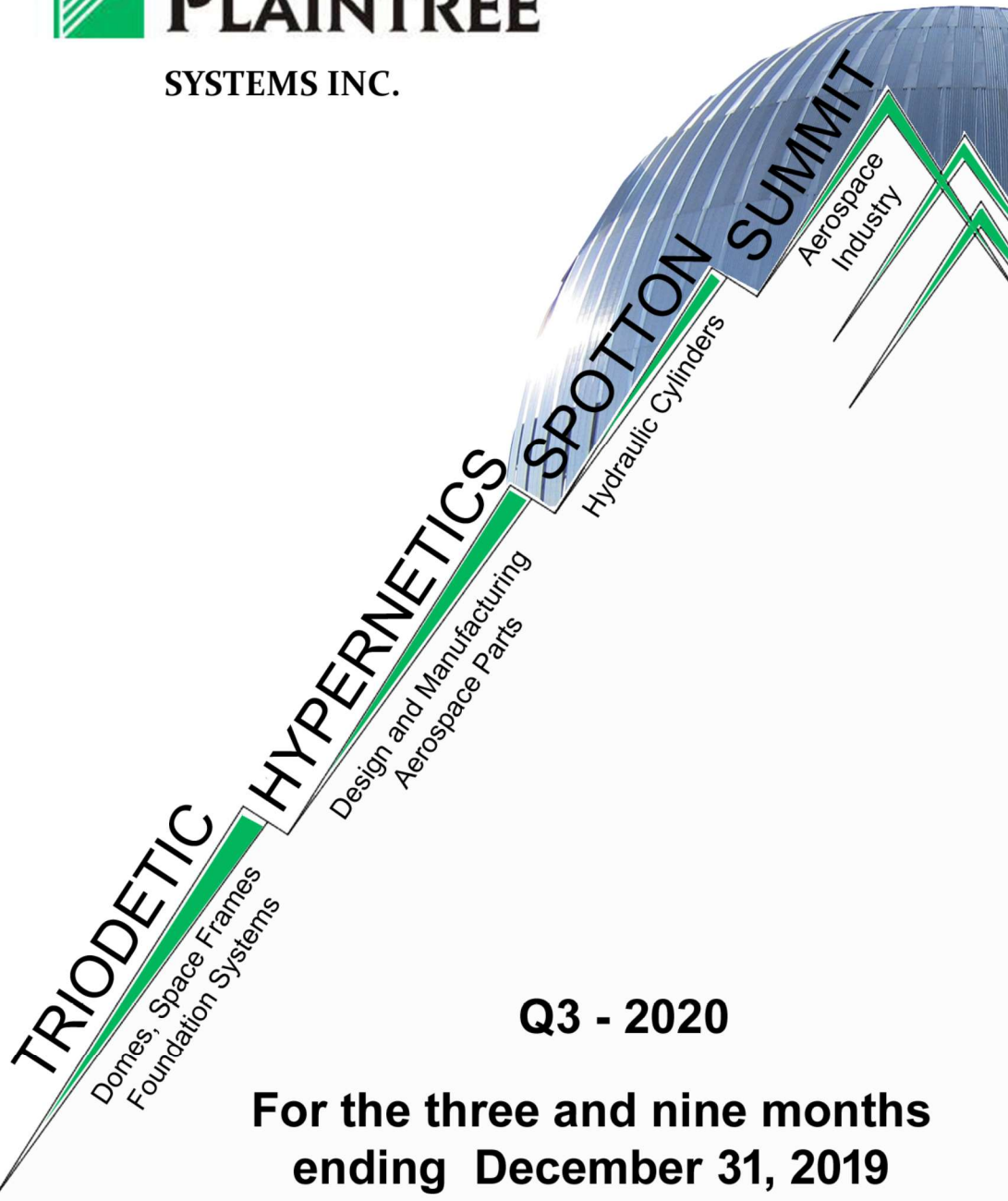




PLAINTREE

SYSTEMS INC.



Q3 - 2020

**For the three and nine months
ending December 31, 2019**

“Notice to Reader”

The accompanying unaudited interim financial statements of Plaintree Systems Inc. for the three and nine months ended December 31, 2019 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

Date: February 20, 2020

“David Watson”

David Watson
CEO

Plaintree Systems Inc.

Consolidated statements of financial position

as of December 31, 2019 and March 31, 2019

(in Canadian dollars)

	December 31, 2019 (unaudited)	March 31, 2019 (audited)
	\$	\$
Assets		
Current assets		
Cash	-	838,280
Trade receivables and other receivables	2,682,631	4,296,018
Unbilled revenue	664,199	882,341
Inventories (Note 5)	1,171,296	1,037,430
Prepaid expenses and other receivables	139,419	115,760
Assets held for sale (Note 4)	4,619,624	4,152,032
	9,277,169	11,321,861
Property, plant and equipment (Note 9)	4,850,173	4,449,861
Intangible assets (Note 10)	487,791	395,129
	14,615,133	16,166,851
Liabilities		
Current liabilities		
Cash deficit	702,626	1,649,071
Trade and other payables	1,458,045	1,641,285
Liabilities directly associated with assets held for sale (Note 4)	239,350	305,593
Deferred revenue	41,162	509,976
Current portion of long-term debt (Note 6)	165,060	169,942
Current portion of due to related parties (Note 11)	250,000	50,000
Current portion of deferred government assistance (Note 8)	15,900	15,900
Current portion of obligations under lease capital (Note 7)	372,927	273,847
Current portion of government assistance (Note 8)	47,500	47,500
	3,292,570	4,663,114
Long-term debt (Note 6)	631,756	763,218
Deferred government assistance (Note 8)	62,630	76,944
Obligations under lease capital (Note 7)	835,405	613,218
Repayable government assistance - other (Note 8)	498,297	549,377
Due to related parties (Note 11)	5,208,516	5,816,178
Deferred tax liabilities (Note 16)	129,000	129,000
	10,658,174	12,611,049
Shareholders' equity (deficiency)		
Issued capital (Note 12)	2	2
Contributed surplus	2,090,750	2,090,750
Retained earnings	1,866,207	1,465,050
	3,956,959	3,555,802
	14,615,133	16,166,851

Approved by the Board

"David Watson""Girvan Patterson"

The accompanying notes are an integral part of the consolidated financial statements.

Plaintree Systems Inc.

Consolidated statements of comprehensive (loss) earnings

for the three and nine months ending December 31, 2019 and December 31, 2018

(unaudited)

(in Canadian dollars)

	Three months ending		Nine months ending	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	\$	\$	\$	\$
Revenue	2,215,050	3,757,949	11,850,725	13,530,931
Cost of sales	2,357,897	3,074,696	9,616,774	10,716,468
Gross margin	(142,847)	683,253	2,233,951	2,814,463
Operating expenses				
Research and development	354,377	318,355	921,586	946,671
Finance and administration	274,454	425,319	949,310	1,050,389
Sales and marketing	126,714	53,050	447,376	250,041
Bad debt	63,121	-	63,121	-
Interest expense	49,127	76,801	196,337	283,168
(Gain) loss on foreign exchange	(37,689)	54,492	(10,295)	73,137
	830,104	928,017	2,567,435	2,603,406
Net (loss) earnings from continuing operations	(972,951)	(244,764)	(333,484)	211,057
Gain on operations held for sale (Note 4, 13)	190,225	583,503	734,641	1,483,088
Net (loss) earnings and comprehensive earnings	(782,726)	338,739	401,157	1,694,145
Basic and diluted (loss) earnings per common share (Note 13)				
From continuing and held for sale operations	(0.09)	(0.00)	(0.05)	0.05
From continuing operations	(0.10)	(0.05)	(0.11)	(0.07)
Weighted average common shares outstanding	12,925,253	12,925,253	12,925,253	12,925,253

The accompanying notes are an integral part of the consolidated financial statements.

Plaintree Systems Inc.

Consolidated statements of cash flows

for the nine months ended December 31, 2019 and December 31, 2018

(unaudited)

(in Canadian dollars)

	Nine months ending	
	December 31, 2019	December 31, 2018
	\$	\$
Operating activities		
Comprehensive earnings	401,157	1,694,145
Add (deduct) items not affecting cash:		
Assets held for sale	(467,592)	-
Liabilities on assets held for sale	(66,243)	-
Depreciation of intangible assets	101,090	102,965
Depreciation of property, plant and equipment	705,075	711,026
Changes in non-cash operating working capital items		
Trade and other receivables	1,613,387	569,685
Unbilled revenue	218,142	381,429
Inventories	(133,866)	1,734
Prepaid expenses and other receivables	(23,658)	154,332
Trade and other payables	(183,239)	(930,176)
Deferred revenue	(468,815)	(1,397,654)
Cash provided by operations	1,695,438	1,287,486
Investing activities		
Payments to acquire intangible assets	(193,752)	(4,926)
Payments to acquire property, plant and equipment	(501,700)	(559,515)
Cash (used) in investing activities	(695,452)	(564,441)
Financing activities		
Repayment of government assistance	(65,394)	(5,541)
Repayment of long-term debt	(136,344)	(83,402)
Repayment of capital lease obligations	(282,421)	(173,367)
Repayment of related party borrowings (Note 11)	(407,662)	(266,371)
Cash (used) in financing activities	(891,821)	(528,681)
Net cash inflow	108,165	194,364
(Net cash deficit) (beginning of the year)	(810,791)	(314,710)
Net cash (cash deficit), end of the period	(702,626)	(120,346)

The accompanying notes are an integral part of the consolidated financial statements.

PLAINTREE SYSTEMS INC.

Consolidated Statement of changes in equity
for the periods ended December 31, 2019 and December 31, 2018
(unaudited)
(in Canadian dollars)

	Common Shares Number	Issued Capital \$	Preferred Shares (1) Number	Issued Capital \$	Contributed Surplus \$	Retained earnings (deficit) \$	Shareholders' Equity \$
Balances at March 31, 2018	12,925,253	1	18,325	1	2,090,750	(2,657,732)	(566,980)
Adjustment on initial application of IFRS 15 (note 3)						456,311	456,311
Adjusted balance, April 1, 2018	12,925,253	1	18,325	1	2,090,750	(2,201,421)	(110,669)
Net earnings and comprehensive earnings						1,694,145	1,694,145
Balances at December 31, 2018	12,925,253	1	18,325	1	2,090,750	(507,276)	1,583,476
	Common Shares Number	Issued Capital \$	Preferred Shares (1) Number	Issued Capital \$	Contributed Surplus \$	Retained earnings (deficit) \$	Shareholders' Equity \$
Balances at March 31, 2019	12,925,253	1	18,325	1	2,090,750	1,465,050	3,555,802
Net earnings and comprehensive earnings						401,157	401,157
Balances at December 31, 2019	12,925,253	1	18,325	1	2,090,750	1,866,207	3,956,959

(1) Class A Shares have a 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at \$1000 per share plus accrued dividends; non-voting.

* The Company adopted IFRS 15 as described in Note 3. Under this adoption, the comparative information is not restated.

Plaintree Systems Inc.

Notes to the consolidated financial statements

For the three and nine months ended December 31, 2019 and December 31, 2018 (unaudited)

(In Canadian dollars)

1. Description of the business

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 when it ceased operations during the third quarter of fiscal 2019. 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.

2. Basis of presentation

(a) Statement of compliance

The condensed consolidated unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved for issue by the Board of Directors on February 20, 2020. The unaudited consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* using the accounting policies disclosed below. These statements should be read in conjunction with the audited financial statements and notes included in the Annual Report for the year ended March 31, 2019.

(b) Basis of measurement

These condensed consolidated unaudited interim financial statements have been prepared on a historical cost basis except for share-based compensation and for the purchase price allocation for business combinations, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

(c) Basis of consolidation

The condensed consolidated unaudited interim financial statements include the accounts of Plaintree Systems Inc. and its wholly-owned subsidiaries: Summit Aerospace USA Inc. and Triodetic Inc. (U.S. companies), Spotton Corp. (Canadian company) and Madawaska Doors Inc., which was discontinued on March 2018, through its wholly-owned subsidiary, 9366920 Canada Inc. Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by the Company. All inter-company transactions have been eliminated.

Plaintree Systems Inc.

Notes to the consolidated financial statements

For the three and nine months ended December 31, 2019 and December 31, 2018 (unaudited)

(In Canadian dollars)

3. Significant accounting policies

Except as described below the accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements for the year ending March 31, 2019.

The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ended March 31, 2020.

New Standards effective April 1, 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.

4. Operations held for sale

Madawaska Doors

As of October 2018, the Company deemed the assets of its subsidiary 9366920 Canada Inc (operating as Madawaska Doors) as held for sale. The Madawaska Doors 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 sale for a purchase price of \$300,000. Net losses for the 2019 fiscal year of (\$132,806) are included in the earnings (losses) from discontinued operations.

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 within the next twelve months. As a result, at March 31, 2019, the assets and associate liabilities have been 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:

Plaintree Systems Inc.

Notes to the consolidated financial statements

For the three and nine months ended December 31, 2019 and December 31, 2018 (unaudited)

(In Canadian dollars)

4. Operations held for sale, continued

	December 31, 2019	March 31, 2019
	\$	\$
Assets held for sale		
Accounts receivable	877,976	618,901
Unbilled revenue	659,640	604,844
Inventory	716,491	562,770
Equipment	157,687	157,687
Assets of component held for sale	2,411,794	1,944,202
Liabilities held for sale		
Accounts payable and accrued	239,350	305,593
Deferred tax asset	2,207,830	2,207,830
Net assets held for sale	4,380,274	3,846,439
	Nine months ending	2019
Revenues	December 31, 2020	2019
	\$	\$
Hypernetics	2,481,187	4,701,547
9366920 Canada Inc dba Madawaska Doors	-	594,975
	2,481,187	5,296,522
(Gain) loss on sale of operations held for sale		
Hypernetics	(734,641)	(1,984,677)
9366920 Canada Inc dba Madawaska Doors	-	132,806
	(734,641)	(1,851,871)
Deferred income tax recovery	-	(2,207,830)
Net gain on operations held for sale	(734,641)	(4,059,701)

5. Inventories

	December 31, 2019	March 31, 2019
	(unaudited)	(audited)
	\$	\$
Raw materials	1,146,997	619,598
Work in process	24,299	417,832
	1,171,296	1,037,430

The cost of inventories recognized as an expense during the nine months ending December 31, 2019 was \$9,528,986 (\$10,631,662 – December 31, 2018). The total carrying value of inventory as at December 31, 2019, was pledged as security through general security agreements under bank lines of credit and related party liabilities.

Plaintree Systems Inc.

Notes to the consolidated financial statements

For the three and nine months ended December 31, 2019 and December 31, 2018 (unaudited)

(In Canadian dollars)

The Company wrote down its inventories by \$NIL during the first nine months of fiscal 2020 (\$22,040 in first nine months of fiscal 2019) to reflect where the carrying amount exceeded net realizable value. The Company had write ups in the first nine quarters totaling \$5,899, (\$NIL in 2019).

6. Long-term debt

	December 31, 2019 (unaudited)	March 31, 2019 (audited)
Non-revolovng loan payable in monthly blended installments of principal and interest, \$8,061, at a rate of 4.728%, secured by general security agreement, maturing March 2022.	\$ 371,957	\$ 430,000
Non-revolovng loan payable (\$453,517 USD) in monthly blended installments of principal and interest, \$8,714 USD, at a rate of 5.746%, secured by general security agreement, maturing March 2022.	517,349	606,035
Deferred financing fees	(92,489)	(102,876)
	796,816	933,160
Current portion	(165,060)	(169,942)
	631,756	763,218

7. Lease obligations

	December 31, 2019 (unaudited)	March 31, 2019 (audited)
	\$	\$
Capital lease payable in monthly installments of \$639, bearing interest at 2.49% per annum, maturing October 2019	-	4,435
Capital lease payable in monthly installments of \$2,959 USD, bearing interest at 7.0 % per annum, maturing June 2021	65,477	98,529
Capital lease payable in monthly installments of \$1,254, bearing interest at 8.67 % per annum, maturing May 2022	31,117	38,803
Capital lease payable in monthly installments of \$4,644 USD bearing interest at 5.489 % per annum, maturing May 2023.	225,065	276,798
Capital lease payable in monthly installments of \$1,222, bearing interest at 4.968% per annum, maturing May 2021.	17,724	26,611
Capital lease payable in monthly installments of \$6,899 USD, bearing interest at 4.50% per annum, maturing October 2021	142,150	172,541
Capital lease payable in monthly installments of \$2,172 USD, bearing interest at 4.71% per annum, maturing November 2024	114,210	-
Capital lease payable in monthly installments of \$2767, USD, bearing interest at 5.79% per annum, maturing July 2023	188,886	269,348
Capital lease payable in monthly installments of \$6,901, USD, bearing interest at 5.19% per annum, maturing May 2024.	423,703	-
	1,208,332	887,065
Current portion	(372,927)	(273,847)
	835,405	613,218

Plaintree Systems Inc.

Notes to the consolidated financial statements

For the three and nine months ended December 31, 2019 and December 31, 2018 (unaudited)

(In Canadian dollars)

8. Government assistance

The Company's Summit Aerospace USA Inc. subsidiary accepted a loan of \$720,000 USD (\$942,264 CAD) from the Pennsylvania Industrial Development Authority (PIDA) as partial financing towards the manufacturing facility in Pocono Summit, PA purchased in May 2013. Monthly repayments are amortized over fifteen years at a fixed rate of 1.5%. The loan is secured by the related land and building.

The Company records the government loan at its estimated fair value at the date in which the payments are recorded. The estimated fair value of the loan payable is determined by discounting future cash flows associated with the loan at a discount rate which represents the estimated borrowing rate to the Company. The difference between the face value of the loan and the estimated fair value is deemed to be government assistance. The loan payable is accreted to the face value over the term of the loan and is recognized as accretion expense.

	Loan present value	Deferred Government Assistance	Repayable government assistance
	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$
Opening Balance	619,951	105,710	725,661
Loan adjustment for exchange	(38,857)	(23,085)	(61,942)
Repayments	(47,006)		(47,006)
Accretion	11,708	(4,095)	7,613
December 31, 2019	545,797	78,530	624,326
Current Portion	(47,500)	(15,900)	(63,400)
Balance	498,297	62,630	560,926

Plaintree Systems Inc.

Notes to the consolidated financial statements

For the three and nine months ended December 31, 2019 and December 31, 2018 (unaudited)

(In Canadian dollars)

9. Property, plant and equipment

	Factory equipment	Computer equipment	Furniture	Vehicles	Lease improvements	Building	Land	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost, balance								
March 31, 2018	7,736,569	1,062,691	202,313	420,221	2,240,969	1,784,553	275,431	13,722,747
Additions	1,013,403	4,208	-	17,017	288,314	-	-	1,322,942
Assets classified as								
held for sale	(157,686)	-	-	-	-	-	-	(157,686)
Disposals	(149,649)	-	-	-	-	(47,219)	(40,000)	(236,868)
March 31, 2019	8,442,636	1,066,899	202,313	437,238	2,529,283	1,737,334	235,431	14,651,134
Additions	1,003,592	42,325	-	-	59,471	-	-	1,105,388
December 31, 2019	9,446,227	1,109,224	202,313	437,238	2,588,754	1,737,334	235,431	15,756,521
Accumulated depreciation, balance								
March 31, 2018	(5,750,632)	(1,045,108)	(199,514)	(377,327)	(1,322,145)	(560,495)	-	(9,255,221)
Depreciation	(588,578)	(11,460)	(883)	(23,617)	(220,045)	(101,469)	-	(946,052)
March 31, 2019	(6,339,210)	(1,056,568)	(200,397)	(400,944)	(1,542,190)	(661,964)	-	(10,201,273)
Depreciation	(428,851)	(9,503)	(662)	(14,142)	(177,192)	(74,725)	-	(705,075)
December 31, 2019	(6,768,061)	(1,066,071)	(201,059)	(415,086)	(1,719,382)	(736,689)	-	(10,906,348)
Carrying amount,								
December 31, 2019	2,678,166	43,153	1,254	22,152	869,372	1,000,645	235,431	4,850,173
March 31, 2019	2,103,426	10,331	1,916	36,294	987,093	1,075,370	235,431	4,449,861

Included in factory equipment are items under capital leases with a cost of \$1,848,980 and accumulated amortization of \$297,209 (2019 – cost of \$1,244,478 and accumulated amortization of \$181,925). Included in vehicles are items under capital lease with a cost of \$34,851 and accumulated amortization of \$34,851 (2019 – cost of \$34,851 and accumulated amortization of \$34,851).

Plaintree Systems Inc.

Notes to the consolidated financial statements

For the three and nine months ended December 31, 2019 and December 31, 2018 (unaudited)

(In Canadian dollars)

10. Intangibles, (unaudited)

The intangible asset balance consists primarily of a customer relationship amount.

Cost, balance	
March 31, 2018	1,496,103
Additions	4,926
<u>March 31, 2019</u>	<u>1,501,029</u>
Additions	193,751
<u>December 31, 2019</u>	<u>1,694,780</u>
Accumulated Depreciation, balance	
March 31, 2018	(968,790)
Depreciation	(137,109)
<u>March 31, 2019</u>	<u>(1,105,899)</u>
Depreciation	(101,090)
<u>December 31, 2019</u>	<u>(1,206,989)</u>
Carrying amount,	
<u>December 31, 2019</u>	<u>487,791</u>
<u>March 31, 2019</u>	<u>395,130</u>

11. Due to related parties

	December 31, 2019	March 31, 2019
	\$	\$
	(unaudited)	(audited)
Due to senior officers	4,011,589	4,083,141
Dividends payable	60,000	60,000
Due to Targa Group Inc, covertable debentures	247,672	247,672
Due to Tidal Quality Management Inc.	695,264	824,209
Due to Targa Group Inc, line of credit	242,598	449,763
Due to Targa Group Inc, demand loan and interest	201,393	201,393
	5,458,516	5,866,178
Less: current portion	(250,000)	(50,000)
	5,208,516	5,816,178

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

As at December 31, 2019, a balance of \$4,011,589 (\$2,775,955 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 nine months of fiscal 2020 payments in the amount of

\$71,553 was repaid to a former senior officer. The balance of amount of \$3,761,589 is classified as long-term as the parties have postponed and subordinated their loans while certain facilities remain outstanding.

Plaintree Systems Inc.

Notes to the consolidated financial statements

For the three and nine months ended December 31, 2019 and December 31, 2018 (unaudited)

(In Canadian dollars)

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 December 31, 2019. The balance is classified as long-term as the related party has agreed not to demand payment before March 2021.

As at December 31, 2019, a balance of \$695,264 (\$824,209 in March 31, 2019) remains outstanding on two loans from Tidal, a company controlled by Targa comprising the following:

(i) As at December 31, 2019, a balance of \$140,817 (\$269,762 in March 31, 2019) remains outstanding on a loan from Tidal. 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 March 2021 and, accordingly, the amount on this loan is classified as long-term.

(ii) As at December 31, 2019, a balance of \$554,447 (\$554,447 in March 31, 2019) remains outstanding on a second loan from Tidal. The second loan of \$554,447 was advanced to the Company on May 31, 2017. Tidal obtained the funds for the loan following a refinancing on May 31, 2017 of its approximately \$345,000 mortgage on one of its properties, increasing the mortgage to \$900,000. As a condition to this mortgage, Plaintree was required to guarantee the payment of the Tidal mortgage to the mortgagee and granted a security interest over its assets to the mortgagee as security for this guarantee. Tidal used a portion of the proceeds from the refinancing to loan \$554,447 to the Company. The Tidal mortgage was refinanced and increased to \$1,100,000 on March 29, 2019 by a new banker and the Plaintree guarantee and security was continued in favour of the new banker. Until March 31, 2019 the related party loan incurred interest at a rate of 14% per annum and following this date interest now has been reduced to 0%. The balance is classified as long-term as the related party has agreed not to demand payment before March 2021.

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 December 31, 2019, \$NIL (\$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 \$242,598 (\$449,763 in 2019). Targa has agreed that it will not demand repayment before March 2021 and, accordingly, the amounts are classified as long-term.

As at December 31, 2019, interest in the amount of \$247,672 (\$247,672 in 2019) on a loan from Targa remains outstanding as of March 31, 2019. The related party has agreed not to demand payment before March 2021 and, accordingly, the amount is 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 December 31, 2019. The party has agreed not to demand repayment before March 2021 and, accordingly, the amount is classified as long-term.

Plaintree Systems Inc.

Notes to the consolidated financial statements

For the three and nine months ended December 31, 2019 and December 31, 2018 (unaudited)

(In Canadian dollars)

12. Share capital

Authorized, unlimited number

Common shares

Class A preferred shares

Class A 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at \$1,000 per share plus accrued dividends; liquidation preference of the redemption value plus cumulative dividends (when and if declared) to common shares; non-voting. As at December 31, 2019, the accrued and unpaid dividends on Class A preferred shares were \$16,425,000 (\$15,326,000 – March 31, 2019).

Issued

Common shares	12,925,253
Class A preferred shares	18,325

Stock option plans

The Company's Stock Option Plan allows the Company to grant options to officers and service providers to a maximum number of 1,200,000.

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

As of December 31, 2019, the Company had 880,000 options (NIL – March 31, 2019) to acquire common shares having an exercise price of \$0.11 per share, option term of 10 years, vesting immediately.

Plaintree Systems Inc.

Notes to the consolidated financial statements

For the three and nine months ended December 31, 2019 and December 31, 2018 (unaudited)

(In Canadian dollars)

13. Basic and diluted earnings per common share

Net (loss) income attributable to common shares used in the numerator of basic and diluted earnings per share is calculated as follows:

For the periods ended December 31, 2019 and December 31, 2018, diluted earnings per share equals basic earnings per share, due to the anti-dilutive effect of options and convertible instruments.

	Three months ending	
	December 31, 2019 (unaudited) \$	December 31, 2018 (unaudited) \$
Net profit on continuing and held for sales operations	(782,726)	338,739
Cumulative dividends on preferred shares - per annum	(366,500)	(366,500)
Net profit attributed to common shares (basis and diluted)	(1,149,226)	(27,761)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted earnings per share from continuing and held for sale operations	(0.09)	(0.00)
Net profit on continuing operations	(972,951)	(244,764)
Cumulative dividends on preferred shares - per annum	(366,500)	(366,500)
Net profit attributed to common shares (basis and diluted)	(1,339,451)	(611,264)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted earnings per share from continuing operations	(0.10)	(0.05)
	Nine months ending	
	December 31, 2019 (unaudited) \$	December 31, 2018 (unaudited) \$
Net profit on continuing and held for sales operations	401,157	1,694,145
Cumulative dividends on preferred shares - per annum	(1,099,500)	(1,099,500)
Net profit attributed to common shares (basis and diluted)	(698,343)	594,645
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted earnings per share from continuing and held for sale operations	(0.05)	0.05
Net profit on continuing operations	(333,484)	211,057
Cumulative dividends on preferred shares - per annum	(1,099,500)	(1,099,500)
Net (loss) attributed to common shares (basis and diluted)	(1,432,984)	(888,443)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted (loss) per share from continuing operations	(0.11)	(0.07)

Plaintree Systems Inc.

Notes to the consolidated financial statements

For the three and nine months ended December 31, 2019 and December 31, 2018 (unaudited)

(In Canadian dollars)

14. 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 \$4,850,173 in property, plant and equipment, \$2,155,183 is located in Canada and \$2,694,990 in the United States. All of the Company's intangible assets are primarily located in Canada.

Revenue by division

	Three months ending		Nine months ending	
	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)
	\$	\$	\$	\$
Electronics	1,099,634	2,338,579	3,665,015	6,107,057
Specialty Structures	1,115,416	1,419,370	8,185,710	7,423,874
	2,215,050	3,757,949	11,850,725	13,530,931

Revenue by geographical location

	Three months ending		Nine months ending	
	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)
	\$	\$	\$	\$
Canada	822,112	1,761,340	4,400,815	6,846,540
United States	785,086	942,517	2,725,803	2,559,632
Chile	85,570	474,538	232,040	1,287,916
Spain	94,188	387,936	273,338	2,645,226
Peru	428,094	-	4,218,729	-
Other	-	191,618	-	191,618
	2,215,050	3,757,949	11,850,725	13,530,932

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

	Three months ending		Nine months ending	
	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)
	\$	\$	\$	\$
Electronics	(117,710)	474,276	(445,701)	1,432,945
Specialty Structures	(855,241)	(719,040)	112,217	(1,221,888)
	(972,951)	(244,764)	(333,484)	211,057

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

	Three months ending		Nine months ending	
	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)
Number of customers	2	3	2	3
% of total revenue	10%, 20%	10%, 14%, 16%	14%, 36%	11%, 14%, 15%

Assets by division - Continuing operations

	December 31, 2019 (unaudited)	March 31, 2019 audited
	\$	\$
Electronics	4,186,360	5,771,721
Specialty Structures	5,809,149	6,243,099

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

PLAINTREE SYSTEMS INC.

For the three and nine months ended December 31, 2019 and December 31, 2018

Date: February 20, 2020

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 nine months ended December 31, 2019 and December 31, 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 February 20, 2020 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 decisions; current, pending and proposed legislative or regulatory developments in the

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

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 when it ceased operations during the third quarter of fiscal 2019. 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		Nine months ending	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$	\$
Revenue	2,215	3,758	11,851	13,531
Net earnings and comprehensive earnings	(783)	339	401	1,694
Net earnings (loss) attributed to common shareholders	(1,149)	(28)	(698)	595
Basic and diluted earnings (loss) per share	(0.09)	0.00	(0.05)	0.05

(\$000s, except per share amounts)

	December 31, 2019	March 31, 2019
	(unaudited)	(audited)
	\$	\$
Total assets	14,615	16,167
Total liabilities	10,658	12,611
Long-term liabilities	7,366	7,948
Cash dividends declared per share	nil	nil

Results from Operations

(\$000s)

	Three months ending		Change from
	December 31, 2019	December 31, 2018	
	(unaudited)	(unaudited)	
	\$	\$	\$
Revenue	2,215	3,758	(1,543)
Cost of sales	2,358	3,075	(717)
Gross margin	(143)	683	(826)
	(6%)	18%	
Operating expenses:			
Research and development	354	318	36
Finance and administration	275	425	(150)
Sales and marketing	127	53	74
Bad debt	63	-	
Interest expense	49	77	(28)
(Gain) on foreign exchange	(38)	55	(93)
	830	928	(161)
Net earnings and comprehensive earnings before other income	(973)	(245)	(728)
Other gains			
Gain from discontinued operations	190	584	(394)
Net earnings and comprehensive earnings	(783)	339	(1,122)

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

	Nine months ending		Change from
	December 31, 2019	December 31, 2018	
	\$	\$	\$
Revenue	11,851	13,531	(1,680)
Cost of sales	9,617	10,717	(1,100)
Gross margin	2,234	2,814	(580)
	19%	21%	
Operating expenses:			
Research and development	922	947	(25)
Finance and administration	949	1,050	(101)
Sales and marketing	447	250	197
Bad debt	63	-	
Interest expense	196	283	(87)
Loss on foreign exchange	(10)	73	(83)
	2,567	2,603	(99)
Net earnings and comprehensive earnings before other income	(334)	211	(545)
Other gains			
Gain from discontinued operations	735	1,483	(748)
Net earnings and comprehensive earnings	401	1,694	(1,293)

Operations held for sale

Madawaska Doors

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

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 next twelve months. 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:

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

	December 31, 2019	March 31, 2019
	\$	\$
Assets held for sale		
Accounts receivable	877,976	618,901
Unbilled revenue	659,640	604,844
Inventory	716,491	562,770
Equipment	157,687	157,687
Assets of component held for sale	2,411,794	1,944,202
Liabilities held for sale		
Accounts payable and accrued	239,350	305,593
Deferred tax asset	2,207,830	2,207,830
Net assets held for sale	4,380,274	3,846,439
	Nine months ending	
Revenues	December 31, 2020	2019
	\$	\$
Hypernetics	2,481,187	4,701,547
9366920 Canada Inc dba Madawaska Doors	-	594,975
	2,481,187	5,296,522
(Gain) loss on sale of operations held for sale		
Hypernetics	(734,641)	(1,984,677)
9366920 Canada Inc dba Madawaska Doors	-	132,806
	(734,641)	(1,851,871)
Deferred income tax recovery	-	(2,207,830)
Net gain on operations held for sale	(734,641)	(4,059,701)

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 \$4,850,173 in property, plant and equipment, \$2,155,183 is located in Canada and \$2,694,990 in the United States. All of the Company's intangible assets are primarily located in Canada.

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

Revenue by division

	Three months ending		Nine months ending	
	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)
	\$	\$	\$	\$
Electronics	1,099,634	2,338,579	3,665,015	6,107,057
Specialty Structures	1,115,416	1,419,370	8,185,710	7,423,874
	2,215,050	3,757,949	11,850,725	13,530,931

Revenue by geographical location

	Three months ending		Nine months ending	
	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)
	\$	\$	\$	\$
Canada	822,112	1,761,340	4,400,815	6,846,540
United States	785,086	942,517	2,725,803	2,559,632
Chile	85,570	474,538	232,040	1,287,916
Spain	94,188	387,936	273,338	2,645,226
Peru	428,094	-	4,218,729	-
Other	-	191,618	-	191,618
	2,215,050	3,757,949	11,850,725	13,530,932

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

	Three months ending		Nine months ending	
	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)
	\$	\$	\$	\$
Electronics	(117,710)	474,276	(445,701)	1,432,945
Specialty Structures	(855,241)	(719,040)	112,217	(1,221,888)
	(972,951)	(244,764)	(333,484)	211,057

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

	Three months ending		Nine months ending	
	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)	December 31, 2019 (unaudited)	December 31, 2018 (unaudited)
Number of customers	2	3	2	3
% of total revenue	10%, 20%	10%, 14%, 16%	14%, 36%	11%, 14%, 15%

Assets by division - Continuing operations

	December 31, 2019 (unaudited)	March 31, 2019 audited
	\$	\$
Electronics	4,186,360	5,771,721
Specialty Structures	5,809,149	6,243,099

Revenues

Total product revenue from ongoing operations for the three and nine months ending December 31, 2019 and December 31, 2018 was \$2,215,050 and \$11,850,725 compared to \$3,757,949 and \$13,530,931 respectively.

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

Plaintree's Electronics Division revenues from ongoing operations decreased during the first nine months of fiscal 2020 to \$3,665,015 compared to \$6,107,057 during the same period of fiscal 2019.

Plaintree's Specialty Structures Division revenues from ongoing operations increased to \$8,185,710 in the nine months of fiscal 2020 from \$7,423,874 during the same period of fiscal 2019.

Gross Margin

Total gross margin from continuing operations decreased for the first nine months of fiscal 2020 to 19% compared to 21% for the same period in fiscal 2019. The decrease in the gross margin is primarily attributed to a difference in product sales mixture between the periods.

Operating Expenses

Research and development expenses

Research and development expenses were \$921,586 and \$946,671 in the first nine 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 \$949,310 and \$1,050,389 in the first nine 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 \$447,376 and \$250,041 in the first nine 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 related party and bank debt. Interest expenses amounted to \$196,337 and \$283,168 for the nine months ended December 31, 2019 and December 31, 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 was payable monthly, and the principal is due on maturity. As at March 31, 2019 the interest on the loan was reduced to 0%. 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 (gain) loss on foreign exchange of \$(10,295) and \$73,137 for the nine months ended December 31, 2019 and December 31, 2018, respectively. The gain/loss on foreign

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

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

Net (loss) earnings and comprehensive (loss) earnings for first nine months of fiscal 2020 and fiscal 2019 was \$(698,343) and \$594,645 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 December 31, 2019 the accrued and unpaid dividends on the Class A preferred shares were \$16,425,000 (March 31, 2018 - \$15,326,000).

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.

	Dec-19 2019 Q3 2020	Sep-19 2019 Q2 2020	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
Revenue (1)	\$ 2,215	\$ 6,091	\$ 3,545	\$ 3,472	\$ 3,758	\$ 6,378	\$ 3,395	\$ 14,276
Net earnings (loss) and total comprehensive earnings (loss)	(783)	1420	(236)	1,877	576	1,234	121	2,548
Net earnings (loss) attributed to common shareholders	(1,149)	1,054	(603)	1,511	210	868	(246)	2,182
Basic and diluted earnings (loss) per share	(0.09)	0.09	0.05	0.12	0.02	0.07	(0.02)	0.17

Liquidity and Capital Resources

(\$000s)

	December 31, 2019	December 31, 2018	Change
	(unaudited)	(unaudited)	
	\$	\$	\$
Cash	(703)	(120)	(583)
Working Capital	5,985	4,115	1,870

	December 31, 2019	December 31, 2018	Change
	(unaudited)	(unaudited)	
	\$	\$	\$
Net cash (used in) provided by:			
Operating activities	1,695	1,287	408
Investing activities	(695)	(564)	(131)
Financing activities	(892)	(527)	(365)

Cash

As at December 31, 2019, the Company had a cash deficit balance of \$(702,626), an increase of \$108,165 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 December 31, 2019, the Company had working capital of \$5,984,599 compared to a working capital of \$6,658,747 at March 31, 2019.

Operating activities

Cash provided by operating activities for the first nine months of fiscal 2020 was \$1,695,438 representing an increase of \$407,952 from cash provided of \$1,287,486 for the respective period during fiscal 2019. Cash provided by operating activities during the first nine months of fiscal 2020 was primarily the result of collection of trade accounts receivable.

Investing activities

Cash used in investing activities for the first nine months of fiscal 2020 was \$(695,452) representing a increase of \$131,011 from cash used in investing activities of \$(564,441) in the respective period during fiscal 2019. The increase in cash used during the first nine months of fiscal 2020 was due to increases in payments to acquire company operating software.

Financing activities

Cash used in financing activities for first nine months of fiscal 2020 was \$(891,819) representing a increase of \$363,138 from cash used of \$(528,681) during first nine months of fiscal 2019. Cash used in financing activities during the first nine months of fiscal 2020 relates primarily to repayment of 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 December 31, 2019 was \$2,559,802 of which \$815,822 was in use and a letter of credit in the amount of US\$287,200 (\$338,184 CAD) leaving \$1,405,796 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

	December 31, 2019	March 31, 2019
	\$	\$
	(unaudited)	(audited)
Due to senior officers	4,011,589	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.	695,264	824,209
Due to Targa Group Inc, line of credit	242,598	449,763
Due to Targa Group Inc, demand loan and interest	201,393	201,393
	5,458,516	5,866,178
Less: current portion	(250,000)	(50,000)
	5,208,516	5,816,178

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

As at December 31, 2019, a balance of \$4,011,589 (\$2,775,955 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 nine months of fiscal 2020 payments in the amount of \$71,553 was repaid to a former senior officer. The balance of amount of \$3,761,589 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 December 31, 2019. The balance is classified as long-term as the related party has agreed not to demand payment before March 2021.

As at December 31, 2019, a balance of \$695,264 (\$824,209 in March 31, 2019) remains outstanding on two loans from Tidal, a company controlled by Targa comprising the following:

- (i) As at December 31, 2019, a balance of \$140,817 (\$269,762 in March 31, 2019) remains outstanding on a loan from Tidal. 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 March 2021 and, accordingly, the amount on this loan is classified as long-term.

(ii) As at December 31, 2019, a balance of \$554,447 (\$554,447 in March 31, 2019) remains outstanding on a second loan from Tidal. The second loan of \$554,447 was advanced to the Company on May 31, 2017. Tidal obtained the funds for the loan following a refinancing on May 31, 2017 of its approximately \$345,000 mortgage on one of its properties, increasing the mortgage to \$900,000. As a condition to this mortgage, Plaintiffree was required to guarantee the payment of the Tidal mortgage to the mortgagee and granted a security interest over its assets to the mortgagee as security for this guarantee. Tidal used a portion of the proceeds from the refinancing to loan \$554,447 to the Company. The Tidal mortgage was refinanced and increased to \$1,100,000 on March 29, 2019 by a new banker and the Plaintiffree guarantee and security was continued in favour of the new banker. Until March 31, 2019 the related party loan incurred interest at a rate of 14% per annum and following this date interest now has been reduced to 0%. The balance is classified as long-term as the related party has agreed not to demand payment before March 2021.

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 December 31, 2019, \$NIL (\$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 \$242,598 (\$449,763 in 2019). Targa has agreed that it will not demand repayment before March 2021 and, accordingly, the amounts are classified as long-term.

As at December 31, 2019, interest in the amount of \$247,672 (\$247,672 in 2019) on a loan from Targa remains outstanding as of March 31, 2019. The related party has agreed not to demand payment before March 2021 and, accordingly, the amount is 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 December 31, 2019. The party has agreed not to demand repayment before March 2021 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 February 20, 2020 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: ***

*** As of December 31, 2019, the Company had 880,000 options (NIL – March 31, 2019) to acquire common shares having an exercise price of \$0.11 per share, option term of 10 years, vesting immediately.

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