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

PLAINTREE SYSTEMS INC.

For the years ended March 31, 2012 and 2011

Date – July 16, 2012

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

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintree is for the years ended March 31, 2012 and 2011. Historical results of operations, percentage relationships and any trends that may be inferred there from are not necessarily indicative of the operating results of any future periods. Unless otherwise stated all amounts are in Canadian dollars following the requirements of the International Financial Reporting Standards ("IFRS"). Previously, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The information contained herein is dated as of July 16, 2012 and is current to that date, unless otherwise stated. Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the annual filings. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying financial statements.

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

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

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Caution Regarding Forward Looking Information

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

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Overview

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

Recent Developments

On March 28, 2012, the Company sold one of its two manufacturing buildings held for sale as it was no longer required after the Company moved to larger facilities in late fiscal 2011. The building was sold for $470,000 and Plaintree assumed a vendor take-back first mortgage of $446,509 for a three year term, with interest at prime plus 2% per annum. The second of the two buildings remains available for sale.

On February 7, 2012 the Company announced the completion of its acquisition of the business and assets of Summit Tool Corp. ("Summit Tool") of Pocono Summit, Pennsylvania. Summit Tool has been operating as a value added manufacturer of aerospace engine components for 30 years. The purchase price for the acquisition was US$ 3 million, subject to reduction if certain milestones are not met. The Company directly and through its wholly-owned subsidiary Summit Aerospace USA Inc. ("Summit Aerospace"), acquired all of the assets of Summit Tool which consisted of machinery and equipment and intellectual property and goodwill. The Company acquired the intellectual property and goodwill and Summit Aerospace acquired the equipment and material. In addition, Summit Aerospace entered into a lease arrangement with Summit Tool to continue to use that company's former premises for a one year period. Plaintree also has a first right to purchase the premises until February 6, 2014. All of the former employees of Summit Tool have agreed to remain employed in the business with Summit Aerospace. The newly acquired business will continue to be operated in Pennsylvania by Summit Aerospace USA Inc. Summit Tool has been operating as a value added manufacturer of aerospace engine components for over 30 years.

On July 14, 2011, the Board of Directors of the Company approved a reduction to the stated capital account of $97,844,650 (the "**Stated Capital Reduction**"). At the

Company's Annual General Meeting held on September 15, 2011, the shareholders of the Company voted in favour of the Stated Capital Reduction. The effect of the reduction was to reduce the stated capital and the accumulated deficit of the Company by the same amount. The accumulated deficit of the Company was primarily due to the Company's business carried on prior to the completion of the merger with Hypernetics and Triodetic and was not reflective of the post merger business of the Company.

On May 3, 2011 the Company filed a Form 15F with the United States Securities and Exchange Commission (the "SEC") with the intention of voluntarily terminating its reporting obligations under Section 13(a) and Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). On the filing of the Form 15F, Plaintree's reporting obligations with the SEC under the Exchange Act, including its obligations to file annual reports on Form 20F, was immediately suspended. Plaintree's termination of its reporting obligations under the Exchange Act was made final 90 days after the filing of the Form 15F with the SEC.

In late fiscal 2011, all operations of Plaintree were relocated to a modern 135,500 sq. ft. manufacturing facility located in Arnprior, Ontario, Canada, thirty minutes west of Ottawa, Ontario, Canada.

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

Control Activities

For all changes to policies and procedures that have been identified, the effectiveness of internal controls over financial reporting and disclosure controls and procedures has been assessed and any required changes have been implemented. In addition, controls over the International Financial Reporting Standards ("IFRS") changeover process have been implemented, as necessary. The Company has identified and implemented the required accounting process changes that resulted from the application of IFRS accounting policies and these changes were not significant. We have completed the design, implementation and documentation of the internal controls over accounting process changes resulting from the application of IFRS accounting policies. We applied our existing control framework to the IFRS changeover process.

The Company has assessed the impact of the IFRS transition project on our key ratios and determined that the transition did not significantly impact key ratios.

The IFRS transition project did not have a significant impact on our information systems for the convergence periods. We do not expect significant changes in the post-convergence periods.

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. The Company notes that the standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the

Company selected. In particular, the Company expects that there may be additional new or revised IFRS standards or IFRIC interpretations in relation to consolidation, financial instruments, leases, and revenue recognition. Processes are in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRS standards and IFRIC interpretations will be evaluated by the Company as they are drafted and published.

Selected Annual Financial Information

The Company's consolidated financial statements are stated in Canadian dollars and are prepared in accordance with IFRS. The following table sets forth selected financial information from the Company's Fiscal 2012 statements:

($000s, except per share amounts)

	March 31, 2012	**March 31, 2011**	**April 1, 2010**
Total assets	$ 12,733	$ 8,973	$ 8,752
Total liabilities	$ 11,301	$ 6,710	$ 6,606
Long-term liabilities	$ 5,743	$ 4,060	$ 3,748
Cash dividends declared per share ($1,000 per share)	$ 200	$ 200	$ 200

($000s, except per share data)

	March 31,	
	2012	2011
Revenue	**$ 12,641**	$ 11,041
Net (loss) income and total comprehensive (loss) income	**$ (632)**	$ 313
Net (loss) attributable to common shareholders	**$ (2,098)**	$ (1,153)
Basic and diluted (loss) per share	**$ (0.16)**	$ (0.09)

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Results of Operations

	Plaintree Systems Inc. ($000s, except per share and % amounts) Fiscal Year		Change from
	2012	2011	2012 to 2011
Revenue	$ 12,641	$ 11,041	$ 1,600
Cost of sales	9,607	6,881	2,726
Gross margin	3,034	4,160	(1,126)
	24%	38%	
Operating expenses:			
Sales and marketing	695	630	65
Finance and administration	1,023	1,047	(24)
Research and development	1,597	1,672	(75)
Bad debt	233	-	233
Interest expense	198	124	74
(Gain) loss on foreign exchange	(14)	46	(60)
	3,732	3,519	213
Loss from operations	(698)	641	(1,339)
Write-down of assets held for sale	-	(297)	297
Loss on disposal	-	(11)	11
Net (loss) income before taxes	(698)	333	(1,031)
Current income tax expense	18	20	2
Deferred income tax (recovery)	(84)	-	84
Net (loss) income and comprehensive (loss) income	$ (632)	$ 313	$ (945)

Business Segment Information

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

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Revenues by division

	2012	2011
Electronics	**$ 4,072,801**	$ 3,197,801
Specialty Structures	**8,567,740**	7,842,754
Total revenue	**$ 12,640,541**	$ 11,040,555

Net (loss) / income before taxes by division

	2012	2011
Electronics	**501,121**	$ (8,053)
Specialty Structures	**$ (1,199,093)**	341,433
Total (loss) / earnings	**$ (697,972)**	$ 333,380

Revenue by geographical location

	2012	2011
Canada	**$ 4,866,112**	$ 5,167,776
United States	**5,358,416**	4,085,222
Russia	**2,097,987**	-
Other	**263,932**	586,290
Chile	**54,094**	1,201,267
Total Revenue	**$ 12,640,541**	**$ 11,040,555**

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

	2012	2011
Number of customers	**2**	3
% of total revenue	**15%, 17%**	17%, 17%, 11%

Revenues

<u>Revenue</u>

Total product revenue for fiscal 2012 was $12,640,541 compared to $11,040,555 in fiscal 2011.

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

Plaintree's Electronics Division revenue increased to $4,072,801 in fiscal 2012 from $3,197,801 in fiscal 2011. The increase was attributed to the addition of the business acquired from Summit Tool operated by Summit Aerospace USA Inc. and moderate increases in the legacy markets of this division. The Company expects growth to continue for this division in fiscal 2013.

Plaintree's Specialty Structures Division revenue increased to $8,567,740 in fiscal 2012 from $7,842,754 in fiscal 2011. The increase primarily is attributed to growing sales in the emergency vehicle market which commenced late in fiscal 2011. The Company expects this trend to continue in fiscal 2013.

Gross Margin

Total gross margin decreased to 24% in fiscal 2012 from 37.7% in fiscal 2011.

Inventory write-downs of $273,359 and $140,969 in fiscals 2012 and 2011 are included in the cost of sales. The exceptional margins in fiscal 2011 include the benefit of inventory which was previously devalued from cost to market value in fiscal 2010. Fiscal 2012 includes a full twelve months of operational expenses related to the launching of Arnprior Fire Trucks and the carrying costs of two vacant and surplus manufacturing buildings.

Operating Expenses

Sales and marketing expenses

Sales and marketing expenses were $695,383 and $630,089 in fiscal 2012 and 2011 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.

Sales and marketing expenses are expected to remain at comparable levels throughout fiscal 2013.

Finance and administration expenses

Finance and administration expenses were $1,022,400 and $1,046,749 in fiscals 2012 and 2011 respectively. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which included financial staff, legal and audit activities.

Finance and administration expenses are expected to remain at comparable levels throughout fiscal 2013.

Research and development expenses

Research and development expenses were $1,596,797 and $1,671,625 in fiscals 2012 and 2011 respectively. Research and development expenditures consist primarily of development engineering and personnel expenses.

Research and development expenses are expected to remain at comparable levels throughout fiscal 2013.

Bad debt expenses

The Company recorded a bad debt of $233,092 for an account that remains uncollected.

Interest expense

Interest expense consists of interest incurred on bank and related party debt. Interest expenses were $198,302 and $123,814 for fiscal 2012 and 2011, respectively. Interest expense increased primarily due to the increase in borrowings for plant equipment and plant leaseholds. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest.

Gain (loss) on foreign exchange

The Company reported a gain on foreign exchange of $14,464 and a loss of $(46,309) in fiscals 2012 and 2011 respectively. The gain/loss on foreign exchange represents the gain/loss, realized or unrealized, of transactions and year end foreign balances that are completed in currencies other than the Company's reporting currency. A less consistent rate of exchange month to month in fiscal 2011 compared to fiscal 2012 contributed to the loss in the prior year.

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

Net loss and comprehensive loss for Fiscal 2012 and 2011 was $(2,097,833) and $(1,152,705) respectively. Net income attributed to common shareholders is calculated by reducing net income by the $1,466,000 cumulative yearly dividends that accrue annually on the Class A preferred shares. The cumulative dividends accrue at 8% per annum on the face value of $18,325,000 for the Class A preferred shares and as of March 31, 2012, the accrued and unpaid dividends on the Class A preferred shares were $5,430,500.

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Quarterly Results

The following table sets out selected unaudited consolidated financial information for each quarter in fiscal 2012 and fiscal 2011:

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

	Mar 31 2012	Dec 31 2011	Sept 30 2011	June 30 2011	Mar 31 2011	Dec 31 2010	Sept 30 2010	June 30 2010
Revenue	$2,556	$2,374	$5,036	$2,675	$2,442	$1,727	$3,165	$3,707
Net profit (loss) and total comprehensive income (loss)	$(446)	$(715)	$617	$(88)	$(353)	$(722)	$284	$1,104
Net profit (loss) attributed to common shareholders	$(835)	$(1,081)	$250	$(454)	$(741)	$(1,089)	$(82)	$737
Basic and diluted earnings (loss) per share	$(0.06)	$(0.08)	$0.02	$(0.04)	$(0.06)	$(0.08)	$(0.01)	$0.06

Liquidity and Capital Resources

($000s)	**2012**	**2011**	**Change**
Cash	**$ 680**	$ 371	$ 309
Working Capital	**$ 1,419 (i)**	$ 4,163 (i)	$ (2,744)

(i) The Company is subject to various covenants on the long-term debt (including debt to tangible net worth, current assets to current liabilities, capital and debt service ratios). The Company is in breach of the debt service ratio covenant to which the bank has provided forbearance until March 31, 2013, with respect to this breach. IFRS requires that a financial liability be classified as current even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue. The Company's working capital without this reclassification of bank debt is $3,367,547 and $5,204,078 for fiscals 2012 and 2011 respectively.

Net cash (used in) provided by:	**2012**	2011	Change
Operating activities	**$ (354)**	**$ (49)**	**$ (305)**
Investing activities	**$ 25**	**$ (1,166)**	**$ 1,191**
Financing activities	**$ 638**	**$ 185**	**$ 453**

Cash

As at March 31, 2012, the Company held $680,000 in cash, an increase of $308,529 from March 31, 2011.

Working Capital

Working capital represents current assets less current liabilities. As at March 31, 2012, the Company had positive working capital of $1,418,913 compared to working capital of $4,162,971 at March 31, 2011 after bank debt was reclassified as a current liability due to a breach of a bank covenant. The Company is subject to various covenants on the long-term debt (including debt to tangible net worth, current assets to current liabilities, capital and debt service ratios). The Company is in breach of the debt service ratio covenant to which the bank has provided forbearance. The bank expects the Company to be back in covenant by March 31, 2013. IFRS requires that a financial liability be classified as current even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue. The Company's working capital without this reclassification of current bank debt is $3,367,547 and $5,204,078 for fiscal periods 2012 and 2011, respectively.

Cash (used in) Operating activities

Cash used in operating activities for fiscal 2012 was $(354,434) representing an increase of $305,809 from net cash used of $(49,345) in fiscal 2011. Cash used in operating activities during fiscal 2012 mainly relates to the loss incurred in fiscal 2012 of $631,833, increases in inventory and notes receivables but offset by decreases in unbilled revenues and trade and other payables.

Cash provided by (used in) Investing activities

Cash provided by investing activities for fiscal 2012 was $25,001 representing an increase of $1,190,940 from cash used of $(1,165,939) in fiscal 2011 relating to the purchases and disposals of plant equipment.

Cash provided by Financing activities

Cash provided by financing activities for fiscal 2012 was $637,961 representing an increase of $452,884 from cash provided of $185,077 in fiscal 2011. Cash provided by financing activities in fiscal 2012 relates primarily to bank financing incurred to complete the Summit Tool business and equipment acquisition and related party borrowings.

Outlook

Fiscal 2012 concluded with a loss of $631,833, which included a write-down on inventory of $273,359, and an uncollectible account of $233,092. Contracts have not yet reached levels experienced in the pre 2009 timeframe. Continued growth for the Company is expected from Summit Aerospace and Arnprior Fire Trucks Corp in the next several years. The Company has increased their investment into high end, robust and versatile manufacturing equipment throughout all of its divisions. Plaintree moved to a larger facility in late fiscal 2011 to ensure it had sufficient capacity for growth for its Canadian operations.

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

Related Party Transactions

Due from Related Party

Due from related party consists of $1,284,665 (2011 - $1,102,770, 2010 - $745,720) due from Spotton Corporation, a company controlled by Targa Group Inc. ("Targa"). Targa is the Company's largest shareholder and is a company controlled by the CEO of the Company and a related party to the CEO. The balance accrues interest at prime plus 2% and is due from the related party on demand. The $181,895 change in the balance from fiscal 2011 relates to rent of $42,000 (2011 - $54,000, 2010 - $ 60,000) and utilities charges, advances and related interest.

Due to Related Party

As at March 31, 2012, a balance of $3,062,063 ($2,373,765 principal and $688,298 interest) remained owing to senior officers. These amounts are classified as long-term as the parties have agreed not to demand repayment before August 2013.

On July 14, 2011, the board of directors of the Company declared a cash dividend of $10.91405 per Class A preferred share ($200,000 in the aggregate) payable on July 22, 2011 to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the $1,000 redemption amount of the Class A preferred share $60,000 of the declared dividend remains outstanding as of March 31 2012.

As at March 31, 2012, a balance of $247,672 (2010 - $247,672) of the due to related parties is convertible into common shares of the Company at a rate of $0.0115 at the option of the Targa. The balance is classified as long-term as the related party has agreed not to demand payment before August 2013.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears, including interest of $138,647 (2011 - $ 129,898, 2010 - $121,115) owing to this related party, amounted to $313,621 (2011 - $304,872, 2010 - $339,924). 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 over the assets of the Company. The forbearance agreement is now in default. The party has agreed not to demand repayment before August 2013 and the amount is classified as long-term.

The Company has a demand loan of up to $1,800,000 and a revolving line of credit of up to $1,000,000 with Targa. Under the loan agreements, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The Targa Credit Facility is secured by a security interest granted over the assets of the Company. At March 31, 2012, $800,000, (2011 - $500,000, 2010 - $500,000) remained outstanding on the line of credit with accumulated interest of $132,237, (2011- $105,570, 2010 - $102,937) for a balance of $932,237; $NIL was drawn against the revolving demand loan with accumulated interest owing of $66,581 for a balance of $66,581. Targa has agreed that it will not demand repayment before August 2013 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of $134,812 (2011 - $134,812, 2010 - $134,812), on a loan from Targa remains outstanding as of March 31, 2013. The party has agreed not to demand repayment before August 2013 and the amount is classified as long-term.

During the third quarter of fiscal 2011, the Company executed a five year lease for new premises located at 10 Didak Drive, owned by Tidal Quality Management Corporation, a company owned by Targa Group Inc., Plaintree's largest shareholder. The five year lease for the new premises is at $0.41 per sq/ft in the first year, increasing $1.00 per sq/ft per year until the rent reaches $3.41 where it remains for the balance of the term. In November of 2011, Tidal granted Plaintree a reduced rate of $0.36 per sq/ft for the second and third year of the term resulting in a savings of approximately $60,000 during the period ending March 31 2012. During fiscal 2012, the Company paid $52,669 to Tidal in lease payments.

Facilities

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

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Other Contracts and Commitments

The following table provides a summary of the Company's obligations outstanding as at March 31, 2012:

Payments due by period

	Total	Current	2014	2015	2016	2017	Thereafter
Due to related parties - convertible debentures	**$ 247,671**		$ 247,671				
Due to related parties - other	**3,510,497**		3,510,497				
Due to related party - line of credit	**932,237**		932,237				
Due to related party - demand loan	**66,581**		66,581				
Note payable	**1,500,000**	750,000	750,000				
Due to related party - lease payments	**905,918**	96,781	96,781	462,069	250,287		
Long-term debt	**2,947,899**	999,263	825,608	170,608	170,608	149,487	632,325
	$ 10,110,803	$ 1,846,044	$ 6,429,375	$ 632,677	$ 420,895	$ 149,487	$ 632,325

Risk Factors Affecting Future Business

The Company has exposure to credit risk, market risk and liquidity risk associated with its financial assets and liabilities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Audit Committee is responsible for developing and monitoring the Company's compliance with risk management policies and procedures. The Audit Committee regularly reports to the Board of Directors on its activities.

The Company's risk management program seeks to minimize potential adverse effects on the Company's financial performance and ultimately shareholder value. The Company manages its risks and risk exposures through a combination of insurance, a system of internal and disclosure controls, sound business practices and on occasion derivative financial instruments.

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers, and others from outstanding trade receivables and unbilled revenue. The objective of managing counterparty credit risk is to prevent losses on financial assets, specifically cash, trade receivables and unbilled revenue. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors.

Cash

Cash consists of bank deposits. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are invested in highly rated financial institutions. As at March 31, 2012, the Company had cash consisting of cash on hand and deposits with banks of $680,000 (March 31, 2011 - $371,471; April 1, 2010 - $1,401,678) During the years ended March 31, 2012 and 2011 the Company did not hold any investments in asset-backed commercial paper.

Accounts receivable

Accounts receivable consists primarily of trade receivables. The Company's credit risk arises from the possibility that a counterparty which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss for the Company.

This risk is mitigated through established credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The carrying amount of trade receivables are reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of comprehensive income (loss). When a receivable balance is considered uncollectible, it is written off against the allowance for trade receivables.

Maximum credit risk is limited to the balance in cash, trade receivables and unbilled revenue totaling $2,638,290 (March 31, 2011 - $2,836,655, April 1, 2010 - $3,453,814). As of March 31, 2012, trade receivables were comprised of three companies totaling 18%, 17% and 17%, respectively (March 31, 2011 - 23%, 23% and 15%; April 1, 2010 - 34%, 22% and 11%, respectively) of trade receivables. As at March 31, 2012 the Company's ageing of accounts receivable was approximately 97% (March 31, 2011 - 87%; April 1, 2010 - 83%) under sixty days, 1% (March 31, 2011- 2%; April 1, 2010 - 2%) over 60 - 90 days and 2% (March 31, 2011 - 11%; April 1, 2010 - 15%) over 90 days and the allowance for doubtful accounts was $NIL (March 31, 2011 - $10,125; April 1, 2010 - $NIL).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the fair value of recognized assets and liabilities or future cash flows or the Company's results of operations.

Interest risk

The Company is financed through loans from related parties and bank loans which bear interest at rates tied to the Canadian bank prime rate. The Company's exposure to interest rate risk relates primarily to variable interest rates on bank and related party debt totaling $7,704,883. The variable interest rates range from prime less 0.65% to prime plus 2.0%. A 1% change in the bank prime interest rate causes a $77,049 change in annual interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate fluctuations.

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 is exposed to foreign exchange fluctuations against the Canadian dollar as sales are primarily denominated in U.S. dollars and other foreign currencies, while expenditures are primarily denominated in Canadian dollars. The Company did not use derivative financial instruments to manage this risk. For the year ended March 31, 2012, the Company had a foreign exchange gain of $14,464 (March 31, 2011 - loss of $46,309). A 10% change in the value of the U.S. dollar against the Canadian dollar would have an approximate foreign exchange gain or loss of $206,709 and $112,481 for the fiscal years ended March 31, 2012 and 2011, respectively.

Assets and liabilities denominated in U.S. dollars (expressed in Canadian dollars) are as follows:

		March 31, 2012		March 31, 2011		April 1, 2010
Cash	**$**	**208,755**	$	75,977	$	515,754
Trade receivables		**893,866**		598,072		620,363
Unbilled revenue		**24,011**		35,161		-
Accounts payable and accrued liabilities		**(183,131)**		(790)		(35,800)
Deferred revenue		**(75,607)**		(336,718)		(396,690)
Note payable		**(1,500,000)**		-		-
Long-term debt		**(1,435,000)**		-		-
	$	**(2,067,106)**	$	371,702	$	703,627

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meets its financial obligations as they fall due. The Company maintains a positive working capital position. The Company aims to maintain a current ratio, defined as current assets over current liabilities, of at least 1:1.

The Company generally makes bi-monthly payments. At March 31, 2012, most of the Company's accounts payable were current. The vast majority of accounts payable fall due for payment within forty-five days. Accrued liabilities are generally due after more than one month and in some cases it may not yet be possible to determine the contracted date for payment.

The Company is required to maintain certain financial covenants in connection with its existing banking arrangements (Note 22).

Fair values

The carrying amounts for cash, trade accounts receivable, 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 long-term debt 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 debts are not available.

Capital Management

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, purchase and cancel shares previously issued, return capital to shareholders or sell assets to reduce debt. The Company considers the items included in the consolidated statement of shareholders' equity as capital, which totals $1,432,410 (2011 - $2,262,622, 2010 - $2,145,934) at year-end.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year revenue increases with positive increases in earnings before interest, tax, depreciation and amortization. These objectives are met through operational changes to enhance cash flow performance, the evaluation of acquisitions as they relate to the Company's market share and performance, and risk mitigation over exposure.

New and Revised IFRS in Issue but not Effective

Financial Instruments

IFRS 10 Consolidated Financial Statements

On May 12, 2011 the IASB issued IFRS 10 *Consolidated Financial Statements*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more of the other entities. IFRS 10 replaces the consolidated requirements in SIC-12 *Consolidation - Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company is currently evaluating the impact on its financial statements.

IFRS 11 Joint Arrangements

On May 12, 2011 the IASB issued IFRS 11 *Joint Arrangements*. IFRS 11 provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. The Company is currently evaluating the impact on its financial statements

IFRS 12 Disclosure of Interests in Other Entities

On May 12, 2011 the IASB issued IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company is currently evaluating the impact on its financial statements.

IFRS 13 Fair Value Measurement

On May 12, 2011 the IASB issued IFRS 13 *Fair Value Measurement*. IFRS 13, which is effective from January 1, 2013, defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The Company is currently evaluating the impact on its financial statements.

Amendments to IAS 1 Presentation of items of Other Comprehensive Income

The amendments retain the option to present profit or loss and other comprehensive income either in one continuous statement or in two separate but consecutive statements. Items of other comprehensive income are required to be grouped into those that will and will not be subsequently reclassified to profit or loss. Tax on items of other comprehensive income is required to be allocated on the same basis. The measurement and recognition of items of profit or loss and other comprehensive income are not affected by the amendments. The amendments to IAS 1 are effective for financial years beginning on or after January 1, 2012, with earlier application permitted. The Company is evaluating the impact of the amendments to IAS 1 on its financial statements.

IAS 28 Investments in Associates and Joint Ventures

IAS 28 *Investments in Associated and Joint Ventures* was re-issued by the IASB on May 12, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. The amended version of IAS 28 is effective for financial years beginning on or after January 1, 2013, with earlier application permitted. The Company is evaluating the impact of IAS 28 on its consolidated financial statements.

Subsequent Event

In June 2012, Summit Aerospace purchased a Deckel Maho DMU 80 P duoBlock Universal Milling Machine, for approximately $700,000 allowing the Company to expand their current roster of jet engine parts.

Summary of Outstanding Share Data

As at July 16, 2012, the following equity instruments of the Company were issued and outstanding:

Common Shares: 12,925,253

Class A Preferred Shares: * 18,325

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

Convertible Debentures:** $nil principal value

** The Company has issued various tranches of convertible debentures to related parties for total outstanding value at December 31, 2011, of $247,671 in accrued interest only. The accrued interest is convertible at any time into common shares of the Company at varying conversion rates that were determined at the time of issuance of each tranche. If all the debentures plus accrued interest were converted at the current time, the total number of common shares issued would be 229,935.

Options:*** Options to acquire 560,000 common shares

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

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