute of Chartered Accountants (CICA) issued a revised section 1506, Accounting Changes. This new section establishes criteria for changes in accounting policies along with the accounting treatment and disclosures required for adoption of new accounting policies, estimates and corrections and errors. The Company adopted this standard for fiscal 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 as 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

Financial instruments (continued)

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 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 April 1, 2007.

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, approximates carrying value. This classification is consistent with the classification under the prior accounting standards.

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 April 1, 2007.

(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 Income (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 year ended March 31, 2008.

(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.

3. INVESTMENT IN PARTNERSHIP AND BANK LOAN

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 obtained a line of credit (bank loan) of \$20,300,000 to finance the acquisition and a restructuring completed at the time. The investment by the Company in the Partnership was completed to provide the Company with a portion of the cash distributions expected to be received from the Partnership, net of repayment of the principle and interest and other partnership related expenses. During the year ended March 31, 2008, a total of \$2,000,000 of distributions was received from the Partnership 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 through the distributions. Bank loan interest of \$8,415 was also incurred and satisfied by the Partnership.

The Buhler Partnership is a general partnership and as such the Company was jointly and severally liable with the other partners of the Partnership for the debts and obligations of the Partnership if the Partnership is unable to satisfy the same, subject to a right of recovery by Plaintiff from the other partners on the basis of their respective ownership interest in the Partnership.

The Company'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. Plaintiff is 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. The Company accounted for the partnership using the equity method whereby net partnership income (loss) increases (decreases) the investment and cash distributions reduce the investment.

4. INVENTORIES

	<u>2008</u>	<u>2007</u>
Raw materials	\$ 67,491	\$ 77,516
Work in process	41,886	-
Finished goods	23,763	56,927
	<u>\$ 133,140</u>	<u>\$ 134,443</u>

The Company wrote down its inventories by \$3,812 in fiscal 2008 (2007 - \$64,116) to reflect its estimated realizable value.

5. DUE FROM RELATED PARTIES

Due from related parties consists of accounts receivable for management consulting services to Triodetics, which is owned by the same individual that controls Targa Group Inc. ("Targa"), the Company's largest shareholder, and management consulting fees and a loan receivable from Hypermetics, a subsidiary of Targa, including interest.

Due from related parties totalled \$5,103,993 (2007 - \$3,744,230) at March 31, 2008 including management fees of \$426,600 (2007 - \$1,212,598) and loans totaling \$4,677,393 (2007 - \$2,531,631) as at March 31, 2008 including interest of \$505,355 (2007 - \$156,383) which accrues at 10% per annum.

During the year ended March 31, 2008, a total of \$999,350 (2007 - \$2,014,500) of management consulting fees was charged at the agreed exchange amount to these related companies.

The balances are due from related parties on demand.

6. CAPITAL ASSETS

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer and office equipment	\$ 649,148	\$ 604,133	\$ 45,015	\$595,346	\$595,315	\$ 32
Furniture and fixtures	4,230	3,997	233	28,439	26,659	1,780
Automobile	10,000	2,805	7,195	10,000	250	9,750
Land and building	-	-	-	218,672	66,551	152,121
Leasehold improvements	45,337	601	44,736	-	-	-
	\$ 708,715	\$611,536	\$97,179	\$ 852,457	\$688,775	\$ 163,683

During the year ended March 31, 2008, the Company sold its land and building located in Arnprior, Ontario for proceeds of \$290,000. Subsequent to the sale, the Company moved to leased premises also located in Arnprior in a building that is owned by a related party.

7. DUE TO RELATED PARTIES – CONVERTIBLE DEBENTURES

The Company has issued outstanding tranches of convertible debentures to related parties as follows:

Date of Issue	Face Value	Conversion Factor	Components at Date of Issue	
			Debt	Equity
December 2003	\$ 900,000	\$ 0.115	\$ 275,000	\$ 625,000
February 2005	220,000	0.065	-	220,000
April 2005	220,000	0.110	174,414	45,586
June 2005	145,000	0.040	92,525	52,475
	\$ 1,485,000		\$ 541,939	\$ 943,061

The debentures are convertible into common shares of the Company at the holder's option at any time. They become due and payable two years from the date of issue at which point interest will begin to accrue at 10% on any unpaid balances. 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.

The Company determined the value of the debt and equity components of the Convertible Debentures in accordance with the substance of the contractual arrangement. The equity component representing the fair value of the holder's conversion option, is determined using the Black-Scholes option pricing model and is recorded as a separate component of equity.

Balance of convertible debentures debt outstanding as at March 31, 2008 and 2007 is as follows:

Face Value	Convertible Debt Balance as at March 31, 2007	Accretion of Debt Discount in fiscal 2008	Accrued Interest	Convertible Debt Balance as at March 31, 2008
\$ 900,000	\$ 1,015,951	\$ -	\$ 90,000	\$ 1,105,951
220,000	222,918	-	22,000	244,918
220,000	219,172	828	21,193	241,193
145,000	138,445	6,556	12,082	157,083
\$ 1,485,000	\$ 1,596,486	\$ 7,384	\$ 145,275	\$ 1,749,145

7. DUE TO RELATED PARTIES – CONVERTIBLE DEBENTURES (continued)

Face Value	Convertible Debt Balance as at March 31, 2006	Accretion of Debt Discount in fiscal 2007	Accrued Interest	Convertible Debt Balance as at March 31, 2007
\$ 900,000	\$ 925,951	\$ -	\$ 90,000	\$ 1,015,951
220,000	125,973	94,026	2,919	222,918
220,000	196,379	22,793	-	219,172
145,000	112,205	26,240	-	138,445
\$ 1,485,000	\$ 1,360,508	\$ 143,059	\$ 92,919	\$ 1,596,486

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

8. OTHER RELATED PARTY TRANSACTIONS

During fiscal 2008, total rent expense of \$27,428 (2007 - \$12,000; 2006 - \$12,000) was incurred to companies controlled by Targa for office and manufacturing space and storage services. An amount \$51,428 remained unpaid at March 31, 2008. These transactions were made in the normal course of business and have been recorded at the exchange amounts.

During the year ended March 31, 2007 the Company acquired an automobile from the Chief Executive Officer of the Company at a cost of \$10,000. This transaction was recorded at the estimated fair value of the asset.

Fiscal 2008 interest expense of \$92,837 (2007 - \$183,847; 2006 - \$147,137) is primarily interest on related party balances as described in Note 7.

In August 2005, the Company obtained a Loan ("2005 Loan") from an affiliate of Targa of \$425,000. The 2005 Loan is payable on demand and earns interest at a rate of 10% per annum. Additional amounts were provided on the 2005 Loan during the period ending March 31, 2006. The 2005 Loan is secured by an already existing General Security Agreement over Plaintiff's assets. As of March 31, 2008, \$1,719,728 (2007 - \$1,221,389) had been advanced with interest accrued to date of \$266,732 (2007 - \$127,545) for a total payable of \$1,986,460 (2007 - \$1,348,934). This amount is included in due to related parties - other.

On November 19, 2003, the Board of Directors of the Company agreed to accept a Loan ("Loan") from Targa, its largest shareholder, of \$500,000 (net of related fees). The Loan is payable on demand and earns interest at a rate of prime plus 5% per annum. The Loan is also secured by an already existing General Security Agreement over Plaintiff's assets. As of March 31, 2008, the total Loan amount outstanding was \$445,198 (\$310,386 principal plus \$134,812 of accumulated interest); 2007 - \$410,927 (\$310,386 principal plus \$100,541 of accumulated interest). This amount is included in due to related parties - other.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears including interest of \$98,567 (2007 - \$80,971) owing to this related party amounted to \$317,375 (2007 - \$299,779). 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 March 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. During fiscal 2008, a portion of these fees and salaries, amounting to \$126,000 (2007 - \$92,000), was paid to the senior officers. At March 31, 2008, these fees and salaries to senior officers of the Company, who are also majority shareholders of Targa, amounted to \$1,436,847 (2007 - \$1,212,847), plus interest charges of \$310,243 (2007 - \$202,352) for a total payable of \$1,747,090 (2007 - 1,415,199). These amounts are included in due to related parties - other.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	2008	2007
Accounts payable	\$ 122,069	\$ 11,288
Accrued liabilities	349,995	229,858
Salaries and benefits payable	23,369	14,671
	\$ 495,433	\$ 255,817

10. SHARE CAPITAL

Authorized

Unlimited number of preferred shares, issuable in series

Series I: 7% cumulative dividend payable in cash or, subject to applicable law and stock exchange approval, common shares; semi-annually on the 30th day of May and November of each year; redeemable at the option of the Company and retractable at the option of the holder at \$1,000 per share after November 21, 2002 or on the occurrence of a merger event; amounts due for redemption or retraction may be converted to common shares at the option of the Company

Series II: 7% cumulative dividend payable in cash or, subject to applicable law and stock exchange approval, common shares; semi-annually on the 30th day of May and November of each year; redeemable at the option of the Company and retractable at the option of the holder at \$1,000 per share after June 3, 2003 or on the occurrence of a merger event; amounts due for redemption or retraction may be converted to common shares at the option of the Company; voting.

On April 1, 2008, the Series I and II shares described above were deleted and the following were established:

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

Stock option plans

The Company's Stock Option Plan allows the Company to grant options to officers and service providers to a maximum number of 12,000,000.

The Company also has a separate 1993 stock option plan for key employees and directors. No further options are eligible for grant under the 1993 plan.

Options under the stock option plans may not expire later than 10 years from the date of grant and the exercise price may not be less than the latest closing price of the common shares on the last trading day preceding the date of grant. Eligibility is determined by the Company's Board of Directors and the aggregate number available for issuance to any one person may not exceed 5% of the issued and outstanding common shares.

Activity in the stock option plan is summarized as follows:

	Number of Options	Option Price	Weighted Average Option Price
Options outstanding March 31, 2005	11,270,000	\$ 0.08-\$2.31	\$0.22
Cancelled during fiscal 2006	(2,550,000)	\$ 0.08-\$0.12	\$0.09
Expired	(110,000)	\$ 0.72	\$0.72
Options outstanding March 31, 2006	8,610,000	\$ 0.08-\$2.31	\$0.19
Expired during fiscal 2007	(635,000)	\$ 0.29-\$0.51	\$0.33
Options outstanding March 31, 2007	7,975,000	\$ 0.08-\$2.31	\$0.17
Cancelled during fiscal 2008	(5,800,000)	\$ 0.08-\$0.11	\$0.10
Options outstanding March 31, 2008	2,175,000	\$ 0.08-\$2.31	\$0.36

Additional information regarding options outstanding as of March 31, 2008 is as follows:

Range of Exercise Prices	Options Outstanding and Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$0.08	100,000	2.4	\$0.08
\$0.11	1,575,000	0.6	\$0.11
\$0.12	250,000	1.2	\$0.12
\$2.31	250,000	0.1	\$2.31
\$0.08 - \$2.31	2,175,000	0.7	\$0.36

10. SHARE CAPITAL (continued)

On March 31, 2008, the CEO and President returned to the Company for cancellation 3,000,000 options and the Chairman of the Board of Directors returned 2,800,000 options to the Company for cancellation.

The stock-based compensation expense of \$NIL (2007- \$2,244, 2006 - \$59,296) included in general and administrative expenses in fiscal 2007 was determined using the fair value method, consistent with the requirements of CICA 3870. This was calculated using a Black-Scholes option pricing model which indicates a weighted average fair value for options granted in the year of \$0.05 per option in fiscal 2005 (2004 - \$0.09). The fair value is estimated on the date of grant.

No options were granted in 2006, 2007 or 2008.

11. BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per share has been calculated on the basis of net earnings (loss) divided by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per common share is calculated by dividing the applicable net 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.

For the year ended March 31, 2006 presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of options and convertible instruments. For the year ended March 31, 2008, the diluted weighted average common shares outstanding include 18,696,774 (2007 - 17,475,116) dilutive common shares from the potential conversion of the debentures. The outstanding number and type of securities that could potentially dilute basic net earnings (loss) per share in the future are as follows:

	<u>2008</u>	Year ended March 31, 2007	<u>2006</u>
Employee and other options	7,975,000	7,975,000	8,610,000
Convertible debentures	19,294,234	17,888,869	17,061,363
Total	27,269,234	25,863,869	25,671,363

12. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	<u>2008</u>	2007	2006
Trade accounts receivable	\$ 2,986	\$ (11,820)	\$ 17,908
Due from related parties	(1,359,763)	(2,187,521)	(1,556,709)
Inventories	(2,509)	(3,119)	24,373
Prepaid expenses and other assets	(9,435)	4,124	10,341
Accounts payable and accrued liabilities	239,616	(15,152)	69,139
Deferred revenue	(2,671)	(4,419)	(2,396)
	\$ (1,131,776)	\$ (2,217,907)	\$ (1,437,344)

13. BUSINESS SEGMENT INFORMATION

The Company's chief decision maker, the Chief Executive Officer, tracks the Company's operations as principally one business segment - the design, development, manufacture, marketing and support of computer networking products. The Company from time to time provides management services primarily to related companies. The revenue and cost of sales related to these services are presented on the statement of operations. No other expenses or assets are attributable to this segment.

The Company determines the geographic location of revenues based on the location of its customers. All of the Company's assets are primarily located in Canada.

13. BUSINESS SEGMENT INFORMATION (continued)

Revenue by geographic location

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Management services revenue			
Canada	\$ 999,350	\$ 2,014,500	\$ 1,545,750
Product revenue			
Canada	19,250	40,838	19,222
United States	131,151	50,912	60,639
Europe	-	10,824	27,000
Other	139,950	45,722	38,722
	290,351	148,296	145,584
Total revenue	\$ 1,289,701	\$ 2,162,796	\$ 1,691,334

All of the management services revenue relates to one related party.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Number of customers	2	3	2
% of total revenue	33	56	20

14. INCOME TAXES

(a) Investment tax credits

At March 31, 2008, the Company has approximately \$584,000 (2007 - \$584,000) of investment tax credits, relating primarily to research and development, available to reduce future year's Canadian federal income taxes. These potential benefits expire as follows:

2011	240,000
2012	344,000
	\$ 584,000

(b) Tax losses available to carryforward

The Company has losses available to reduce future years' Canadian federal taxable income totaling approximately \$7,787,000. These potential benefits expire as follows:

	<u>Federal</u>
2009	2,303,000
2010	3,395,000
2011	2,180,000
	\$ 7,787,000

(c) Research and development deductions

The Company has claimed less research and development expenses for income tax purposes than has been reflected in the financial statements. These unclaimed expenses total approximately \$20,593,000 (2007 - \$20,593,000; 2006 - \$20,593,000) for Canadian federal and provincial income tax purposes. These are available without expiry to reduce future years' taxable income.

The potential future benefits associated with the investment tax credits, tax losses, and unclaimed research and development expenses have not been reflected in these financial statements.

Current federal and provincial tax law in Canada includes provisions limiting the annual use of net operating loss and credit carry forwards in the event of certain defined changes in stock ownership. Accordingly, the annual use of the Company's net operating loss and credit carryforwards could be limited according to these provisions in the event of certain changes in stock ownership.

14. INCOME TAXES (continued)

The provision for income taxes reported differs from the amount computed by applying the Canadian statutory rate to the income (loss) before income taxes for the following reasons:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutory income tax rate (Canada)	<u>36.12%</u>	<u>36.12%</u>	<u>36.12%</u>
Expected income tax expense (recovery)	\$25,448	\$350,274	\$(119,200)
Reversal of temporary differences, the benefit of which are not recorded	(106,860)	(45,230)	(35,232)
Benefit of utilization of losses not previously recorded	(820,215)	(1,874,270)	(1,773,058)
Other permanent differences	<u>901,627</u>	<u>1,569,226</u>	<u>1,927,490</u>
Reported income tax provision	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The sources of accumulated temporary differences and the related future income taxes as at March 31 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Accounting amortization in excess of tax	\$ 2,264,000	\$ 2,612,000	\$ 3,983,000
Research and development expenses not deducted for tax purposes	6,387,000	7,268,000	9,109,000
Losses available to offset future income taxes	<u>2,283,000</u>	<u>4,146,000</u>	<u>5,564,000</u>
Future income tax assets before valuation allowance	10,934,000	14,026,000	18,656,000
Less valuation allowance	<u>(10,934,000)</u>	<u>(14,026,000)</u>	<u>(18,656,000)</u>
Future income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

15. GUARANTEES, COMMITMENTS AND CONTINGENCIES

Guarantees

The Company has entered into agreements that contain features which meet the definition of a guarantee under Canadian Accounting Guideline (AG) 14 and U.S. FASB Interpretation (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness or Others*. The pronouncements define a guarantee to be a contract that contingently requires the Company to make payments (either in cash, financial instruments, other assets, common shares of the Company or through the provision of services) to a third party based on changes in an underlying economic characteristic (such as interest rates or market value) that is related to an asset, a liability or an equity security of the other party. The Company has the following guarantee that is subject to the disclosure requirements FIN 45:

Product warranties

As part of the normal sale of product, the Company provides its customers with standard one year product warranties and from time to time it sells separately priced extended warranties. The Company currently has parts only warranty obligations that are included with the normal sale of the product. Given the history of nominal warranty parts replacement, the Company has recognized the revenue relating to warranties upon the original product revenue recognition with no obligation included in liabilities.

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

	Payments due by period		
	Total	Less than 1 year	1-3 Years
Due to related parties – convertible debentures	1,749,145	1,749,145	-
Due to related parties – other	4,508,183	4,508,183	-
	<u>6,257,328</u>	<u>6,257,328</u>	<u>-</u>

15. GUARANTEES, COMMITMENTS AND CONTINGENCIES (continued)

Facilities

During the year ended March 31, 2008, Plaintiff sold its existing building in Arnprior, Ontario. The Company has been occupying approximately 2,000 square feet of office space for \$2,000 per month owned by the Triodetic Group of Companies (see Note 1). As a result of the Acquisition described in Note 1, the land and buildings owned by the Triodetic Group of Companies provides sufficient space to support the operations of the post acquisition company.

16. RECONCILIATION TO UNITED STATES GAAP

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The following adjustments would be required in order to present the financial statements in accordance with United States generally accepted accounting principles (US GAAP).

Under US GAAP, the net loss and loss per common share figures for the years ended March 31, 2008, 2007 and 2006 and the shareholders' deficiency as at March 31, 2008, 2007 and 2006 would be adjusted as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Canadian GAAP net income /(loss)	\$ 70,453	\$ 969,752	\$ (330,011)
Adjustment to operating expenses relating to accretion of debt discount (a)	7,384	49,032	41,645
US GAAP net income (loss)	<u>\$ 77,837</u>	<u>\$ 1,018,784</u>	<u>\$ (288,366)</u>
Basic and diluted earnings (loss) per share based on US GAAP	\$ 0.00	\$ 0.01	\$ (0.00)
	Shareholders' deficiency		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Canadian GAAP	\$ (1,347,428)	\$ (1,417,879)	\$ (2,389,875)
Adjustment to operating expenses relating to accretion of debt discount (a)	-	(7,384)	(56,416)
US GAAP	<u>\$ (1,347,428)</u>	<u>\$ (1,425,263)</u>	<u>\$ (2,446,291)</u>

(a) *Accounting for convertible debentures*

Under US GAAP, the convertible debentures issued in April 2005 and June 2005 would not be bifurcated into their debt and equity components. Accordingly, under US GAAP, the due to related parties - convertible debentures would increase by \$Nil (2007 \$7,384, 2006 \$56,416), accretion of debt discount, operating expenses, loss from operations, net loss, and deficit would decrease by \$7,384 (2007 - \$49,032, 2006 - \$41,645), and equity component of convertible debentures would decrease by \$98,061 (2007 - \$98,061, 2006 - \$98,061).

(b) *Accounting for stock-based compensation*

Under Canadian GAAP, the Corporation accounts for its stock option plan in accordance with CICA 3870 which requires entities to account for employee stock options using the fair value based method, where compensation cost is measured at fair value at the date of grant and is expensed over the stock-based awards vesting period. This method is substantially consistent for the periods presented with Statement of Financial Accounting Standards No. 123R, Accounting for Stock-Based Compensation.

(c) *Changes in Accounting Policy Under US GAAP:*

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes," which is an interpretation of SFAS No. 109, "Accounting for Income Taxes". FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from SFAS No. 5, "Accounting for Contingencies". FIN 48 is effective for fiscal years beginning after December 15, 2006. The Corporation implemented this interpretation in fiscal 2007, with no significant impact due to its history of tax losses.

(d) *Future Accounting Pronouncements Under US GAAP:*

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosure about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Corporation is currently analyzing the effect, if any, SFAS No. 157 will have on its consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115." SFAS No. 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. Unrealized gains and losses on these items will be reported in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument (with a few exceptions), is irrevocable and is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. This

16. RECONCILIATION TO UNITED STATES GAAP (continued)

Statement is required to be adopted by the Corporation in the first quarter of its fiscal year 2009. The Corporation is currently assessing the impact of the adoption of this Statement.

In December 2007, the FASB revised SFAS No. 141R, "Business Combinations." This revision establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measure the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement is required to be adopted by the Corporation for business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning on or after December 15, 2008. The Corporation is currently assessing the impact of the adoption of this Statement.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51." SFAS No. 160 establishes accounting and reporting standards for noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Corporation is currently assessing the impact of the adoption of this Statement.

17. FINANCIAL INSTRUMENTS

Concentration of credit risk

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of trade accounts receivables. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Maximum credit risk is limited to the balance in Trade Receivables. As of March 31, 2008, trade receivables were comprised of two companies comprising of 57% and 43% (2007 – two companies, 51% and 45%) of trade receivables.

Interest risk

The Company is financed through loans from related parties and a bank loan which bears interest at rates tied to the Canadian bank prime rate. Consequently, the Company is exposed to the risk of increases in the prime rate.

Foreign Currency Risk

There is a risk to the Company's earnings that arises from fluctuations in foreign exchange rates, and the degree of volatility of these rates. The Company's financial results are reported in Canadian dollars. The Company's exposure to foreign currency risk is primarily related to fluctuations in the Canadian dollar relative to that of the US dollar.

Fair values

The carrying amounts for cash, trade accounts receivable, due from partnership and accounts payable and accrued liabilities approximate fair value due to the short maturity of these instruments or the terms of the instrument. The carrying amount for the bank loan approximated fair value as the interest rate was reflective of rates currently available for similar debt.

The fair values of amounts due to and due from related parties are not determinable as comparable arm's length debt are not available.

18. RECENT ACCOUNTING PRONOUNCEMENTS

The CICA has issued new accounting pronouncements for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments – Disclosure and Section 3863 – Financial Instruments – Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Company is exposed. Management is evaluating the impact these new standards will have on its financial statements.

Section 1535 – Capital Disclosures have been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. Management is evaluating the impact this new standard will have on its financial statements.

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. Management does not expect these changes to have an impact on its financial statements.

The CICA has also issued Section 3031, Inventories, which will replace Section 3030, Inventories. The new standard prescribes the accounting treatment for inventories, providing guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to realizable value. It also establishes standards for presentation and disclosure of inventories. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after January 1, 2008. Management is evaluating the impact this new standard will have on its financial statements.

The CICA has also issued Section 3064, Goodwill and Intangible Assets, which will replace Section 3062, Goodwill and Intangible Assets. The new standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is evaluating the impact this new standard will have on its financial statements.

The CICA plans to converge Canadian GAAP with IFRS (International reporting standards) over a transition period expected to end in 2011. The Company has not yet determined the impact these standards will have on its financial statements.

PLAINTREE SYSTEMS INC.

For the years ended March 31, 2008, 2007 and 2006

Date – July 18, 2008

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 (“MD&A”) principally through the Audit Committee, which is comprised exclusively of independent directors. The Chief Executive Officer and Chief Financial Officer have both certified that they have reviewed the financial statements and this MD&A (“the Filings”). Based on their knowledge, the Filings do not contain any untrue fact or omit any material fact and present fairly Plaintiff’s financial position, results of operations and cash flows. Plaintiff’s 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.

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintiff for the years ended March 31, 2008, 2007 and 2006 should be read in conjunction with the 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 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 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 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 develops and manufactures the WAVEBRIDGE series of free space optical 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.

Plaintree generated additional revenue during the year by providing management consulting services to related parties. The Company has also earned income from its investment in a general partnership. The partnership arrangement was intended to provide Plaintree with income distributed from the partnership's net earnings subject to predetermined maximum amounts distributed. Plaintree has received its maximum aggregate net distribution of \$1,400,000 and it no longer has any right to future distributions from the partnership.

On April 1, 2008 subsequent to its fiscal 2008 year end, 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").

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 Triodetic Group of Companies, with over 40 years of experience, was 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.

The total purchase price of \$20 million for both Hypernetics and 4439112 Canada Inc. was paid by the Company by the combination of \$1,500,000 cash, the issuance of 35,000,000 pre-consolidation common shares of the Company and the issuance of 18,325 class A preferred shares of the Company. Following the Acquisition, Hypernetics and 4439112 Canada Inc., including all wholly-owned subsidiaries, except for their US incorporated subsidiaries, were amalgamated into Plaintree. The businesses of Hypernetics and the Triodetic Group of Companies are now being operated as separate divisions of Plaintree.

Concurrent with the Acquisition, Targa Group Inc., a company controlled by William David Watson II and Nora Watson and Plaintree's largest shareholder, provided a credit facility of up to \$2.8 million to Plaintree, consisting of (a) a demand loan of \$1.8 million; and (b) a revolving \$1 million credit line. All amounts advanced to Plaintree are payable on demand and bear interest at a rate per annum equal to 2% above the prime lending rate of the Company's banker as from time to time determined. The credit facility is secured by a security interest granted over the assets of Plaintree. \$1.5 million of the \$1.8 demand loan was used to pay the cash portion of the purchase price for the shares of the Triodetic Group of Companies to William David Watson II and Nora Watson.

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

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

entitled to cumulative dividends of 8% per year, are redeemable at any time at the option of Plaintiffree and have liquidation preference of the redemption value plus cumulative dividends in priority to the common shares;

(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.

The Company's common shares are quoted on 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 conform 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 Fiscal 2008 Statements do not include the accounts of Hypernetics or the Triodetic Group of Companies because the Acquisition occurred subsequent to the periods presented in the Fiscal 2008 Statements.

As stated in Note 1, the Fiscal 2008 Statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, there is substantial doubt about the Company's ability to continue as a going concern because of the Company's history of losses and an accumulated deficit of \$100,192,811 as at March 31, 2008. The Company's continued existence is dependent upon the success of the Hypernetics and the Triodetic business divisions and its ability to raise additional capital, to increase sales and become profitable and the continued availability of the demand loan and revolving credit from Targa Group Inc. until the Company is able to accumulate sufficient capital from its operations.

The Company believes that sales-related efforts of the amalgamated Company will provide sufficient cash flow for it to continue as a going concern in its present form. However, there can be no assurances that the Company will achieve such results. The Fiscal 2008 Statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

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

The following table sets forth selected financial information from the Company's Fiscal 2008 Statements:

Statement of Operations Data

(\$000s, except per share data)

Fiscal Years ended March 31,

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue	\$ 1,290	\$ 2,163	\$ 1,691
Operating income (loss)	(426)	729	(585)
Net income (loss)	70	970	(330)
Basic and diluted loss per share	\$ 0.00	\$ 0.01	\$ 0.00

Balance Sheet Data

(\$000s)

As at March 31

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total assets	\$ 5,405	\$ 5,912	\$ 7,543
Total liabilities	6,753	7,330	9,933
Long-term liabilities	Nil	Nil	Nil
Cash dividends declared per share	Nil	Nil	Nil

Buhler Partnership Investment

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 obtained a line of credit (bank loan) of \$20,300,000 to finance the acquisition and restructuring completed at the time. The investment by Plaintiffree in the Partnership was completed to provide Plaintiffree 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. Plaintiffree'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 and the Partnership has now distributed to Plaintiffree this amount. Plaintiffree 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 partner. In addition, the bank loan and all related expenses have been fully satisfied.

During the year ended March 31, 2008, the investment in the Partnership was reduced by \$1,700,000. A total of \$2,000,000 of distributions was received in the year ended March 31, 2008 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.

See "Partnership Income, Other partnership related expenses and Bank loan interest" for further information.

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

Results of Operations

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

	Fiscal Year			Change from Fiscal	
	2008	2007	2006	2007 to 2008	2006 to 2007
Management services revenue – related party	\$ 999	\$ 2,014	\$ 1,546	\$(1,015)	\$ 468
Product and service revenue	289	148	146	141	2
Total revenue	1,290	2,162	1,692	(872)	470
Cost of revenue	403	701	519	(298)	182
Gross margin	887	1,461	1,173	(574)	288
	68.8%	67.6%	69.3%	1.2%	(1.7)%
<i>Operating expenses:</i>					
Sales & marketing	394	59	569	335	(510)
Finance & administration	556	182	345	374	(163)
Research & development	263	164	324	99	(160)
Interest and accretion	100	327	520	(227)	(193)
	1,313	732	1,758	581	(1026)
Income (Loss) from operations	(426)	729	(585)	(1,155)	1,314
Gain on sale of investments	55	-	-	55	55
Partnership income	308	517	602	(209)	(85)
Other partnership expenses	-	(60)	(84)	60	24
Bank loan interest	(8)	(215)	(272)	206	57
Gain/(loss) on disposal of assets	141	(1)	9	142	(10)
Net income (loss)	\$ 70	\$ 970	\$ (330)	\$ (900)	\$ 1,300
Basic and diluted income (loss) per share	\$ 0.00	\$ 0.01	\$ 0.00		

Revenues

Management services revenue from related parties

Management services revenue was earned by providing and charging for the services of certain Plaintiffree management under an arrangement with a company owned by a significant shareholder of Plaintiffree. Management services revenue decreased from \$2,014,500 in 2007 to \$999,350 in 2008. These services are provided as requested by the related party and the arrangement is cancelable at any time. There is no assurance that the Company will continue to earn this revenue going forward.

Product and service revenue

Total product and service revenue for fiscal 2008 was \$290,351 compared to \$148,296 in fiscal 2007 and \$145,584 in fiscal 2006. Product and service revenue increased from fiscal 2007 to fiscal 2008 and remained relatively constant between fiscal 2007 and 2006. Continued weak demand for telecommunications and wireless products has resulted in revenues being below expectations.

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

Gross Margin

Total gross margin from management services revenue, from related parties, and product and service revenue for fiscal 2008 was \$887,059 or 68.8% compared to \$1,461,504 or 67.6% in fiscal 2007 and 1,172,502 or 69.3% in fiscal 2006. The gross margin for 2008 consists of a margin on management services to related parties of \$713,983 or 71.4% of management services revenue and a margin on product and services revenue of \$173,076 or 59.6% of sales. The gross margin on management services revenue consists of revenues earned less direct employee salaries and benefits. This margin for related party management services has remained consistent and is not expected to change significantly.

Gross margins related to product sales, not including write-offs, in the fiscal 2006-2008 periods have been relatively constant around 60%. However, the margins have been reduced by additional write-offs of \$22,011, \$64,116 and \$3,812 incurred in each of fiscal 2008, 2007 and 2006.

Operating Expenses

Sales and marketing expenses

Sales and marketing expenses were \$393,835, \$59,463, and \$569,277 for fiscal 2008, 2007 and 2006, respectively. These expenses consisted primarily of personnel and related costs associated with the Company's sales and marketing departments, which include sales commissions, advertising, travel, trade shows and other promotional activities.

The fluctuation in sales and marketing expenses mainly relates to costs that have been allocated to the cost of services for employee costs incurred that are attributable to management services revenue charged to related parties. Additionally, measures were taken in the second half of fiscal 2006 to reduce costs through headcount and salary reductions. These measures affected the second half of fiscal 2006 and all of 2007 and 2008.

Finance and administration expenses

Finance and administrative expenses were \$556,241, \$181,735, and \$343,521 in fiscal 2008, 2007 and 2006, respectively. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which include financial staff, legal and audit activities as well as the amortization of capital assets.

Finance and administrative expenses as a total increased by \$374,506 during fiscal 2008 compared to fiscal 2007 and decreased in fiscal 2007 by \$161,786 compared to fiscal 2006. The fluctuations in finance and administration expenses from 2006 to 2007 and from 2007 to 2008 relate to costs that have been allocated to the cost of services related to employee costs incurred that are attributable to management services revenue charged to related parties. These charges were higher in fiscal 2007.

Research and development expenses

Research and development expenses were \$262,614, \$164,214, and \$324,488 in fiscal 2008, 2007 and 2006, respectively. Research and development expenditures consist primarily of

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software and hardware engineering, personnel expenses, subcontracted research and development costs and costs associated with equipment and facilities.

The increase in research and development expense from fiscal 2007 to fiscal 2008 relates to utilization of available resources from manufacturing to development efforts.

Interest and accretion

Interest and accretion expenses consist of amortization of the discount on the debt portion of convertible debentures plus interest expense. Interest expense mainly relates to interest incurred on related party debt and lease arrears.

Amortization of discount on the convertible debentures that resulted from the fair value assigned to the equity component of convertible debentures was \$7,384 during 2008, \$143,059 during 2007, and \$373,145 during 2006 (see Note 7 to the Fiscal 2008 Statements). The amortization of discount on the convertible debentures has gradually decreased as the convertible debentures reached maturity and ceased altogether in fiscal 2008 as all the convertible debentures have reached maturity. Interest expense was \$92,837, \$183,847, and \$147,137 in fiscal 2008, 2007 and 2006, respectively. Interest expense has decreased as the loans from Hypernetics and the Triodetic Group of Companies (related to management fees) accrue interest earned offsetting accrued interest expense on matured convertible debentures and other related party loans.

Other income (loss)

Other income (loss) reflected a gain of \$141,188 in fiscal 2008, a loss of \$1,340 in fiscal 2007 and a gain of \$9,000 in fiscal 2006 resulting from the sale of Company assets.

Partnership income, other partnership related expenses and Bank loan interest

In fiscal 2008, the Company recorded Partnership income allocations of \$308,415 (2007 - \$516,577, 2006 - \$602,130). Also recorded was bank loan interest of \$8,415 (2007 - \$214,994, 2006 - \$272,290) and other Partnership related expenses of \$nil (2007 - \$59,677, 2006 - \$83,785). In fiscal 2008, the Company ceased to be a partner and will receive no further income and incur no further expense related to the Partnership. See "Buhler Partnership Investment" for further information.

Net Loss

The net income for fiscal 2008 was \$70,453 or \$0.00 per share compared to net income for fiscal 2007 of \$969,752 or \$0.01 per share and compared to a net loss for fiscal 2006 of \$330,011 or \$0.00 per share. The shift to net income in 2007 and 2008 from a net loss in 2006 relates to the management services revenue charged to related parties and cost reduction measures. The decline in net income from management consulting fees in 2008 from 2007 was primarily due to management's concentration on the subsequent acquisitions of Hypernetics and the Triodetic Group of Companies. Added legal and accounting fees associated with the due diligence also contributed to the overall lower net income.

Quarterly Results

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

The following table sets out selected unaudited consolidated financial information for each quarter in fiscal 2008 and fiscal 2007:

Quarters ended

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

	Fiscal 2008				Fiscal 2007			
	Jun 30 <u>2007</u>	Sept 30 <u>2007</u>	Dec 31 <u>2007</u>	Mar 31 <u>2008</u>	Jun 30 <u>2006</u>	Sept 30 <u>2006</u>	Dec 31 <u>2006</u>	Mar 31 <u>2007</u>
Revenue	\$573	\$136	\$95	\$486	\$540	\$528	\$556	\$539
Income (Loss) from operations	243	(315)	(332)	(22)	138	221	260	110
Net income (loss)	543	(114)	(332)	(27)	147	275	337	211
Net income (loss) per share-basic and diluted	\$0.01	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Fourth quarter of fiscal 2006

During the fourth quarter of fiscal 2007, revenue was approximately \$486,000 and the net loss was approximately \$27,000. Income/(loss) from operations and net income/(loss) for the each of the quarters in fiscal 2008 varied based on management services charged to related parties. These services are provided and charged as needed by the related parties. These fees have effectively ceased subsequent to the Acquisition described in the Overview Section.

Liquidity and Capital Resources

(\$000s)	Fiscal Year		Change from Fiscal
	<u>2008</u>	<u>2007</u>	<u>2007 to 2008</u>
Cash	\$ 42	\$ 35	\$ 7
Working Capital	(1,445)	(3,282)	1,837
<i>Net cash provided by (used in):</i>			
Operating activities	(1,384)	(933)	(451)
Investing activities	358	(73)	431
Financing activities	1033	1,086	(53)

Cash

As at March 31, 2008, the Company held \$41,949 in cash, an increase of \$7,057 from March 31, 2007.

Working Capital

Working capital represents current assets less current liabilities. As at March 31, 2008, the Company had a working capital deficit of \$1,444,605 compared to a working capital deficit of \$3,281,562 at March 31, 2007. The decrease in the working capital deficit was primarily a result of the reduction in the bank loan by \$2,000,000. The most significant portion of the working capital deficiency of \$3,281,562 as at March 31, 2007 related to the bank loan balance of \$2,000,000 obtained to invest in the Partnership.

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

Cash used in Operating activities

Cash used in operating activities for fiscal 2008 was \$1,384,325 representing an increase of approximately \$451,314 from the \$933,011 in fiscal 2007 which was relatively constant from \$1,031,930 in fiscal 2006. The increased use of cash in operating activities mainly relates to the accumulation of related party receivables offset by the net income in 2008 and 2007 and the decreased loss in 2006. Also observed in 2008 was non-cash Partnership income realized upon satisfaction of the bank loan outstanding.

Cash provided by (used in) Investing activities

Cash provided by investing activities for fiscal 2008 of \$358,038 relates to the sale of the Company's land and building, proceeds from investment in partnership and other investments offset by the purchase of assets totaling approximately \$99,000. In fiscal 2007, cash used in investing activities of \$73,000 relates to the purchase of capital assets and an increase in the amount due from partnership, compared to cash provided of \$9,000 for fiscal 2006 resulting from the sale of capital assets.

Cash provided by Financing activities

Cash provided by financing activities for fiscal 2008 was \$ 1,033,344 compared to cash provided by financing activities of \$1,086,426 of the prior fiscal year and \$944,067 in fiscal 2006. Cash provided by financing activities mainly relate to proceeds from related parties, including \$365,000 of convertible debentures issued in fiscal 2006.

Outlook

The Company's legacy products are not currently producing sufficient revenue to sustain the continuing operations of the Company. The Company has been earning management services revenue from related parties and earning income from its investment in the Partnership to mitigate its losses and provide capital to continue operations. The requisition of additional management services is at the discretion of the related party with no minimum commitment and the services, and related income, may, are expected to, cease at any time. Additionally, the Partnership income has reached its predetermined maximum distributions and the Company's rights and obligations to the Partnership relationship has now ceased.

The Company's total working capital deficit of approximately \$1.35 million at March 31, 2008 and the Company's ongoing operations will need to be funded through additional capital in the near term.

As described in the Overview section of this MD&A, the Company completed the Acquisition of Hypernetics and 4439112 Canada Inc.

The total purchase price of \$20 million for both Hypernetics and 4439112 Canada Inc. was paid by the Company by the combination of \$1,500,000 cash; the issuance of 35,000,000 common shares of the Company and the issuance of 18,325 class A preferred shares of the Company. As a result of the Acquisition, Hypernetics and 4439112 Canada Inc., including all wholly-owned subsidiaries, except for their US incorporated subsidiaries, were amalgamated into Plaintiffree. Following the completion of the amalgamation, the businesses of Hypernetics and the Triodetic Group of Companies have been operated as separate divisions of Plaintiffree.

Concurrent with the Acquisition, Targa Group Inc., a company controlled by William David Watson II and Nora Watson and Plaintiffree's largest shareholder, provided a credit facility of up to \$2.8 million to Plaintiffree, consisting of (a) a demand loan of \$1.8 million; and (b) a revolving \$1

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

million credit line. All amounts advanced to Plaintree are payable on demand and bear interest at a rate per annum equal to 2% above the prime lending rate of the Company's banker as from time to time determined. The credit facility is secured by a security interest granted over the assets of Plaintree. \$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.

There can be no assurances that the financing described above will continue to be available or that the Company will achieve the operating results required to continue as a going concern. If these events do not occur, the Company may cease operations.

Related Party Transactions

Acquisitions

As described in the Overview section of this MD&A, the Company completed the Acquisition of Hypernetics and 4439112 Canada Inc.

Prior to the Acquisitions, Hypernetics and the Triodetic Group of Companies were both controlled by William David Watson II and Nora Watson. William David Watson II is the President and Chief Executive Officer of the Company and a director of the Company. Nora Watson is the spouse of William David Watson, the Chairman and VP Mergers and Acquisitions of the Company. William David Watson II and Nora Watson held directly and indirectly 27.98% of the issued and outstanding common shares of Plaintree (38.1% on a fully-diluted basis).

As a result of these relationships, the Acquisition was considered to be a "related party transaction" within the meaning of Rule 61-501 under the Ontario Securities Act which required obtaining the majority of the minority shareholder approval.

Concurrently 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, provided a credit facility of up to \$2.8 million to Plaintree, consisting of (a) a demand loan of \$1.8 million; and (b) a revolving \$1 million credit line. All amounts advanced to Plaintree are payable on demand and bear interest at a rate per annum equal to 2% above the prime lending rate of the Company's banker as from time to time determined. The credit facility is secured by a security interest granted over the assets of Plaintree. \$1.5 million of the \$1.8 demand loan was used to pay William David Watson II and Nora Watson the cash portion of the purchase price for the shares of the Triodetic Group of Companies.

Due to Related Parties - Convertible Debentures

The debentures are convertible into common shares of the Company at the holder's option at any time. They become due and payable two years from the date of issue at which point interest will begin to accrue at 10% on any unpaid balances. 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. or a subsidiary of Targa Group Inc. and an independent director of the Company and a company controlled by that director.

Convertible debentures due to related parties outstanding as at March 31, 2008 are as follows:

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<u>Face Value</u>	<u>Convertible Debt Balance as at March 31, 2007</u>	<u>Accretion of Debt Discount in fiscal 2007</u>	<u>Accrued Interest</u>	<u>Convertible Debt Balance as at March 31, 2008</u>
\$ 900,000	\$1,015,951	\$ -	\$ 90,000	\$1,105,951
220,000	222,918	-	22,000	244,918
220,000	219,172	828	21,193	241,193
145,000	138,445	6,555	12,083	157,083
\$ 1,485,000	\$1,596,486	\$ 7,383	\$ 145,276	\$1,749,145

Related Party Transactions - Other

Due from related parties consists of accounts receivable for management consulting services to the Triodetic Group of Companies, which is owned by the same individual that controls Targa Group Inc., the Company's largest shareholder, and accounts and a loan receivable from Hypernetics, a subsidiary of Targa Group Inc., including interest.

Due from related parties totaled \$5,103,993 (2007 - \$3,744,230) at March 31, 2008 including management fees of \$426,600 (2007 - \$1,212,598) and loans totaling \$4,677,393 (2007 - \$2,531,631) as at March 31, 2008 including interest of \$505,355 (2007 - \$156,383) which accrues at 10% per annum.

During the year ended March 31, 2008, a total of \$999,350 (2007 - \$2,014,500) of management consulting fees was charged at the agreed exchange amount to these related companies.

During fiscal 2008, total rent expense of \$27,428 (2007 - \$12,000; 2006 - \$12,000) was incurred to companies controlled by Targa Group Inc. for office and manufacturing space and storage services. An amount \$51,428 remained unpaid at March 31, 2008.

During the year ended March 31, 2007, the Company acquired an automobile from the Chief Executive Officer of the Company at a cost of \$10,000. This transaction was recorded at the estimated fair value of the asset.

Fiscal 2008 interest expense of \$92,837 (2007 - \$183,847; 2006 - \$147,137) is primarily interest on related party balances as described in Notes 9 and 10.

In August 2005, the Company obtained a loan ("2005 Loan") from an affiliate of Targa Group Inc. of \$425,000. The 2005 Loan is payable on demand and earns interest at a rate of 10% per annum. Additional amounts were provided on the 2005 Loan during the period ending March 31, 2006. The 2005 Loan is secured by an already existing general security agreement over Plaintiff's assets. As of March 31, 2008, \$1,719,728 (2007 - \$1,221,389) had been advanced with interest accrued to date of \$266,732 (2007 - \$127,545) for a total payable of \$1,986,460 (2007 - \$1,348,934). This amount is included in due to related parties - other.

On November 19, 2003, the Board of the Company agreed to accept a loan ("Loan") from Targa Group Inc., its largest shareholder, of \$500,000 (net of related fees). The Loan is payable on demand and earns interest at a rate of prime plus 5% per annum. The Loan is also secured by an already existing general security agreement over Plaintiff's assets. As of March 31, 2008,

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

the total Loan amount outstanding was \$445,198 (\$310,386 principal plus \$134,812 of accumulated interest); 2007 - \$410,927 (\$310,386 principal plus \$100,541 of accumulated interest). This amount is included in "Due to Related Parties – Other".

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears including interest of \$98,567 (2007 - \$80,971) owing to this related party amounted to \$317,375 (2007 - \$299,779). 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 March 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. During fiscal 2008, a portion of these fees and salaries, amounting to \$126,000 (2007 - \$92,000), was paid to the senior officers. At March 31, 2008, these fees and salaries to senior officers of the Company, who are also majority shareholders of Targa Group Inc., amounted to \$1,436,847 (2007 - \$1,212,847), plus interest charges of \$310,243 (2007 - \$202,352) for a total payable of \$1,747,090 (2007 – \$1,415,199). These amounts are included in "Due to Related Parties – Other".

Other Contracts and Commitments

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

	Payments due by period		
	Total	Less than 1 year	1-3 Years
Due to related parties – convertible debentures	1,749,145	1,749,145	-
Due to related parties – other	4,508,183	4,508,183	-
	\$ 6,257,328	\$ 6,257,328	\$ -

Facilities

During the year ended March 31, 2008, Plaintiff sold its existing building in Arnprior, Ontario. The Company has been occupying approximately 2,000 square feet of office space for \$2,000 per month owned by the Triodetic Group of Companies.

As a result of the Acquisition described in the Overview, the land and buildings owned by the Triodetic Group of Companies provides sufficient space to support the operations of the post Acquisition Company.

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 provided evidence of an arrangement exists and collection is probable. In addition, a provision for potential warranty claims is recorded at the

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

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. Deferred revenue arises when extended warranty contracts are paid in advance.

Management services revenue is recognized as services are delivered when there is persuasive evidence of an agreement and collection is reasonably assured.

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 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 generally accepted accounting principles 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 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.

New accounting policies

Effective April 1, 2007, the Company has adopted the following accounting standards. There were no changes in measurement resulting from applying the new standards on April 1, 2007.

Financial instruments

Section 3855 of the Canadian Institute of Chartered Accountants (CICA) Handbook, Financial Instruments – Recognition and Measurement came into effect for fiscal years beginning on or after October 1, 2006. This section establishes standards for recognizing and measuring financial assets, liabilities and non-financial derivatives.

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Section 3860 of the CICA Handbook has been reissued as section 3861, Financial Instrument – Disclosure and Presentation, and establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. These revisions came into effect for fiscal years beginning on or after October 1, 2006.

All financial assets and liabilities are recorded on the balance sheet. Initial recognition of financial assets and liabilities is at fair value.

Current monetary assets and liabilities

Cash is classified as held for trading and is measured at fair value with changes in fair value recorded in net income. Accounts receivable and accounts payable and accrued liabilities are classified as loans and receivables and other financial liabilities respectively are measured at amortized cost after initial recognition at fair value with interest accretion recorded in net income. Due to the short-term nature of these assets and liabilities, the carrying amounts approximated amortized cost.

Comprehensive income

Section 1530 of the CICA Handbook, Comprehensive Income came into effect for fiscal years beginning on or after October 1, 2006. This section establishes standards for reporting and display of comprehensive income. Comprehensive income is the change in a Company's net assets (equity) that results from transactions, events and circumstances from sources other than the Company's shareholders and includes all changes in equity except those resulting from investments by shareholders.

The CICA also made changes to section 3250 of the CICA Handbook, Surplus and reissued it as section 3251, Equity. The section also came into effect for fiscal years beginning on or after October 1, 2006. This section establishes standards for the presentation of equity and changes in equity during the reporting period.

To date, the Company has no items that would affect other comprehensive income and therefore net income (loss) is equal to comprehensive income (loss). There is no impact of these changes noted above on the opening deficit balance at April 1, 2007.

United States generally accepted accounting principles

In June 2006, the Financial Accounting Standards Board ("FASB") issued "FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes". This interpretation clarifies the criteria for recognizing income tax benefits under FASB Statement No. 109 Accounting for Income Taxes, and requires additional financial statement disclosure about uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company implemented this interpretation in fiscal 2007 with no significant impact due to its history of tax losses.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, and where applicable simplifies and codifies related guidance within GAAP and does not require any new fair value measurements. The Statement is effective for fiscal years

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

beginning after January 1, 2008. Provisions of the Statement are to be applied prospectively except in limited situations. The Company has not yet determined the impact of this statement on its financial reporting.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115." SFAS No. 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. Unrealized gains and losses on these items will be reported in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument (with a few exceptions), is irrevocable and is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. This Statement is required to be adopted by the Corporation in the first quarter of its fiscal year 2009. The Corporation is currently assessing the impact of the adoption of this Statement.

In December 2007, the FASB revised SFAS No. 141R, "Business Combinations." This revision establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measure the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement is required to be adopted by the Corporation for business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning on or after December 15, 2008. The Corporation is currently assessing the impact of the adoption of this Statement.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51." SFAS No. 160 establishes accounting and reporting standards for noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Corporation is currently assessing the impact of the adoption of this Statement.

Future accounting policy changes

The CICA has issued new accounting pronouncements for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments – Disclosure and Section 3863 – Financial Instruments – Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These sections establish standards for presentation and disclosure of financial instruments and non-financial derivatives. These new sections require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Company is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section establishes standards for presentation and disclosure of financial instruments and non financial derivatives requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital.

Summary of Outstanding Share Data

As at March 31, 2008 the following equity instruments were issued and outstanding:

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Common Shares of 90,221,634

Stock Options

Stock options granted and outstanding at March 31, 2008 of 2,175,000 are exercisable to receive the same number of common shares at exercise prices ranging from \$.08 to \$2.31 with the latest expiry being September 9, 2010. Under the Company's stock option plan, the maximum number of stock options which may be granted is 12,000,000.

Convertible Debentures

The Company has issued various tranches of convertible debentures to related parties for total face value of \$1,485,000. 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 20,005,075 on a pre-consolidation basis.

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

Plaintree Systems Inc.

Board of Directors

W. David Watson II
President & Chief Executive Officer

William D. Watson
Chairman of the Board

Robert E. Shea
Chairman, Shea Financial Group

Jerry S. Vickers
Financial/Business Consultant

Girvan L. Patterson
C.E.O. Taransys Inc

Senator John Buchanan P.C., Q.C.
Senator and Lawyer

Executives and Officers

W. David Watson II
President & Chief Executive Officer

Lynn E. Saunders
Vice President, Operations

Jason Lee
Vice President, Business Development

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Transfer Agent

Computershare Investor Services Inc.
100 University Ave., 9th Floor
Toronto, Ontario, Canada M5J 2Y1

Corporate Secretary

Gary Jessop
Partner
Blake Cassels & Graydon, LLP,
Ottawa, Ontario, Canada

Legal Counsel

Blake Cassels & Graydon, LLP
Ottawa, Ontario, Canada

Stock Exchange Listings

NASDAQ OTC BB: PTEEF.OB