

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

Q1-2020
Interim report

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

PLAINTREE SYSTEMS INC.

For the three months ended June 30, 2019 and June 30, 2018

Date: August 20, 2019

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

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintiff is for the three months ended June 30, 2019 and June 30, 2018. 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 August 20, 2019 and is current to that date, unless otherwise stated. Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the annual filings. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying financial statements.

W. David Watson II, President and Chief Executive Officer, and Lynn E. Saunders, Chief Financial Officer, in accordance with National Instrument 52-109 ("NI52-109"), have both certified that they have reviewed the interim financial statements and this MD&A ("the interim Filings") and that, based on their knowledge having exercised reasonable diligence, (a) the interim 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 interim Filings; and (b) the interim financial statements together with the other financial information included in the interim 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 interim 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

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

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

Overview

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the Canadian Securities Exchange ("CSE") under "NPT". The Company operates an Electronics division, consisting of Summit Aerospace USA Inc. ("Summit Aerospace") and a Specialty Structures division (the Triodetic business) and Spotton Corporation. Plaintree is a diversified company with proprietary technologies and manufacturing capabilities in structural design and aerospace. The 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.

Until October 31, 2018, the Specialty Structures division included Madawaska Doors business. On March 31, 2019, the Company completed the sale of assets and the business of Madawaska Doors.

Until March 31, 2019, the Electronics division included the business of Hypernetics, a manufacturer of avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids, and permanent magnet alternators. The assets and liabilities associated with this business were held for sale as at March 31, 2019.

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 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:

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

(\$000s, except per share amounts)

	Three months ending	
	June 30, 2019	June 30, 2018
	(unaudited)	(unaudited)
	\$	\$
Revenue	3,545	3,395
Net (loss) earnings and comprehensive earnings	(236)	121
Net earnings (loss) attributed to common shareholders	(603)	(246)
Basic and diluted (loss) per share	(0.05)	(0.02)

(\$000s, except per share amounts)

	June 30, 2019	March 31, 2019
		(unaudited)
	\$	\$
Total assets	15,057	16,167
Total liabilities	11,737	12,611
Long-term liabilities	8,169	7,948
Cash dividends declared per share	nil	nil

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

Results from Operations

(\$000s)	Three months ending		Change from
	June 30, 2019	June 30, 2018	
	(unaudited)	(unaudited)	
	\$	\$	\$
Revenue	3,545	3,395	150
Cost of sales	2,967	3,065	(98)
Gross margin	578	330	248
	16%	10%	
Operating expenses:			
Research and development	268	328	(60)
Finance and administration	412	303	109
Sales and marketing	151	94	57
Interest expense	67	89	(22)
Loss on foreign exchange	129	21	108
	1,027	835	192
Net (loss) and comprehensive (loss) before other income	(449)	(505)	56
Other gains			
Gain from discontinued operations	213	626	(413)
Net (loss) earnings and comprehensive (loss) earnings	(236)	121	(357)

Operations held for sale

Madawaska Doors

As of October 2018, the Company deemed the assets of 9366920 Canada Inc (operating as Madawaska Doors) as held for sale. The business closed in the Company's third fiscal quarter. In March 2019 the company completed the sale of the assets and business of Madawaska doors. The Company's inventory, equipment and building were all included in the purchase price of \$300,000.

Hypernetics

In the fourth quarter of fiscal 2019, the Company began to actively market for sale its Hypernetics business, which manufactures avionic components for multiple applications. The business is available for sale in its present condition and it is anticipated that a sale will be completed in fiscal 2020. As a result, at March 31, 2019, the assets and associate liabilities were classified and accounted for as held for sale on the consolidated statements of financial position and the operating results have been reported on the consolidated statements of comprehensive earnings as discontinued operations. The assets of Hypernetics are measured at the lower of their carrying amount less cost to sell. Summarized financial information for Hypernetics is shown below:

	June 30, 2019 (unaudited)	March 31, 2019 (audited)
	\$	\$
Assets held for sale		
Accounts receivable	352,059	618,901
Unbilled revenue	505,883	604,844
Inventory	704,198	562,770
Equipment	157,687	157,687
Assets of component held for sale	<u>1,719,827</u>	<u>1,944,202</u>
Liabilities held for sale		
Accounts payable and accrued	<u>304,270</u>	<u>305,593</u>
Deferred tax asset	<u>2,207,830</u>	<u>2,207,830</u>
Net assets held for sale	<u>3,623,387</u>	<u>3,846,439</u>
Revenues	Three months ending June 30, 2019 (unaudited)	Three months ending June 30, 2018 (audited)
	\$	\$
Hypernetics	599,218	1,385,562
9366920 Canada Inc dba Madawaska Doors	<u>-</u>	<u>251,063</u>
	<u>599,218</u>	<u>1,636,625</u>
Gain (loss) on sale of operations held for sale		
Hypernetics	213,081	677,382
9366920 Canada Inc dba Madawaska Doors	<u>-</u>	<u>(51,244)</u>
Net gain on operations held for sale	<u>213,081</u>	<u>626,138</u>

Business segment information

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments – the design, development, manufacture, marketing and support of electronic product, 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 \$4,449,861 in property, plant and equipment, \$1,980,782 is located in Canada and \$2,469,079 in the United States. All of the Company's intangible assets are primarily located in Canada.

Revenue by division

	June 30, 2019 (unaudited)	June 30, 2018 (unaudited)
	\$	\$
Electronics	714,584	686,295
Specialty Structures	2,830,102	2,708,456
	3,544,687	3,394,751

Revenue by geographical location

	June 30, 2019 (unaudited)	June 30, 2018 (unaudited)
	\$	\$
Canada	1,720,319	2,089,376
United States	812,050	943,572
Chile	26,809	262,401
Peru	854,307	-
Other	131,202	99,402
	3,544,687	3,394,751

Net (loss) earnings before taxes by division - Continuing operations

	June 30, 2019 (unaudited)	June 30, 2018 (unaudited)
	\$	\$
Electronics	(407,342)	(185,932)
Specialty Structures	(41,759)	(319,587)
	(449,101)	(505,519)

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

	June 30, 2019 (unaudited)	June 30, 2018 (unaudited)
Number of customers	2	2
% of total revenue	16%, 24%	12%, 24%

Assets by division - Continuing operations

	June 30, 2019 (unaudited)	June 30, 2018 (unaudited)
	\$	\$
Electronics	5,790,801	4,307,267
Specialty Structures	5,338,589	6,898,729

Revenues

Total product revenue from ongoing operations for the three months ending June 30, 2019 was \$3,544,687 compared to \$3,394,751 for the three months ended June 30, 2018.

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

Plaintree's Electronics Division revenues from ongoing operations increased during the first quarter of fiscal 2020 to \$714,584 compared to \$686,295 during the same quarter of fiscal 2019.

Plaintree's Specialty Structures Division revenues from ongoing operations increased to \$2,830,102 in the first quarter of fiscal 2020 from \$2,708,456 in the same quarter of fiscal 2019.

Gross Margin

Total gross margin from continuing operations increased for the first three months of fiscal 2020 to 16% compared to 10% for the same period in fiscal 2019. The increase in the gross margin is primarily attributed to product mixture between the periods.

Operating Expenses

Research and development expenses

Research and development expenses were \$268,456 and \$327,803 in the first three months of fiscals 2020 and 2019, 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 2020.

Finance and administration expenses

Finance and administration expenses were \$412,402 and \$303,039 in the first three months of fiscals 2020 and 2019, 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 2020.

Sales and marketing expenses

Sales and marketing expenses were \$150,575 and \$94,664 in the first three months of fiscals 2020 and 2019, respectively. These expenses consisted primarily of personnel and related costs associated with Company's sales and marketing departments, which include sales commissions, advertising, travel, trade shows and other promotional activities.

Sales and marketing expenses are expected to remain at comparable current levels in fiscal 2020.

Interest expense

Interest expense consists of interest incurred on bank and related party debt. Interest expenses amounted to \$66,603 and \$89,040 for the three months ended June 30, 2019 and June 30, 2018 respectively. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest. During fiscal 2018, a related party refinanced its approximately \$345,000 mortgage on one of its properties, increasing the mortgage to \$900,000. Plaintiff guaranteed the loan and granted a security interest over its assets as security for this guarantee. The related party used a portion of the proceeds from the refinancing to loan \$554,447 to the Company. The related party loan bore interest at a rate of 14% per annum until March 31, 2019 when it was refinanced by the related party's bank. Interest is payable monthly and the principal is due on maturity. All other related parties with loans to the Company agreed to discontinue interest payments accruing on balances as of April 1, 2016.

Gain on foreign exchange

The Company reported loss on foreign exchange of \$128,660 and \$21,171 for the three months ended June 30, 2019 and June 30, 2018, respectively. The gain/loss on foreign exchange represents the gain/loss, realized or unrealized, of transactions and year end foreign balances that are completed in currencies other than the Company's reporting currency.

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

Net (loss) and comprehensive (loss) for first quarter of fiscal 2020 and fiscal 2019 was \$(602,520) and \$(245,881) respectively. 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 June 30, 2019 the accrued and unpaid dividends on the Class A preferred shares were \$15,692,500 (March 31, 2018 - \$15,326,000).

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

Quarterly Results

The following table sets out selected unaudited consolidated financial information for the last eight quarters in fiscals 2020, 2019 and 2018:

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

(1) Revenue of discontinued operations has been removed for all periods.

	Jun-30 2019 Q1 2020	Mar-31 2019 Q4 2019	Dec-31 2018 Q3 2019	Sep-30 2018 Q2 2019	Jun-30 2018 Q1 2019	Mar-31 2018 Q4 2018	Dec-31 2017 Q3 2018	Sep-30 2017 Q2 2018
Revenue (1)	\$ 3545	\$ 3,472	\$ 3,758	\$ 6,378	\$ 3,395	\$ 5,366	\$ 3,460	\$ 2,986
Net (loss) earnings and total comprehensive (loss) earnings	(236)	1,877	576	1,234	121	802	817	576
Net (loss) earnings attributed to common shareholders	(603)	1,511	210	868	(246)	436	451	210
Basic and diluted (loss) earnings per share	(0.05)	0.12	0.02	0.07	(0.02)	0.03	0.03	0.02

Liquidity and Capital Resources

(\$000s)

	June 30, 2019 (unaudited) \$	June 30, 2018 (unaudited) \$
Cash	1,101	(1,070)
Working Capital	6,464	2,766

	June 30, 2019 (unaudited) \$	June 30, 2018 (unaudited) \$
Net cash (used in) provided by:		
Operating activities	2,182	(545)
Investing activities	(62)	(84)
Financing activities	(209)	(127)

Cash

As at June 30, 2019, the Company had a cash balance of \$1,100,719, an increase of \$1,911,510 from a net cash deficit balance of \$(810,791) on March 31, 2019.

Working Capital

Working capital represents current assets less current liabilities. As at June 30, 2019, the Company had working capital of \$6,464,097 compared to a working capital of \$6,658,747 at March 31, 2019.

Operating activities

Cash provided by operating activities for the first three months of fiscal 2020 was \$2,181,666 representing an increase of \$2,726,187 from cash used of \$(544,521) for the respective period during fiscal 2019. Cash provided by operating activities during the first three months of fiscal 2019 was primarily the result of collection of trade accounts receivable and deferred revenue from customer deposits.

Investing activities

Cash used in investing activities for the first three months of fiscal 2020 was \$(61,634) representing a decrease of \$21,955 from cash used in investing activities of \$(83,589) in the respective period during fiscal 2019. The increase in cash used during the first three months of fiscal 2020 was due to the payments to acquire capital.

Financing activities

Cash used in financing activities for first quarter of fiscal 2020 was \$(208,521) representing an increase of \$81,076 from cash used of \$(127,445) during first quarter of fiscal 2019. Cash used in financing activities during the first three months of fiscal 2020 relates primarily to repayment of long term debt.

Outlook

The Company has in place a credit facility of up to \$3,000,000 through its bank based on acceptable trade receivables and inventory. The total amount available to the Company as at June 30, 2019 was \$2,565,993 of which \$NIL was in use and a letter of credit in the amount of US\$287,200 (\$335,289 CAD) leaving \$2,230,704 available. The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow as a result of contracts bid and/or signed, and their expected margins on these projects. As a result, the Company believes that it has sufficient cash resources to meet its obligations, beyond the next 12 months.

Due to related parties

	June 30, 2019	March 31, 2019
	\$	\$
	(unaudited)	(audited)
Due to senior officers	4,065,640	4,083,141
Dividends payable	60,000	60,000
Due to Targa Group Inc, convertible debentures	247,672	247,672
Due to Tidal Quality Management Inc.	824,282	824,209
Due to Targa Group Inc, line of credit	417,581	449,763
Due to Targa Group Inc, demand loan and interest	201,393	201,393
	5,816,569	5,866,178
Less: current portion	(50,000)	(50,000)
	5,766,569	5,816,178

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

As at June 30, 2019, a balance of \$4,065,640 (\$2,830,006 principal and \$1,235,634 interest) (\$4,083,141 (\$2,847,507 principal and \$1,235,634 interest) in March 2019) remained owing to senior officers of the Company. The parties agreed to discontinue interest payments accruing on balances as of April 1, 2016. During the first three months of fiscal 2020 payments in the amount of

\$17,500 was repaid to a former senior officer. The balance of amount of \$4,015,640 is classified as long-term as the parties have postponed and subordinated their loans while certain facilities remain outstanding.

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 in 2019) of the dividend remains outstanding as at June 30, 2019. The balance is classified as long-term as the related party has agreed not to demand payment before September 2020.

As at June 30, 2019, interest in the amount of \$247,672 (\$247,672 in 2019) on a loan from Targa remains outstanding. The related party has agreed not to demand payment before September 2020 and, accordingly, the amount is classified as long-term.

As at June 30, 2019, a balance of \$269,835 (\$269,762 in March 31, 2019) remains outstanding on a loan from Tidal, a company controlled by Targa. The party agreed to discontinue interest accruing on unpaid balances as at April 1, 2016. Until then, the interest was at bank prime plus 2%. The related party has agreed not to demand payment before September 2020 and, accordingly, the amount is classified as long-term.

On May 31, 2017, Tidal refinanced its approximately \$345,000 mortgage on one of its properties, increasing the mortgage to \$900,000. Plaintiff guaranteed the Tidal loan and granted a security interest over its assets as security for this guarantee. Tidal used a portion of the proceeds from the refinancing to loan \$554,447 to the Company. Until March 31, 2019 the related party loan incurred interest at a rate of 14% per annum, and following this date. The balance is classified as long-term as the related party has agreed not to demand payment before September 2020.

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 June 30, 2019, \$174,983 (\$207,165 in 2019) remained outstanding on the line of credit with accumulated interest of \$242,598 (\$242,598 in 2019) for a balance of \$417,581 (\$449,763 in 2019). Targa has agreed that it will not demand repayment before September 2020 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of \$201,393 (\$201,393 in 2019), on a prior year demand loan from Targa remains outstanding as of June 30, 2019. The party has agreed not to demand repayment before September 2020 and, accordingly, the amount is classified as long-term.

Facilities

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

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

New Standards effective April 2019

IFRS 16 – Leases

IFRS 16 Leases ("IFRS 16") The IASB issued a new standard, IFRS 16 on January 13, 2016, which supersedes IAS 17 Leases. The new standard brings most leases on the balance sheet for lessees under a single model and eliminates the distinction between operating and finance leases. Lessor accounting remains largely unchanged. The new standard will come into effect for periods beginning on or after April 1, 2019. There was no material impact of the transition to IFRS 16 on the Company's statements.

Summary of Outstanding Share Data

As at August 20, 2019 the following equity instruments of the Company were issued and outstanding:

Common Shares: 12,925,253

Class A Preferred Shares: * 18,325

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

Convertible Debentures:** \$nil principal value

** The Company has issued various tranches of convertible debentures to related parties for total outstanding value at March 31, 2019 of \$247,672 in accrued interest only. Interest is convertible in cash only.

Options:*** None

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