

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

March 31, 2020 and March 31, 2019

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

PLAINTREE SYSTEMS INC.

For the years ended March 31, 2020 and 2019

Date: September 2, 2020

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

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintree is for the years ended March 31, 2020 and 2019. 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 September 2, 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 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 Plaintree's current expectations. Forward-looking statements include, without limitation, statements evaluating market and general economic conditions, and statements regarding growth strategy and future-oriented project revenue, costs and expenditures. Actual results could differ materially from those projected and should not be relied upon as a prediction of future events. A variety of inherent risks, uncertainties and factors, many of which are beyond Plaintree's control, affect the operations, performance and results of Plaintree and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. Some of these risks, uncertainties and factors include the impact or unanticipated impact of: companies evaluating Plaintree's products delaying purchase decisions; current, pending and proposed legislative or regulatory developments in the

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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. 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.

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

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 Electronics division, consisting of the Hypernetics division and Summit Aerospace USA Inc. ("Summit Aerospace"), a Specialty Structures division (the Triodetic business) and 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.

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

The assets and liabilities associated with the business of Hypernetics, included in the Electronics division, were held for sale as of March 31, 2019. During the fourth quarter of 2020 the Company made the decision to cease all activities associated with selling and to retain the business. As such the assets and liabilities and operations during fiscal 2020 associated with Hypernetics are continuing operations for fiscal 2020.

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 annual financial statements:

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(\$000s, except per share amounts)

	March 31, 2020	March 31, 2019 re-presented
	(audited)	(audited)
	\$	\$
Revenue	17,356	21,704
Net (losses) earnings and comprehensive (losses) earnings	(2,500)	3,808
Net earnings (loss) attributed to common shareholders	(3,966)	2,342
Basic and diluted (loss) earnings per share	(0.31)	0.18

(\$000s, except per share amounts)

	March 31, 2020	March 31, 2019
	(audited)	(audited)
	\$	\$
Total assets	11,279	16,167
Total liabilities	10,154	12,611
Long-term liabilities	7,873	7,948
Cash dividends declared per share	nil	nil

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Results from Operations

(\$000s)

	March 31, 2020	March 31, 2019	Change from
	(audited)	(re-presented)	
	(audited)	(audited)	
	\$	\$	\$
Revenue	17,356	21,704	(4,348)
Cost of sales	13,504	15,550	(2,046)
Gross margin	3,852	6,154	(2,302)
	22%	28%	
Operating expenses:			
Research and development	1,551	1,518	33
Finance and administration	1,732	1,457	275
Sales and marketing	669	624	45
Bad debt	63	-	63
Gain (loss) on disposal of assets	(283)	91	(374)
Interest expense	280	430	(150)
(Gain) on foreign exchange	44	5	39
	4,056	4,125	(69)
Net (loss) earnings and comprehensive earnings before non-recurring items	(204)	2,029	(2,233)
Financing fees	-	164	(164)
	(204)	1,865	(2,069)
Income tax expense (recovery)			
Current expense	35	3	32
Deferred income tax recovery	2,261	(2,079)	4,340
	2,296	(2,076)	4,372
Net (loss) earnings from continuing operations	(2,500)	3,941	(6,441)
Loss from discontinued operations	-	133	(133)
Net (loss) earnings and comprehensive earnings	(2,500)	3,808	(6,308)

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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. Madawaska Doors closed its business in the Company's third fiscal 2019 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. Net losses for 2019 of (\$132,806) are included in the earnings (losses) from discontinued operations.

Hypernetics

The assets and liabilities associated with the business of Hypernetics were held for sale as of March 31, 2019. The assets of Hypernetics are measured at the lower of their carrying amount less cost to sell. During the month of March 2020 the Company made the decision to cease all activities associated with selling and to retain the business. As such, the assets and liabilities and operations during fiscal 2020 associated with Hypernetics are continuing operations for fiscal 2020. The Statement of Comprehensive Income for the prior year has been restated. Summarized financial information for Hypernetics for fiscal 2019 is shown below:

	<u>March 31, 2019</u>
	\$
Assets held for sale	
Accounts receivable	618,901
Unbilled revenue	604,844
Inventory	562,770
Equipment	<u>157,687</u>
Assets of component held for sale	1,944,202
Liabilities held for sale	
Accounts payable and accrued	<u>305,593</u>
Deferred tax asset	<u>2,207,830</u>
Net assets held for sale	<u>3,846,439</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 \$3,895,444 in property, plant and equipment, \$1,381,000 is located in Canada and \$2,514,444 in the United States. All of the Company's intangible assets are primarily located in Canada.

Revenue by division

	March 31, 2020	March 31, 2019
	(audited)	(audited)
	\$	
Electronics	7,834,027	7,952,895
Specialty Structures	9,521,800	13,751,172
	17,355,827	21,704,067

Revenue by geographical location

	March 31, 2020	March 31, 2019
	(audited)	(audited)
	\$	\$
Canada	5,220,672	8,072,607
United States	6,838,322	8,160,653
Chile	373,349	2,484,381
Spain	73,758	2,882,004
Peru	4,530,975	-
Other	318,752	104,422
	17,355,827	21,704,067

Net (loss) earnings before taxes by division

	March 31, 2020	March 31, 2019
	(audited)	(audited)
	\$	\$
Electronics	(96,102)	1,465,269
Specialty Structures	(107,581)	399,553
	(203,682)	1,864,822

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

	March 31, 2020	March 31, 2019
	(audited)	(audited)
Number of customers	2	3
% of total revenue	13%, 26%	10%, 13%, 13%

Assets by division

	March 31, 2020	March 31, 2019
	(audited)	(audited)
Electronics	7,563,763	7,715,922
Specialty Structures	3,715,196	6,243,099

Revenues

Total product revenue from ongoing operations for fiscal 2020 was \$17,355,827 compared to \$21,704,067 in fiscal 2019.

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

Plaintree's Electronics Division revenues from ongoing operations remained materially unchanged during fiscal 2020 at \$7,834,027 compared to \$7,952,895 in fiscal 2019.

Plaintree's Specialty Structures Division revenues from ongoing operations decreased to \$9,521,800 in fiscal 2020 from \$13,751,172 in fiscal 2019.

Gross Margin

Total gross margin decreased in fiscal 2020 to 22% compared to 28% in fiscal 2019. Specialty Structures offering custom solutions to new customers is the largest division of Plaintree having greater impact on margins. The lower revenues during fiscal 2020 resulted in a lower overall gross margin for the Company.

Operating Expenses

Research and development expenses

Research and development expenses were \$1,550,715 and \$1,518,256 in 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 2021.

Finance and administration expenses

Finance and administration expenses were \$1,732,324 and \$1,457,236 in 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. Expenses increased in fiscal 2020 in part due to increased legal and consulting fees associated with the Company's activities associated with the held for sale assets.

Finance and administration expenses are expected to return to fiscal 2019 comparable levels throughout fiscal 2021.

Sales and marketing expenses

Sales and marketing expenses were \$668,658 and \$623,720 in 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 2021.

Bad debt

Bad debts associated with uncollected receivables were \$63,003 and \$NIL in fiscal 2020 and 2019, respectively. The 2020 bad debt relates to the write off of one account during the year and collection of an account written off in a prior year.

Gain on disposal of assets

(Gain) loss on disposal of assets was \$(283,068) and \$91,297 in fiscal 2020 and 2019, respectively. In March 2020, the Company sold a building owned by it in Arnprior Ontario for \$1.3 million resulting in a net gain on disposal of \$285,177.

Interest expense

Interest expense consists of interest incurred on bank and related party debt. Interest expenses amounted to \$280,189 and \$430,295 for fiscals 2020 and 2019, 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 it's 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.

Loss on foreign exchange

The Company reported loss on foreign exchange of \$43,986 and \$4,547 for fiscals 2020 and 2019, 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) earnings, Comprehensive earnings and Net earnings Attributable to Common Shareholders

Net (loss) earnings and comprehensive earnings for fiscal 2020 was \$(2,500,152) and \$3,940,833 in fiscal 2019. 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, 2020 the accrued and unpaid dividends on the Class A preferred shares were \$16,792,000 (March 31, 2019 - \$15,326,000).

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Quarterly Results

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

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

	Mar-31 2020 Q4	Dec-31 2019 Q3	Sep-30 2019 Q2	Jun-30 2019 Q1	Mar-31 2019 Q4	Dec-31 2018 Q3	Sep-30 2018 Q2	Jun-30 2018 Q1
Revenue (1)	\$ 3,024	\$ 2,090	\$ 8,098	\$ 4,144	\$ 4,347	\$ 5,121	\$ 7,456	\$ 4,780
Net earnings (loss) and total comprehensive earnings (loss)	(3548)	(399)	1984	(449)	2,113	339	1,235	121
Net earnings (loss) attributed to common shareholders	(3,915)	(766)	1,618	(816)	1,747	(28)	869	(246)
Basic and diluted earnings (loss) per share	(0.30)	(0.06)	0.13	(0.06)	0.13	(0.00)	0.07	(0.02)

Liquidity and Capital Resources

	March 31, 2020 (audited)	March 31, 2019 (audited)	Change
Cash	\$ 1,504	\$ (811)	\$ 2,315
Working Capital	4,399	6,659	(2,260)

	March 31, 2020 (audited)	March 31, 2019 (audited)	Change
Net cash (used in) provided by:			
Operating activities	2,669	752	1,917
Investing activities	764	(480)	1,244
Financing activities	(1,118)	(769)	(349)

Cash

As at March 31, 2020, the Company had a cash balance of \$1,503,880, an increase of \$2,314,671 from cash deficit balance of \$810,791 in March 31, 2019.

Working Capital

Working capital represents current assets less current liabilities. As at March 31, 2020, the Company had working capital of \$4,399,295 compared to a working capital of \$6,658,747 at March 31, 2019.

Operating activities

Cash provided by operating activities for fiscal 2020 was \$2,668,690 representing an increase of \$1,916,660 from cash provided of \$752,030 for the respective period during fiscal 2019. Cash provided by operating activities during fiscal 2020 was primarily the result of bringing the assets held for sale from fiscal 2019 back into operations.

Investing activities

Cash from (used in) investing activities for fiscal 2020 was \$764,083 representing an increase of \$1,243,601 from cash used in investing activities of \$(479,518) in the respective period during fiscal 2019. The increase in cash from investing activities during fiscal 2020 was primarily due to the proceeds from the sale of the Company's excess land and building.

Financing activities

Cash used in financing activities for fiscal 2020 was \$(1,118,102) representing an increase of \$349,510 from cash used of \$(768,592) during fiscal 2019. Cash used in financing activities during the fiscal 2019 relates primarily to repayment of long term debt.

Outlook

The Company has in place a credit facility of up to \$3,000,000 CAD through its bank based on acceptable trade receivables and inventory. The total amount available to the Company as at March 31, 2020 was \$2,119,509 CAD of which \$NIL was in use and a letter of credit in the amount of US\$100,000 (\$141,870 CAD) leaving \$1,977,639 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 \$1,383,260 CAD was in use at March 31, 2020. 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, 2020 \$1,221,421 CAD was in use (Note 8 Lease obligations). During fiscal 2019 the Company incurred professional fees of \$164,329 CAD related to the modification of its banking relationship and related short-term borrowings. 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

	March 31, 2020	March 31, 2019
	(audited)	(audited)
	\$	\$
Due to senior officers	3,983,832	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.	491,264	824,209
Due to Targa Group Inc, line of credit	242,598	449,763
Due to Targa Group Inc, demand loan interest	201,393	201,393
	5,226,759	5,866,178
Less: current portion	(50,000)	(50,000)
	5,176,759	5,816,178

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

As at March 31, 2020, a balance of \$3,983,832 (\$2,748,198 principal and \$1,235,634 interest); March 31, 2019 - \$4,083,139 (\$2,847,505 principal and \$1,235,634 interest in 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 year payments in the amount of \$99,307 were repaid to senior officers. 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 in 2019) of the dividend remains outstanding as at March 31, 2020. 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, 2020, interest in the amount of \$247,672 (\$247,672 in 2019) 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, 2020, a balance of \$491,264 (\$308,376 rent arrears and \$182,888 interest); March 31, 2019 - \$824,209 (\$641,320 rent arrears and \$182,889 interest) remained owing to a related party controlled by Targa, Tidal Quality Management Corporation. 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, 2020, \$NIL (\$207,165 in 2019) remained outstanding on the line of credit with accumulated interest of \$242,598 (\$242,598 in 2019) outstanding for a balance of \$242,598 (\$449,763 in 2019).

Interest in the amount of \$66,581 (\$66,581 in 2019) 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 in 2019), on a loan from Targa remains outstanding as of March 31, 2020. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

During the year ended March 31, 2020, the Company incurred interest on related party balances of \$NIL (2019 - \$148,956).

Rents paid to Tidal Quality Management Corporation during the year ended March 31, 2020 totaled \$151,921 (2019 - \$117,114). 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.

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 September 2, 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, 2020 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.