



Q2 - 2021

For the six months ending  
September 30, 2020

**“Notice to Reader”**

The accompanying unaudited interim financial statements of Plaintiff Systems Inc. for the six months ended September 30, 2020 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: November 24, 2020

“David Watson”

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David Watson  
CEO

**Plaintree Systems Inc.**

Consolidated statements of financial position

(in Canadian dollars)

|  | September 30, 2020<br>(unaudited) | March 31, 2020<br>(audited) |
|--|-----------------------------------|-----------------------------|
|  | \$                                | \$                          |
| <b>Assets</b>  |                                   |                             |
| Current assets   |                                   |                             |
| Cash   | 1,178,999                         | 1,503,880                   |
| Trade receivables and other receivables                            | 2,212,973                         | 1,831,206                   |
| Unbilled revenue   | 944,496                           | 1,354,322                   |
| Inventories (Note 4)   | 1,913,284                         | 1,736,901                   |
| Prepaid expenses and other receivables                             | 763,914                           | 249,538                     |
| Current portion of mortgage receivable (Note 5)                    | 4,941                             | 4,941                       |
|  | <b>7,018,607</b>                  | 6,680,788                   |
| Long-term portion of mortgage receivable (Note 5)                  | 292,626                           | 295,059                     |
| Property, plant and equipment (Note 9)                             | 3,641,513                         | 3,895,444                   |
| Intangible assets (Note 10)  | 353,883                           | 407,668                     |
|  | <b>11,306,629</b>                 | 11,278,959                  |
| <b>Liabilities</b>   |                                   |                             |
| Current liabilities  |                                   |                             |
| Trade and other payables   | 1,423,381                         | 1,411,104                   |
| Deferred revenue   | 163,439                           | 81,671                      |
| Current portion of long-term debt and lease obligation (Note 6, 7) | 507,323                           | 654,924                     |
| Current portion of due to related parties (Note 11)                | 50,000                            | 50,000                      |
| Current portion of government assistance (Note 8)                  | 79,268                            | 83,794                      |
|  | <b>2,223,412</b>                  | 2,281,493                   |
| Long-term debt and lease obligation (Note 6, 7)                    | 2,002,744                         | 1,932,685                   |
| Deferred government assistance (Note 8)                            | 514,114                           | 581,280                     |
| Due to related parties (Note 11)                                   | 5,138,694                         | 5,176,759                   |
| Deferred tax liabilities   | 217,640                           | 182,000                     |
|  | <b>10,096,604</b>                 | 10,154,217                  |
| <b>Shareholders' equity (deficiency)</b>                           |                                   |                             |
| Issued capital (Note 13)   | 2                                 | 2                           |
| Contributed surplus  | 2,159,842                         | 2,159,842                   |
| <b>Retained earnings</b>   | <b>(949,819)</b>                  | <b>(1,035,102)</b>          |
|  | <b>1,210,025</b>                  | 1,124,742                   |
|  | <b>11,306,629</b>                 | 11,278,959                  |

Approved by the Board

"David Watson""Girvan Patterson"

**Plaintree Systems Inc.**

Consolidated statements of comprehensive earnings (loss)

for the three and six months ending September 30, 2020 and September 30, 2019

(unaudited)

(in Canadian dollars)

|  | For the three months ended |                    | For the six months ended |                    |
|--|----------------------------|--------------------|--------------------------|--------------------|
|  | September 30, 2020         | September 30, 2019 | September 30, 2020       | September 30, 2019 |
|  | (unaudited)                | (unaudited)        | (unaudited)              | (unaudited)        |
|  | \$                         |                    |                          |                    |
| Revenue  | 2,377,581                  | 7,030,130          | 5,049,355                | 11,174,035         |
| Cost of sales  | 2,092,367                  | 4,680,949          | 3,729,616                | 7,901,022          |
| Gross margin   | 285,214                    | 2,349,181          | 1,319,739                | 3,273,013          |
| Operating expenses   |                            |                    |                          |                    |
| Research and development                                     | 184,596                    | 394,456            | 452,896                  | 764,291            |
| Finance and administration                                   | 223,082                    | 381,780            | 501,632                  | 796,219            |
| Sales and marketing  | 112,511                    | 175,435            | 175,465                  | 330,249            |
| Interest expense   | 36,814                     | 81,239             | 81,490                   | 149,091            |
| Loss on foreign exchange                                     | (7,017)                    | (103,632)          | 22,973                   | 49,280             |
|  | 549,986                    | 929,278            | 1,234,456                | 2,089,130          |
| Net (loss) earnings and comprehensive earnings               | (264,772)                  | 1,419,903          | 85,283                   | 1,183,883          |
| Basic and diluted (loss) earnings per common share (Note 14) | (0.05)                     | 0.08               | (0.05)                   | 0.03               |
| Weighted average common shares outstanding                   | 12,925,253                 | 12,925,253         | 12,925,253               | 12,925,254         |

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

**Plaintree Systems Inc.**

## Consolidated statements of cash flows

for the three and six months ending September 30, 2020 and September 30, 2019

(unaudited)

(in Canadian dollars)

|   | For the six months ended |                    |
|---|--------------------------|--------------------|
|   | September 30, 2020       | September 30, 2019 |
|   | \$                       | \$                 |
| <b>Operating activities</b>                         |                          |                    |
| Comprehensive earnings                              | 85,283                   | 1,183,883          |
| Add (deduct) items not affecting cash:              |                          |                    |
| Assets held for sale                                | -                        | (112,441)          |
| Liabilities on assets held for sale                 | -                        | (87,028)           |
| Depreciation of intangible assets                   | 72,332                   | 68,476             |
| Depreciation of property, plant and equipment       | 456,993                  | 470,232            |
| Changes in non-cash operating working capital items |                          |                    |
| Deferred revenue                                    | 81,768                   | (387,273)          |
| Inventories   | (176,383)                | (150,995)          |
| Prepaid expenses and other receivables              | (514,376)                | (52,547)           |
| Trade and other payables                            | 47,916                   | 26,259             |
| Trade and other receivables                         | (381,767)                | 1,213,273          |
| Unbilled revenue                                    | 409,826                  | (843,980)          |
| Cash provided by operations                         | 81,592                   | 1,327,859          |
| <b>Investing activities</b>                         |                          |                    |
| Payments to acquire intangible assets               | (18,547)                 | -                  |
| Payments to acquire property, plant and equipment   | (203,062)                | (203,625)          |
| Mortgage receivable                                 | 2,433                    | -                  |
| Cash (used) in investing activities                 | (219,176)                | (203,625)          |
| <b>Financing activities</b>                         |                          |                    |
| Repayment of government assistance                  | (71,692)                 | (37,430)           |
| Repayment of long-term debt                         | (119,205)                | (87,021)           |
| Repayment of capital lease obligations              | 41,663                   | (167,233)          |
| Repayment of related party borrowings (Note 12)     | (38,065)                 | (71,970)           |
| Cash (used) in financing activities                 | (187,299)                | (363,654)          |
| <b>Net cash inflow</b>                              | (324,883)                | 760,580            |
| Net cash (cash deficit) (beginning of the year)     | 1,503,880                | (810,791)          |
| Net cash, end of period                             | 1,178,997                | (50,211)           |

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 September 30, 2020 and September 30, 2019  
(unaudited)  
(in Canadian dollars)

|   | Common Shares Number | Issued<br>Capital<br>\$ | Preferred<br>Shares (1)<br>Number | Issued<br>Capital<br>\$ | Contributed Surplus<br>\$ | Retained earnings (deficit)<br>\$ | Shareholders' Equity<br>\$ |
|---|----------------------|-------------------------|-----------------------------------|-------------------------|---------------------------|-----------------------------------|----------------------------|
| Balances at March 31, 2020              | 12,925,253           | 1                       | 18,325                            | 1                       | 2,159,842                 | (1,035,102)                       | 1,124,742                  |
| Net earnings and comprehensive earnings |                      |                         |                                   |                         |                           | 85,283                            | 85,283                     |
| Balances at September 30, 2020          | 12,925,253           | 1                       | 18,325                            | 1                       | 2,159,842                 | (949,819)                         | 1,210,025                  |

  

|                                     | Common Shares Number | Issued<br>Capital<br>\$ | Preferred<br>Shares (1)<br>Number | Issued<br>Capital<br>\$ | Contributed Surplus<br>\$ | Retained earnings (deficit)<br>\$ | Shareholders' Equity<br>\$ |
|-------------------------------------|----------------------|-------------------------|-----------------------------------|-------------------------|---------------------------|-----------------------------------|----------------------------|
| Balances at March 31, 2019          | 12,925,253           | 1                       | 18,325                            | 1                       | 2,090,750                 | 1,465,050                         | 3,555,802                  |
| Net (loss) and comprehensive (loss) |                      |                         |                                   |                         |                           | 1,183,883                         | 1,183,883                  |
| Balances at September 30, 2019      | 12,925,253           | 1                       | 18,325                            | 1                       | 2,090,750                 | 2,648,933                         | 4,739,685                  |

(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.

# Plaintree Systems Inc.

## Notes to the condensed consolidated interim financial statements

For the quarters ended September 30, 2020 and September 30, 2019 (unaudited)

(In Canadian dollars)

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### 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". 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.

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.

### 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 November 24, 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, 2020.

#### (b) Basis of measurement

These consolidated 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 consolidated 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 2019, 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 condensed consolidated interim financial statements

For the quarters ended September 30, 2020 and September 30, 2019 (unaudited)

(In Canadian dollars)

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### 3. Significant accounting policies

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, 2020.

### 4. Inventories

|                 | <b>September 30, 2020</b> | <b>March 31, 2020</b> |
|-----------------|---------------------------|-----------------------|
|                 | <b>(unaudited)</b>        | <b>(audited)</b>      |
|                 | \$                        | \$                    |
| Raw materials   | <b>1,201,368</b>          | <b>1,176,419</b>      |
| Work in process | <b>656,223</b>            | <b>528,966</b>        |
| Finished goods  | <b>55,693</b>             | <b>31,516</b>         |
|                 | <b>1,913,284</b>          | <b>1,736,901</b>      |

The cost of inventories recognized as an expense during the six months ending September 30, 2020 was \$3,718,386 (\$7,816,173 – September 30, 2019). The total carrying value of inventory as at September 30, 2020, was pledged as security through general security agreements under bank lines of credit and related party liabilities (see note 6 and 7).

The Company wrote down its inventories by \$NIL during the first six months of fiscal 2021 (\$NIL in first six months of fiscal 2020). The Company had write ups totaling \$19,438 in the first six months of fiscal 2021 (\$34,115 in first six months of fiscal 2020).

### 5. Mortgage receivable

During fiscal 2020, the Company sold a building owned by it in Arnprior Ontario for \$1.3 million. The consideration was paid by \$1 million in cash and by a vendor take mortgage of \$300,000 of which \$297,567 remains outstanding as at September 30, 2020. The vendor take back mortgage has a five year term and earns interest at 6.076%. The Issuer has secured the vendor take back mortgage by a charge over the building and other security. The building was not used by the Issuer in its operations and was leased to a third party. The gain on sale was \$283,068.



# Plaintree Systems Inc.

## Notes to the condensed consolidated interim financial statements

For the quarters ended September 30, 2020 and September 30, 2019 (unaudited)

(In Canadian dollars)

### 6. Long-term debt

|   | September 30, 2020<br>(unaudited) | March 31, 2020<br>(audited) |
|---|-----------------------------------|-----------------------------|
| Non-revolving 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.                               | \$ 311,610                        | \$ 352,078                  |
| Non-revolving loan payable (\$341,914 USD) in monthly blended installments of principal and interest, \$7,559 USD, at a rate of LIBOR plus 3.25%, secured by general security agreement, maturing March 2022. | 456,079                           | 539,960                     |
| Deferred financing fees   | (87,443)                          | (90,016)                    |
|   | <b>680,246</b>                    | 802,022                     |
| Current portion   | (197,746)                         | (200,033)                   |
|   | <b>482,500</b>                    | 601,989                     |

### 7. Lease Obligation

The Company's leases are for factory equipment which are typically 5 to 7 years in length. Leases for factory equipment are subject to a range of interest rates from 4 to 8 percent per annum. The following table presents the Company's lease obligations as at September 30, 2020:

|                                     | Factory<br>equipment<br>leases |
|-------------------------------------|--------------------------------|
|                                     | \$                             |
| Total future minimum lease payments | 1,663,029                      |
| Imputed interest                    | 166,792                        |
| Total lease liabilities             | 1,829,822                      |
| Less: current portion               | (309,577)                      |
| Non-current portion                 | 1,520,245                      |

### 8. Government assistance

The Company's Summit Aerospace USA Inc. division accepted a loan of \$720,000 USD (\$960,408 CAD) from the Pennsylvania Industrial Development Authority (PIDA) as partial financing towards the manufacturing facility in Pocono Summit, PA purchased in May 2013. The loan carries a 15-year term, maturing in May 2029, with level monthly payments of principal and interest 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

# Plaintree Systems Inc.

## Notes to the condensed consolidated interim financial statements

For the quarters ended September 30, 2020 and September 30, 2019 (unaudited)

(In Canadian dollars)

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<br>(unaudited) | Deferred Government<br>Assistance<br>(unaudited) | Repayable<br>government<br>(unaudited) |
|------------------------------|-----------------------------------|--|--|
|                              | \$                                | \$   | \$                                     |
| Opening Balance              | 596,877                           | 92,844   | 689,721                                |
| Loan adjustment for exchange | (48,349)                          | (19,449)   | (67,797)                               |
| Repayments                   | (31,938)                          |  | (31,938)                               |
| Accretion                    | 7,491                             | (4,095)  | 3,396                                  |
| September 30, 2020           | 524,081                           | 69,300   | 593,382                                |
| Current Portion              | (64,599)                          | (14,669)   | (79,268)                               |
| Balance                      | 459,481                           | 54,631   | 514,114                                |

The Company recorded Canadian Emergency Wage Subsidy ("CEWS") and US Paycheck Protection Program ("PPP") government wage assistance related to COVID-19 during the first six months of fiscal 2021 in the amount of \$593,533 (Electronics Division) and \$592,341 (Specialty Structures Division) for a total of \$1,185,874.

The Company accepted short term, interest free loans in the amount of \$80,000 under the Canada Emergency Business Account ("CEBA").

## 9. Property, plant and equipment

|                                       | Factory<br>equipment | Computer<br>equipment | Furniture        | Vehicles         | Lease<br>improvements | Building         | Land           | Total               |
|---------------------------------------|----------------------|-----------------------|------------------|------------------|-----------------------|------------------|----------------|---------------------|
|                                       | \$                   | \$                    | \$               | \$               | \$                    | \$               | \$             | \$                  |
| Cost, balance                         |                      |                       |                  |                  |                       |                  |                |                     |
| March 31, 2019                        | 8,313,870            | 1,065,758             | 202,313          | 432,138          | 2,509,001             | 1,728,928        | 235,431        | 14,487,440          |
| Additions                             | 1,150,075            | 27,396                | —                | —                | 59,471                | —                | —              | 1,236,942           |
| Assets classified as<br>held for sale | 157,687              | —                     | —                | —                | —                     | —                | —              | 157,687             |
| Disposals                             | (77,828)             | —                     | —                | (53,171)         | (945,702)             | (721,145)        | (110,874)      | (1,908,719)         |
| <b>March 31, 2020</b>                 | <b>9,543,804</b>     | <b>1,093,154</b>      | <b>202,313</b>   | <b>378,967</b>   | <b>1,622,770</b>      | <b>1,007,783</b> | <b>124,557</b> | <b>13,973,350</b>   |
| Additions                             | 203,062              | —                     | —                | —                | —                     | —                | —              | 203,062             |
| <b>September 30, 2020</b>             | <b>9,746,866</b>     | <b>1,093,154</b>      | <b>202,313</b>   | <b>378,967</b>   | <b>1,622,770</b>      | <b>1,007,783</b> | <b>124,557</b> | <b>14,176,411</b>   |
| Depreciation,<br>balance              |                      |                       |                  |                  |                       |                  |                |                     |
| March 31, 2019                        | (6,210,444)          | (1,055,427)           | (200,397)        | (395,844)        | (1,521,908)           | (653,558)        | —              | (10,037,578)        |
| Depreciation                          | (654,194)            | (11,516)              | (882)            | (16,971)         | (224,394)             | (96,488)         | —              | (1,004,446)         |
| Disposal                              | 64,341               | —                     | —                | 53,152           | 528,194               | 318,434          | —              | 964,120             |
| <b>March 31, 2020</b>                 | <b>(6,800,297)</b>   | <b>(1,066,943)</b>    | <b>(201,279)</b> | <b>(359,664)</b> | <b>(1,218,108)</b>    | <b>(431,612)</b> | <b>—</b>       | <b>(10,077,904)</b> |
| Depreciation                          | (330,072)            | (5,953)               | (441)            | (3,977)          | (83,903)              | (32,647)         | —              | (456,993)           |
| <b>September 30, 2020</b>             | <b>(7,130,369)</b>   | <b>(1,072,897)</b>    | <b>(201,720)</b> | <b>(363,641)</b> | <b>(1,302,011)</b>    | <b>(464,259)</b> | <b>—</b>       | <b>(10,534,898)</b> |
| Carrying amount,                      |                      |                       |                  |                  |                       |                  |                |                     |
| September 30, 2020                    | 2,616,496            | 20,257                | 593              | 15,327           | 320,759               | 543,524          | 124,557        | 3,641,513           |
| March 31, 2020                        | 2,743,506            | 26,211                | 1,034            | 19,304           | 404,662               | 576,171          | 124,557        | 3,895,444           |

Included in factory equipment are right of use assets with a cost of \$2,423,077 and accumulated amortization of \$374,857. Refer to Note 7 for a breakdown of the Company's lease obligations.

# Plaintree Systems Inc.

## Notes to the condensed consolidated interim financial statements

For the quarters ended September 30, 2020 and September 30, 2019 (unaudited)

(In Canadian dollars)

### 10. Intangibles

|                                   | Software         | Customer Relationship<br>and Non-compete | Total              | \$ |
|-----------------------------------|------------------|--|--------------------|----|
| Cost, balance                     |                  |  |                    |    |
| March 31, 2019                    | 187,759          | 1,313,270                                | 1,501,029          |    |
| Additions                         | 148,647          | -  | 148,647            |    |
| <b>March 31, 2020</b>             | <b>336,406</b>   | <b>1,313,270</b>                         | <b>1,649,676</b>   |    |
| Additions                         | 18,546           | -  | 18,546             |    |
| <b>September 30, 2020</b>         | <b>354,951</b>   | <b>1,313,270</b>                         | <b>1,668,221</b>   |    |
| Accumulated Depreciation, balance |                  |  |                    |    |
| March 31, 2019                    | (183,610)        | (922,289)                                | (1,105,899)        |    |
| Depreciation                      | (5,781)          | (130,327)                                | (136,108)          |    |
| <b>March 31, 2020</b>             | <b>(189,392)</b> | <b>(1,052,616)</b>                       | <b>(1,242,007)</b> |    |
| Depreciation                      | (1,794)          | (70,538)                                 | (72,332)           |    |
| <b>September 30, 2020</b>         | <b>(191,186)</b> | <b>(1,123,153)</b>                       | <b>(1,314,339)</b> |    |
| Carrying amount,                  |                  |  |                    |    |
| <b>September 30, 2020</b>         | <b>163,766</b>   | <b>190,117</b>                           | <b>353,883</b>     |    |
| <b>March 31, 2020</b>             | <b>147,014</b>   | <b>260,654</b>                           | <b>407,668</b>     |    |

### 11. Due to related parties

|   | September 30, 2020<br>(unaudited) | March 31, 2020<br>(audited) |
|---|-----------------------------------|-----------------------------|
|   | \$                                | \$                          |
| Due to senior officers                          | 3,957,870                         | 3,983,832                   |
| Dividends payable                               | 60,000                            | 60,000                      |
| Due to Targa Group Inc, convertible debentures  | 247,672                           | 247,672                     |
| Due to Tidal Quality Management Inc.            | 479,161                           | 491,264                     |
| Due to Targa Group Inc, line of credit interest | 242,598                           | 242,598                     |
| Due to Targa Group Inc, demand loan interest    | 201,393                           | 201,393                     |
|   | <b>5,188,694</b>                  | 5,226,759                   |
| Less: current portion                           | <b>(50,000)</b>                   | (50,000)                    |
|   | <b>5,138,694</b>                  | 5,176,759                   |

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

As at September 30, 2020, a balance of \$3,957,870 (\$2,722,236 principal and \$1,235,634 interest); March 31, 2020 - \$3,983,832 (\$2,748,198 principal and \$1,235,634 interest) remained owing to senior officers of the Company. The parties agreed to discontinue interest payments accruing on balances as of April 1, 2016. During the first six months of fiscal 2021 payments in the amount of \$25,962 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.

# Plaintree Systems Inc.

## Notes to the condensed consolidated interim financial statements

For the quarters ended September 30, 2020 and September 30, 2019 (unaudited)

(In Canadian dollars)

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On July 14, 2011, the board of directors of the Company declared a cash dividend of \$10.91405 per Class A preferred share (\$200,000 in the aggregate) payable on July 22, 2011, to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the \$1,000 redemption amount of the Class A preferred share. An amount of \$60,000 (\$60,000 – March 31, 2020) of the dividend remains outstanding as at September 30, 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 September 30, 2020, interest in the amount of \$247,672 (\$247,672 – March 31, 2020) 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 September 30, 2020, a balance of \$479,161 (\$296,273 rent arrears and \$182,888 interest); March 31, 2020 - \$491,264 (\$308,376 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 September 30, 2020, accumulated interest only of \$242,598 (\$242,598 – March 31, 2020) remained outstanding.

Interest in the amount of \$66,581 (\$66,581 – March 31, 2020) remained outstanding on a demand loan with Targa. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments. Accumulated interest in the amount of \$134,812 (\$134,812 – March 31, 2020), on a loan from Targa remains outstanding as of September 30, 2020. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

Rents paid to Tidal Quality Management Corporation during the year ended September 30, 2020 totaled \$222,680 (\$151,921 – March 31, 2020). The above related party transactions are measured at their exchange amount, which is the amount agreed to by the parties.

### 13. Share capital

Authorized, unlimited number

Common shares

Class A preferred shares

Class A 8% cumulative dividends, calculated on redemption amount, redeemable at the option of the Company at any time at \$1000 per share plus accrued dividends; liquidation preference of the redemption value plus cumulative dividends (when and if declared) to common shares; non-voting. As of September 30, 2020, the accrued and unpaid dividends on Class A preferred shares were \$17,525,000 (\$16,792,000 – March 31, 2020).

Stock options

Under the Company's Stock Option Plan, the Company is authorized to issue up to 1,200,000 stock options to its employees, officers, directors or consultants.

# Plaintree Systems Inc.

## Notes to the condensed consolidated interim financial statements

For the quarters ended September 30, 2020 and September 30, 2019 (unaudited)

(In Canadian dollars)

Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant and the maximum term of an option is ten years. Options are granted periodically and vest immediately on the date of grant.

As at September 30, 2020 there were 880,000 options outstanding and exercisable at an exercise price of \$0.11.

### 14. Basic and diluted (loss) per common share

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

For the first three and six months ended September 30, 2020 and 2019, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

|  | Three months ending                     |   |
|--|---|---|
|  | September 30, 2020<br>(unaudited)<br>\$ | September 30, 2019<br>(unaudited)<br>\$ |
| Net (loss) profit from operations                                    | (264,772)                               | 1,419,903                               |
| Cumulative dividends on preferred shares - per annum                 | (366,500)                               | (366,500)                               |
| Net (loss) profit attributed to common shares<br>(basis and diluted) | (631,272)                               | 1,053,403                               |
| Basic and diluted weighted average shares outstanding                | 12,925,253                              | 12,925,253                              |
| Basic and diluted (loss) earnings per share from operations          | (0.05)                                  | 0.08                                    |

  

|  | Six months ending                       |   |
|--|---|---|
|  | September 30, 2020<br>(unaudited)<br>\$ | September 30, 2019<br>(unaudited)<br>\$ |
| Net profit from operations   | 85,283                                  | 1,183,883                               |
| Cumulative dividends on preferred shares - per annum                 | (733,000)                               | (733,000)                               |
| Net (loss) profit attributed to common shares<br>(basis and diluted) | (647,717)                               | 450,883                                 |
| Basic and diluted weighted average shares outstanding                | 12,925,253                              | 12,925,253                              |
| Basic and diluted (loss) earnings per share from operations          | (0.05)                                  | 0.03                                    |

# Plaintree Systems Inc.

## Notes to the condensed consolidated interim financial statements

For the quarters ended September 30, 2020 and September 30, 2019 (unaudited)

(In Canadian dollars)

### 15. 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.

#### Revenue by division

|                      | Three months ending               |                                   | Six months ending                 |                                   |
|----------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                      | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) |
|                      | \$                                |                                   |                                   |                                   |
| Electronics          | 1,334,105                         | 2,789,938                         | 2,956,412                         | 4,103,741                         |
| Specialty Structures | 1,043,476                         | 4,240,192                         | 2,092,943                         | 7,070,294                         |
|                      | <b>2,377,581</b>                  | <b>7,030,130</b>                  | <b>5,049,355</b>                  | <b>11,174,035</b>                 |

#### Revenue by geographical location

|               | Three months ending               |                                   | Six months ending                 |                                   |
|---------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|               | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) |
|               | \$                                |                                   | \$                                |                                   |
| Canada        | 1,054,926                         | 1,858,384                         | 1,963,105                         | 3,580,028                         |
| United States | 1,282,526                         | 2,036,689                         | 3,052,275                         | 3,415,092                         |
| Chile         | 40,129                            | 119,661                           | 33,975                            | 146,470                           |
| Peru          | -                                 | 2,936,328                         | -                                 | 3,790,635                         |
| Other         | -                                 | 79,068                            | -                                 | 241,810                           |
|               | <b>2,377,581</b>                  | <b>7,030,130</b>                  | <b>5,049,355</b>                  | <b>11,174,035</b>                 |

#### Net earnings (loss) before taxes by division

|                      | Three months ending               |                                   | Six months ending                 |                                   |
|----------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                      | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) |
|                      | \$                                |                                   | \$                                |                                   |
| Electronics          | (70,025)                          | 410,686                           | 332,650                           | 216,425                           |
| Specialty Structures | (194,747)                         | 1,009,217                         | (247,367)                         | 967,458                           |
|                      | <b>(264,772)</b>                  | <b>1,419,903</b>                  | <b>85,283</b>                     | <b>1,183,883</b>                  |

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

|                     | Three months ending               |                                   | Six months ending                 |                                   |
|---------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                     | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) |
| Number of customers | 2                                 | 2                                 | 2                                 | 2                                 |
| % of total revenue  | 12%, 20%                          | 10%, 42%                          | 11%, 20%                          | 10%, 34%                          |

#### Assets by division

|                      | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) |
|----------------------|-----------------------------------|-----------------------------------|
| Electronics          | 7,308,646                         | 5,291,209                         |
| Specialty Structures | 3,997,983                         | 5,872,258                         |

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

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## PLAINTREE SYSTEMS INC.

***For the three and six months ended September 30, 2020 and September 30, 2019***

**Date: November 24, 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 six months ended September 30, 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 November 24, 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 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 jurisdictions where Plaintiff operates; change in tax laws; political conditions and developments; intensifying competition from established competitors and new entrants in the*

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

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*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". 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.

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 interim financial statements:

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

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**Results from Operations**

(\$000s, except per share amounts)

|   | Three months ending |                    | Six months ending  |                    |
|---|---------------------|--------------------|--------------------|--------------------|
|   | September 30, 2020  | September 30, 2019 | September 30, 2020 | September 30, 2019 |
|   | (unaudited)         | (unaudited)        | (unaudited)        | (unaudited)        |
| Revenue   | \$ 2,378            | \$ 7,030           | 5,049              | 11,174             |
| Net (loss) earnings and comprehensive (loss) earnings | (265)               | 1,420              | 85                 | 1,184              |
| Net (loss) earnings attributed to common shareholders | (631)               | 1,053              | (648)              | 451                |
| Basic and diluted (loss) earnings per share           | (0.05)              | 0.08               | (0.05)             | 0.03               |

(\$000s, except per share amounts)

|                                   | September 30, 2020 | March 31, 2019 |
|-----------------------------------|--------------------|----------------|
|                                   | (unaudited)        | (audited)      |
| Total assets                      | \$ 11,307          | \$ 11,279      |
| Total liabilities                 | 10,097             | 10,154         |
| Long-term liabilities             | 7,873              | 7,873          |
| Cash dividends declared per share | nil                | nil            |

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

| (\$000s)  | Three months ending |                    |             |
|---|---------------------|--------------------|-------------|
|   | September 30, 2020  | September 30, 2019 | Change from |
|   | (unaudited)         | (unaudited)        |             |
|   | \$                  | \$                 | \$          |
| Revenue   | 2,378               | 7,030              | (4,652)     |
| Cost of sales   | 2,093               | 4,681              | (2,588)     |
| Gross margin  | 285                 | 2,349              | (2,064)     |
|   | 12%                 | 33%                |             |
| Operating expenses:   |                     |                    |             |
| Research and development  | 185                 | 395                | (210)       |
| Finance and administration  | 223                 | 382                | (159)       |
| Sales and marketing   | 112                 | 175                | (63)        |
| Interest expense  | 37                  | 81                 | (44)        |
| Loss on foreign exchange  | (7)                 | (104)              | 97          |
|   | 550                 | 929                | (379)       |
| Net (loss) earnings and comprehensive<br>(loss) earnings before non-recurring items | (265)               | 1,420              | (1,685)     |
|   |                     |                    |             |
| (\$000s)  | Six months ending   |                    |             |
|   | September 30, 2020  | September 30, 2019 | Change from |
|   | (unaudited)         | (unaudited)        |             |
|   | \$                  | \$                 | \$          |
| Revenue   | 5,049               | 11,174             | (6,125)     |
| Cost of sales   | 3,729               | 7,901              | (4,172)     |
| Gross margin  | 1,320               | 3,273              | (1,953)     |
|   | 26%                 | 29%                |             |
| Operating expenses:   |                     |                    |             |
| Research and development  | 453                 | 765                | (312)       |
| Finance and administration  | 502                 | 796                | (294)       |
| Sales and marketing   | 175                 | 330                | (155)       |
| Interest expense  | 82                  | 149                | (67)        |
| Loss on foreign exchange  | 23                  | 49                 | (26)        |
|   | 1,235               | 2,089              | (854)       |
| Net earnings (loss) and comprehensive<br>earnings (loss) before non-recurring items | 85                  | 1,184              | (1,099)     |

## 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.

### Revenue by division

|                      | Three months ending               |                                   | Six months ending                 |                                   |
|----------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                      | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) |
|                      | \$                                |                                   |                                   |                                   |
| Electronics          | 1,334,105                         | 2,789,938                         | 2,956,412                         | 4,103,741                         |
| Specialty Structures | 1,043,476                         | 4,240,192                         | 2,092,943                         | 7,070,294                         |
|                      | <b>2,377,581</b>                  | <b>7,030,130</b>                  | <b>5,049,355</b>                  | <b>11,174,035</b>                 |

### Revenue by geographical location

|               | Three months ending               |                                   | Six months ending                 |                                   |
|---------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|               | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) |
|               | \$                                |                                   | \$                                |                                   |
| Canada        | 1,054,926                         | 1,858,384                         | 1,963,105                         | 3,580,028                         |
| United States | 1,282,526                         | 2,036,689                         | 3,052,275                         | 3,415,092                         |
| Chile         | 40,129                            | 119,661                           | 33,975                            | 146,470                           |
| Peru          | -                                 | 2,936,328                         | -                                 | 3,790,635                         |
| Other         | -                                 | 79,068                            | -                                 | 241,810                           |
|               | <b>2,377,581</b>                  | <b>7,030,130</b>                  | <b>5,049,355</b>                  | <b>11,174,035</b>                 |

### Net earnings (loss) before taxes by division

|                      | Three months ending               |                                   | Six months ending                 |                                   |
|----------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                      | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) |
|                      | \$                                |                                   | \$                                |                                   |
| Electronics          | (70,025)                          | 410,686                           | 332,650                           | 216,425                           |
| Specialty Structures | (194,747)                         | 1,009,217                         | (247,367)                         | 967,458                           |
|                      | <b>(264,772)</b>                  | <b>1,419,903</b>                  | <b>85,283</b>                     | <b>1,183,883</b>                  |

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

|                     | Three months ending               |                                   | Six months ending                 |                                   |
|---------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                     | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) |
| Number of customers | 2                                 | 2                                 | 2                                 | 2                                 |
| % of total revenue  | 12%, 20%                          | 10%, 42%                          | 11%, 20%                          | 10%, 34%                          |

### Assets by division

|                      | September 30, 2020<br>(unaudited) | September 30, 2019<br>(unaudited) |
|----------------------|-----------------------------------|-----------------------------------|
| Electronics          | 7,308,646                         | 5,291,209                         |
| Specialty Structures | 3,997,983                         | 5,872,258                         |

## Revenues

Total product revenue from ongoing operations for the three and six months ending September 30, 2020 was \$2,377,581 and \$5,049,355 compared to \$7,030,130 and \$11,174,035 for the same period in fiscal 2020. The significant decline in revenue in fiscal 2021 as compared to similar periods in fiscal 2020, is primarily due to the significant decline in Plaintiff's markets due to the effects of the COVID-19 pandemic on Plaintiff's customers.

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

Plaintree's Electronics Division revenues from operations decreased during the first six months of fiscal 2021 to \$2,956,412 compared to \$4,103,741 in the same period in fiscal 2020.

Plaintree's Electronics division has two main operations. One principally supplies the commercial aerospace industry and the other principally supplies the military aerospace industry. In February

of 2020, the forecast for both of these divisions indicated similar revenues as in the previous fiscal 2019. In March 2020, the COVID-19 pandemic hit, grinding the commercial aerospace market to a near halt and by May 2020 the Company's commercial aerospace business and forecast had fallen dramatically. This sector's decline accounts for 100% of this divisional decline.

Plaintree's Specialty Structures Division revenues from operations decreased to \$2,0920,943 in the first six months of fiscal 2021 to \$7,070,294 from the same period in fiscal 2019.

This Division has three main product lines, mining domes, foundations for unstable soils and hydraulic cylinders. The uncertainty about the pandemic's effects on actual mines forced many orders to be postponed but not cancelled. The COVID-19 pandemic also caused many of our expected foundation orders to be postponed as our customers concentrated on more critical issues. These postponements accounted for the vast majority of this division's revenue decline.

The remaining decline was due to the hydraulic cylinder market essentially shutting down.

### **Gross Margin**

Total gross margin remained relatively consistent during the first six months ending September 30, 2020 of fiscal 2021, primarily attributed to government wage subsidies, at 27% compared to 29% for the same period of fiscal 2020. The Company recorded in cost of goods sold, \$487,296 in government sponsored wage subsidies related to Covid-19 during the period.

### **Operating Expenses**

#### **Research and development expenses**

Research and development expenses were \$452,896 and \$764,291 for the first six months of fiscals 2021 and 2020, respectively. Research and development expenditures consist primarily of development engineering and personnel expenses. The Company reduced expenses by \$243,794 due to government sponsored wage subsidies related to COVID-19 during the period.

#### **Finance and administration expenses**

Finance and administration expenses were \$501,632 and \$796,219 for the first six months of fiscals 2021 and 2020, 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. The Company reduced expenses by \$114,563 in government sponsored wage subsidies related to COVID-19 during the period.

#### **Sales and marketing expenses**

Sales and marketing expenses were \$175,465 and \$330,249 for the first six months of fiscals 2021 and 2020, 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. The Company reduced expenses by \$74,969 in government sponsored wage subsidies related to COVID-19 during the period.

#### **Interest expense**

Interest expense consists of interest incurred on bank and related party debt. Interest expenses amounted to \$81,490 and \$149,091 in the first six months of fiscals 2021 and 2020, respectively.

The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest.

### Loss on foreign exchange

The Company reported loss on foreign exchange of \$22,973 and \$49,280 for first six months of fiscals 2021 and 2020, 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 the first six months of fiscal 2021 ending September 30, 2020 was \$(647,717) and \$450,883, for the same period ending September 30, 2019 in fiscal 2020. 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 September 30, 2020 the accrued and unpaid dividends on the Class A preferred shares were \$17,525,000 (March 30, 2020 - \$16,792,000).

### Quarterly Results

The following table sets out selected unaudited consolidated financial information for the last eight quarters in fiscals 2021, 2020 and 2019:

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

|   | Sep-30<br>2020<br>Q2<br>2021 | Jun-30<br>2020<br>Q1<br>2021 | Mar-31<br>2020<br>Q4<br>2020 | Dec-31<br>2019<br>Q3<br>2020 | Sep-30<br>2019<br>Q2<br>2020 | Jun-30<br>2019<br>Q1<br>2020 | Mar-31<br>2019<br>Q4<br>2019 | Dec-31<br>2018<br>Q3<br>2019 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Revenue   | \$ 2,378                     | \$ 2,672                     | \$ 3,024                     | \$ 3,158                     | \$ 7,030                     | \$ 4,144                     | \$ 4,347                     | \$ 5,121                     |
| Net (loss) earnings<br>and total comprehensive<br>(loss) earnings | (265)                        | 350                          | (2901)                       | (783)                        | 1420                         | (236)                        | 2,113                        | 339                          |
| Net (loss) earnings<br>attributed to<br>common shareholders       | (631)                        | (16)                         | (3,268)                      | (1,150)                      | 1,054                        | (603)                        | 1,747                        | (28)                         |
| Basic and diluted<br>(loss) earnings<br>per share                 | (0.05)                       | (0.00)                       | (0.25)                       | (0.09)                       | 0.08                         | (0.05)                       | 0.13                         | (0.00)                       |

## Liquidity and Capital Resources

|                 | September 30, 2020 | September 30, 2019 | Change  |
|-----------------|--------------------|--------------------|---------|
|                 | (audited)          | (audited)          |         |
|                 | \$                 | \$                 | \$      |
| Cash            | 1,179              | (50)               | 1,229   |
| Working Capital | 4,795              | 7,742              | (2,947) |

  

|                                 | September 30, 2020 | September 30, 2019 | Change  |
|---------------------------------|--------------------|--------------------|---------|
|                                 | (audited)          | (audited)          |         |
|                                 | \$                 | \$                 | \$      |
| Net cash (used in) provided by: |                    |                    |         |
| Operating activities            | 82                 | 1,328              | (1,246) |
| Investing activities            | (219)              | (204)              | (15)    |
| Financing activities            | (187)              | (364)              | 177     |

### Cash

As at September 30, 2020, the Company had a cash balance of \$1,178,999, an increase of \$324,881 from cash balance of \$1,503,880 in March 31, 2020.

### Working Capital

Working capital represents current assets less current liabilities. As at September 30, 2020, the Company had working capital of \$4,795,196 compared to a working capital of \$4,399,295 at March 31, 2020.

### Operating activities

Cash provided by operating activities for six months ending September 30, 2020 in fiscal 2021 was \$212,545 representing a decrease of \$(1,115,314) from cash provided of \$1,327,859 for the respective period during fiscal 2020. Cash provided by operating activities during the first six month of fiscal 2021 was primarily the result of government wage subsidies.

### Investing activities

Cash (used in) investing activities for the six months ending September 30, 2020 in fiscal 2021 was \$(21,668) representing an decrease of \$181,957 from cash used in investing activities of \$(203,625) in the respective period during fiscal 2020. The use of cash from investing activities during the first six months of 2021 was primarily to acquire factory equipment and software.

### Financing activities

Cash used in financing activities for the first six months ending September 30, 2020 was \$(515,758) representing an increase of \$(152,104) from cash used of \$(363,654) during the respective period in fiscal 2020. Cash used in financing activities during the first six months of fiscal 2021 relates 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 September 30, 2020 was \$2,495,461 CAD of which \$NIL was in use and a letter of credit in the amount of US\$100,000 (\$133,390 CAD) leaving \$2,362,071 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 \$1,269,909 CAD was in use at September 30, 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 September 30, 2020 \$1,505,463 CAD was in use (Note 8 Lease obligations). As a result, the Company believes that it has sufficient cash resources to meet its obligations, beyond the next 12 months.

In times of uncertainty, gold prices traditionally increase, and this has in turn increased the Company's mining Requests for Quotation. Additionally, after a very quiet market for foundations for Q1 and Q2 2021, the Company has seen increased quotations and orders. Thus, the Company expects the Structures division to recover closer to Pre-Covid-19 levels within the next two quarters. HOWEVER., THESE EXPECTATIONS ARE BASED UPON A MANAGEBLE SECOND OR POSSIBLY EVEN THIRD COVID WAVE. SHOULD THE WORLD ECONOMY GO INTO ANOTHER SHUTDOWN THESE EXPECTATIONS WILL CHANGE.

## Due to related parties

|   | <b>September 30, 2020</b> | March 31, 2020 |
|---|---------------------------|----------------|
|   | <b>(unaudited)</b>        | (audited)      |
|   | <b>\$</b>                 | \$             |
| Due to senior officers                          | <b>3,957,870</b>          | 3,983,832      |
| Dividends payable                               | <b>60,000</b>             | 60,000         |
| Due to Targa Group Inc, covertable debentures   | <b>247,672</b>            | 247,672        |
| Due to Tidal Quality Management Inc.            | <b>479,161</b>            | 491,264        |
| Due to Targa Group Inc, line of credit interest | <b>242,598</b>            | 242,598        |
| Due to Targa Group Inc, demand loan interest    | <b>201,393</b>            | 201,393        |
|   | <b>5,188,694</b>          | 5,226,759      |
| Less: current portion                           | <b>(50,000)</b>           | (50,000)       |
|   | <b>5,138,694</b>          | 5,176,759      |

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

As at September 30, 2020, a balance of \$3,957,870 (\$2,722,236 principal and \$1,235,634 interest); March 31, 2020 - \$3,983,832 (\$2,748,198 principal and \$1,235,634 interest) remained owing to senior officers of the Company. The parties agreed to discontinue interest payments accruing on balances as of April 1, 2016. During the first six months of fiscal 2021 payments in the amount of \$25,962 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 - March 31, 2020) of the



dividend remains outstanding as at September 30, 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 September 30, 2020, interest in the amount of \$247,672 (\$247,672 – March 31, 2020) 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 September 30, 2020, a balance of \$479,161 (\$296,273 rent arrears and \$182,888 interest); March 31, 2020 - \$491,264 (\$308,376 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 September 30, 2020, accumulated interest only of \$242,598 (\$242,598 – March 31, 2020) remained outstanding.

Interest in the amount of \$66,581 (\$66,581 – March 31, 2020) remained outstanding on a demand loan with Targa. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments. Accumulated interest in the amount of \$134,812 (\$134,812 – March 31, 2020), on a loan from Targa remains outstanding as of September 30, 2020. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

Rents paid to Tidal Quality Management Corporation during the year ended September 30, 2020 totaled \$222,680 (\$151,921 – March 31, 2020). 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 November 24, 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 September 30, 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](http://www.sedar.com) or the Company's website at [www.plaintree.com](http://www.plaintree.com).