

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

For the three and twelve months ending March 31, 2024 and March 31, 2023

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

PLAINTREE SYSTEMS INC.

For the three and twelve months ended March 31, 2024 and March 31, 2023

Date: July 26, 2024

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

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintiff is for the three and twelve months ended March 31, 2024 and 2023. Historical results of operations, percentage relationships and any trends that may be inferred there from are not necessarily indicative of the operating results of any future periods. Unless otherwise stated all amounts are in Canadian dollars following the requirements of the International Financial Reporting Standards ("IFRS"). The information contained herein is dated as of July 26, 2024, 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 Robert Turley, Chief Financial Officer, in accordance with National Instrument 52-109 ("NI52-109"), have both certified that they have reviewed the annual financial statements and this MD&A ("the annual Filings") and that, based on their knowledge having exercised reasonable diligence, (a) the annual Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the annual Filings; and (b) the annual financial statements together with the other financial information included in the annual Filings fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the dates and for the periods presented in the annual Filings.

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

Caution Regarding Forward Looking Information

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

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jurisdictions where Plaintiff operates; change in tax laws; political conditions and developments; intensifying competition from established competitors and new entrants in the industry; technological change; currency value fluctuation; general economic conditions worldwide, including in China; Plaintiff's success in developing and introducing new products and services, expanding existing distribution channels, developing new distribution channels and realizing increased revenue from these channels; supply and/or staffing issues in relation to ongoing COVID concerns; and Plaintiff's success in integrating acquired businesses. This list is not exhaustive of the factors that may affect any of Plaintiff's forward-looking statements. Plaintiff undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results otherwise. Readers are cautioned not to put undue reliance on forward-looking statements. Readers should also carefully review the risks concerning the business of the Company and the industries in which it operates generally described in the documents filed from time to time with Canadian securities regulatory authorities.

Overview

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the Canadian Securities Exchange ("CSE") under "NPT". Plaintree is a diversified company with proprietary technologies and manufacturing capabilities in structural design and aerospace. The Company operates an Applied Electronics division, consisting of the Hypernetics division, Summit Aerospace USA Inc. ("Summit Aerospace") and the Elmira Stove Works business, and a Specialty Structures division consisting of the Triodetic business, Spotton Corporation. The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft indicators, solenoids and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminum, and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames, and industrial dome coverings. Summit Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic cylinders for the industrial, automation and oil and gas markets. The Elmira Stove Works business manufactures custom vintage-inspired kitchen appliances for the North American consumer market.

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

Control Activities

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

Selected Annual Financial Information

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

	March 31, 2024	March 31, 2023
	(audited)	(audited)
	\$	\$
Revenue	24,205	19,943
Net earnings (loss) and comprehensive earnings (loss)	1,072	(1,945)
Net earnings (loss) attributed to common shareholders	(394)	(3,411)
Basic and diluted earnings (loss) per share	(0.03)	(0.26)

(\$000s, except per share amounts)

	March 31, 2024	March 31, 2023
	(audited)	(audited)
	\$	\$
Total assets	14,985	16,128
Total liabilities	14,091	16,306
Long-term liabilities	7,851	6,612
Cash dividends declared per share	nil	nil

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Results from Operations

(\$000s)

	Twelve months ended		Change from
	March 31, 2024	March 31, 2023	
	(audited)	(audited)	
	\$	\$	\$
Revenue	24,205	19,943	4,262
Cost of sales	16,562	15,802	760
Gross margin	7,643	4,141	3,502
	32%	21%	
Operating expenses:			
Research and development	1,767	1,593	174
Finance and administration	2,228	2,003	225
Sales and marketing	1,906	1,884	22
Bad debts	28	-	28
Loss on disposal of assets	40	10	30
Interest expense	302	335	(33)
Loss/(Gain) on foreign exchange	198	(96)	294
Loss on Impairment	360	666	(306)
Gain on loan derecognition	(258)	-	(258)
	6,571	6,395	175
Net earnings (loss) and comprehensive earnings (loss)	1,072	(2,254)	3,326

Business segment information

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments - the design, development, manufacture, marketing and support of applied electronic products, and the specialty structural products. The Company determines the geographical location of revenue based on the location of its customers. Of the total balance of \$4,806,300 (March 31, 2023 - \$5,613,405) in property, plant and equipment and Right of Use Asset, building \$3,917,598 (March 31, 2023 - \$5,110,145) is located in Canada and \$888,702 (March 31, 2023 - \$503,261) in the United States. All the Company's intangible assets are primarily located in Canada.

Revenue by division

	Twelve months ending	
	March 31, 2024 (audited)	March 31, 2023 (audited)
	\$	\$
Applied Electronics	10,512,522	8,800,687
Specialty Structures	13,692,283	11,142,433
	24,204,805	19,943,120

Revenue by geographical location

	Twelve months ending	
	March 31, 2024 (audited)	March 31, 2023 (audited)
	\$	\$
Canada	9,810,267	9,012,997
United States	14,188,291	10,168,237
Other	206,247	761,886
	24,204,805	19,943,120

Net earnings (loss) before taxes by division

	Twelve months ending	
	March 31, 2024 (audited)	March 31, 2023 (audited)
	\$	\$
Applied Electronics	(754,021)	(2,425,021)
Specialty Structures	1,825,930	170,823
	1,071,909	(2,254,198)

Loss on impairment by division

	Twelve months ending	
	March 31, 2024 (audited)	March 31, 2023 (audited)
	\$	\$
Applied Electronics	360,000	666,486
Specialty Structures	0	0
	360,000	666,486

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

	Twelve months ending	
	March 31, 2024 (audited)	March 31, 2023 (audited)
Number of customers	2	2
% of total revenue	11%, 15%	12%, 13%

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Assets by division

	March 31, 2024	March 31, 2023
	(audited)	(audited)
	\$	\$
Applied Electronics	9,458,465	9,750,341
Specialty Structures	5,526,162	6,377,483

Intangibles by division

	March 31, 2024	March 31, 2023
	(audited)	(audited)
	\$	\$
Applied Electronics	891,842	1,427,993
Specialty Structures	0	0

Revenues

Total product revenue from ongoing operations for fiscal 2024 was \$24,204,805 compared to \$19,943,120 for the first twelve months of fiscal 2023.

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

Plaintree's Applied Electronics Division revenues from operations increased in fiscal 2024 to \$10,512,522 compared to \$8,800,687 in fiscal 2023.

Plaintree's Specialty Structures Division revenues from operations increased to \$13,692,283 in fiscal 2024 from \$11,142,433 in fiscal 2023.

Gross Margin

Total gross margin increased during fiscal 2024, at 32% compared to 21% for fiscal 2023. Included in fiscal 2023 cost of goods sold are expenses related to operations to relocate and establish the production processes of the Elmira Stove Works business which were not repeated in fiscal 2024.

Operating Expenses

Research and development expenses

Research and development expenses were \$1,767,010 and \$1,592,531 for fiscals 2024 and 2023, respectively. Research and development expenditures consist primarily of development engineering and personnel expenses.

Finance and administration expenses

Finance and administration expenses were \$2,227,864 and \$2,003,020 for fiscals 2024 and 2023, respectively. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which include financial staff, legal and audit activities.

Sales and marketing expenses

Sales and marketing expenses were \$1,906,358 and \$1,884,343 for fiscals 2024 and 2023. These expenses consist primarily of personnel and related costs associated with Company's sales and marketing departments, which include sales commissions, advertising, travel, trade shows and other promotional activities.

Bad debts

An allowance for doubtful accounts has been created for an account has been setup in the amount of \$27,638 (\$NIL – 2023) for potentially uncollectable amounts. This relates to a tenant subletting office space who is more than three months in arrears.

Loss on Disposal

Various production equipment were disposed of during fiscal 2024 resulting in a write-off of the remaining net book value associated with the equipment in the amount of \$39,944 (\$NIL – 2023).

Loss on impairment

Loss on impairment consists of a write-down of Goodwill, Brands and Customer Relationships related to the Elmira Stove Works acquisition. Loss on impairment amounted to \$360,000 and \$666,486 for fiscals 2024 and 2023 respectively. Management determined that an impairment charge was required to write off goodwill of \$186,816 with a further impact on intangible assets of \$89,249 to Brands and \$83,935 to Customer Relationships. The recoverable amount was assessed by a value in use assessment as the fair value less costs of disposal calculation was expected to provide similar results when using a discounted cash flow model. The recoverable amount of the CGU amounted to \$2,470,456 as at March 31, 2024.

Interest expense

Interest expense consists of interest incurred on bank debt. Interest expenses amounted to \$301,956 and \$335,449 for fiscals 2024 and 2023 respectively. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest.

Loss (Gain) on foreign exchange

The Company reported a loss on foreign exchange of \$197,670 and a gain of (96,163) in fiscals 2024 and 2023, 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.

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

Net loss and comprehensive loss for fiscal 2024 was \$(394,094) and Net loss and comprehensive loss for fiscal 2023 was \$(3,410,940). Net income attributed to common shareholders is calculated by reducing net income by the \$1,466,000 cumulative dividends that accrue annually on the Class A preferred shares. The cumulative dividends accrue at 8% per annum on the face value of the \$18,325,000 for the Class A preferred shares and as March 31, 2024 the accrued and unpaid dividends on the Class A preferred shares were \$22,656,000 (March 31, 2023 - \$21,190,000).

Quarterly Results

The following table sets out selected unaudited consolidated financial information for the last eight quarters in fiscals 2024 and 2023:

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

	Mar-31 2024 Q4 2024	Dec-31 2023 Q3 2024	Sep-30 2023 Q2 2024	Jun-30 2023 Q1 2024	Mar-31 2023 Q4 2023	Dec-31 2022 Q3 2023	Sept 30 2022 Q2 2023	Jun 30 2022 Q1 2023
Revenue	\$ 6,417	\$ 4,857	\$ 5,178	\$ 7,753	\$ 3,397	\$ 6,238	\$ 4,861	\$ 5,447
Net earnings (loss) and total comprehensive earnings (loss)	625	(174)	(44)	665	(3335)	831	220	339
Net (loss) earnings attributed to common shareholders	258	(540)	(410)	298	(3,701)	465	(147)	(28)
Basic and diluted (loss) earnings per share	0.02	(0.04)	(0.06)	0.02	(0.29)	0.04	(0.01)	(0.00)

Liquidity and Capital Resources

	March 31, 2024 (audited)	March 31, 2023 (audited)	Change
	\$	\$	\$
Cash	(1,880)	(1,097)	(783)
Working Capital	3,047	(886)	3,933

	March 31, 2024 (audited)	March 31, 2023 (audited)	Change
	\$	\$	\$
Net cash provided by (used in) :			
Operating activities	1,581	(595)	2,176
Investing activities	(569)	(543)	(26)
Financing activities	(1,795)	(1,870)	75

Cash

As at March 31, 2024, the Company had a cash balance of \$(1,879,537) a decrease of \$(782,807) from cash balance of \$(1,096,730) in March 31, 2023.

Working Capital

Working capital represents current assets less current liabilities. As at March 31, 2024, the Company had working capital of \$3,047,327 compared to a working capital of \$(885,625) at March 31, 2023. In fiscal 2023 the Company was offside on its bank covenant ratios resulting the reclassification of \$3,112,488 of long term debt to current debt, this was not applicable at March 31, 2024.

Operating activities

Cash provided by operating activities during the first twelve months of fiscal 2024 was \$1,581,147 representing an increase of \$2,176,069 from cash provided of \$(594,923) for the respective period during fiscal 2023. Cash provided during the period related to improved operations, deferred revenue and general working capital improvements.

Investing activities

Cash (used in) investing activities during fiscal 2024 was \$(568,937) representing a decrease of \$(25,739) in investing activities from cash (used in) investing activities of \$(543,198) in the respective period during fiscal 2023. Cash used in investing activities during fiscal 2024 relates primarily to the purchases of manufacturing equipment and website development.

Financing activities

Cash (used in) financing activities during fiscal 2024 was \$(1,795,017) representing an increase of \$74,793 from cash (used in) of \$(1,869,810) during the respective period in fiscal 2023. Cash used in financing activities during fiscal 2024 relates primarily to the repayment of long-term debt and leases.

Outlook

The Company has in place a credit facility of up to \$4,000,000 CAD through its bank based on acceptable trade receivables and inventory. The total amount available to the Company as at March 31, 2024 was \$3,387,562 CAD of which \$2,358,016 was in use leaving \$1,029,546 CAD available. The Company through its bank has in place a credit facility of up to \$3,500,000 CAD for the issuance of standby letters of credit and/or letters of guarantee insured by Export Development Corporation ("EDC") Performance Security Guarantee of which \$824,381 CAD was in use as at March 31, 2023. The Company has in place a credit facility of up to \$2,000,000 CAD to assist with financing of new and used equipment. As at March 31, 2024, \$1,323,013 CAD was in use leaving \$676,987 CAD available (Note 7 Lease obligations). The Company has in place a credit facility of up to \$1,193,450 CAD through its bank to fund the Elmira purchase consideration of which \$1,193,450 was used at March 31, 2024.

Due to related parties

	March 31, 2024	March 31, 2023
	(audited)	(audited)
	\$	\$
Due to senior officers	3,663,669	3,815,593
Dividends payable	60,000	60,000
Due to Targa Group Inc.	247,672	247,672
Due to Tidal Quality Management Inc.	398,388	398,388
Due to Targa Group Inc, line of credit interest	242,598	242,598
Due to Targa Group Inc, demand loan interest	201,393	201,393
	4,813,720	4,965,643
Less: current portion	(50,000)	(50,000)
	4,763,720	4,915,643

Targa Group Inc. and Tidal Quality Management Inc. are companies under common control.

As at March 31, 2024, a balance of \$3,663,669 (\$2,528,035 principal and \$1,135,634 interest); March 31, 2023 - 3,815,593 (\$2,579,959 principal and \$1,235,634 interest) remained owing to senior officers of the Company. The parties agreed to discontinue interest payments accruing on balances as of April 1, 2016. During fiscal 2024 payments in the amount of \$151,924 were repaid to senior officers. As of March 31, 2024, \$50,000 was classified as current. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

On July 14, 2011, the board of directors of the Company declared a cash dividend of \$10.91405 per Class A preferred share (\$200,000 in the aggregate) payable on July 22, 2011, to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the \$1,000 redemption amount of the Class A preferred share. An amount of \$60,000 (\$60,000 – March 31, 2023) of the dividend remains outstanding as at March 31, 2024. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

As at March 31, 2024, interest in the amount of \$247,672 (\$247,672 – March 31, 2023) on a loan from Targa remains outstanding. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

As at March 31, 2024, a balance of \$398,388 rent arrears consist of \$215,500 from March 31 2023 and \$182,888 interest); March 31, 2023 - \$398,388 (\$215,500 rent arrears and \$182,888 interest) remained owing to a related party controlled by Targa, Tidal Quality Management Corp. The party agreed to discontinue interest accruing on unpaid balances as at April 1, 2016. Until then the interest rate was at bank prime plus 2%. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

The Company has 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 Line is secured by a security interest granted over the assets of the Company. As at March 31, 2024, \$NIL (\$NIL – March 31, 2023) remained outstanding on the line of credit with accumulated interest of \$242,598 (\$242,598 – March 31, 2023) outstanding for a balance of \$242,598 (\$242,598 – March 31, 2023). The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

Interest in the amount of \$66,581 (\$66,581 – March 31, 2023) remained outstanding on a demand loan with Targa. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments. Accumulated interest in the amount of \$134,812 (\$134,812 – March 31, 2023), on a loan from Targa remains outstanding as of March 31, 2024. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

Rents in the form of lease payments paid to Tidal Quality Management Corporation during the twelve months ended March 31, 2024, totaled \$685,976 (\$668,843 – March 31, 2023). The above related party transactions are measured at their exchange amount, which is the amount agreed to by the parties.

Facilities

The Company leases a 135,500 sq. /ft. building at 10 Didak Drive in Arnprior, Ontario and a sales office and showroom in Elmira, ON for the Elmira Stove Works Inc.

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

Summary of Outstanding Share Data

As at July 26, 2024 the following equity instruments of the Company were issued and outstanding:

Common Shares: 12,925,253

Class A Preferred Shares: * 18,325

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

Convertible Debentures:** \$nil principal value

** The Company has issued various tranches of convertible debentures to related parties for total outstanding value at March 31, 2024 of \$247,672 in accrued interest only. Interest is convertible in cash only.

Options:*** 880,000

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