

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

Three and six months ending September 30, 2021 and September 30, 2020

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

PLAINTREE SYSTEMS INC.

For the three and six months ended September 30, 2021 and September 30, 2020

Date: November 11, 2021

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

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintiff is for the three and six months ended September 30, 2021 and 2020. 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 11, 2021, 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

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"), and a Specialty Structures division consisting of 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 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:

(\$000s, except per share amounts)

	Three months ending		Six months ending	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$		
Revenue	4,271	2,378	7,915	5,049
Net earnings (loss) and comprehensive earnings (loss)	462	(265)	724	85
Net earnings (loss) attributed to common shareholders	95	(631)	(9)	(648)
Basic and diluted (loss) per share	(0.01)	(0.05)	(0.00)	(0.05)

(\$000s, except per share amounts)

	September 30, 2021	March 31, 2021
	(unaudited)	(audited)
	\$	\$
Total assets	15,008	12,048
Total liabilities	12,315	10,079
Long-term liabilities	8,742	6,877
Cash dividends declared per share	nil	nil

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

Results from Operations

(\$000s)

	Three months ending		Change from
	September 30, 2021	September 30, 2020	
	(unaudited)	(unaudited)	
	\$	\$	\$
Revenue	4,272	2,377	1,895
Cost of sales	2,965	2,092	873
Gross margin	1,307	285	1,022
	31%	12%	
Operating expenses:			
Research and development	404	184	220
Finance and administration	276	223	53
Sales and marketing	152	113	39
Interest expense	61	37	24
(Gain) loss on foreign exchange	(49)	(7)	(42)
	844	550	294
Net earnings and comprehensive earnings before non-recurring items	463	(265)	728

(\$000s)

	Six months ending		Change from
	September 30, 2021	September 30, 2020	
	(unaudited)	(unaudited)	
	\$	\$	\$
Revenue	7,915	5,049	2,866
Cost of sales	5,546	3,730	1,816
Gross margin	2,369	1,319	1,050
	30%	26%	
Operating expenses:			
Research and development	748	453	295
Finance and administration	578	502	76
Sales and marketing	270	175	95
Interest expense	107	81	26
Loss on foreign exchange	(58)	23	(81)
	1,645	1,234	411
Net earnings (loss) and comprehensive earnings (loss) before non-recurring items	724	85	639

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, 2021 (unaudited)	September 30, 2020 (unaudited)	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)
Electronics	\$ 1,214,638	1,334,105	2,553,958	2,956,412
Specialty Structures	3,056,767	1,043,476	5,360,817	2,092,943
	4,271,405	2,377,581	7,914,775	5,049,355

Revenue by geographical location

	Three months ending		Six months ending	
	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)
Canada	\$ 2,872,469	1,054,926	4,698,125	1,963,105
United States	1,398,936	1,282,526	3,141,250	3,052,275
Other	-	40,129	75,400	33,975
	4,271,405	2,377,581	7,914,775	5,049,355

Net earnings (loss) before taxes by division

	Three months ending		Six months ending	
	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)
Electronics	\$ (56,393)	(70,025)	(140,043)	332,650
Specialty Structures	518,026	(194,747)	863,821	(247,367)
	461,633	(264,772)	723,778	85,283

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

	Three months ending		Six months ending	
	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)
Number of customers	1	2	2	2
% of total revenue	21%	12%, 20%	10%, 15%	11%, 20%

Assets by division

	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)
Electronics	7,844,076	7,308,646
Specialty Structures	7,163,635	3,997,983

Revenues

Total product revenue from ongoing operations for the first three and six months of fiscal 2022 was \$4,271,405 and \$7,914,775 respectively compared to \$2,377,581 and \$5,049,355 in the same periods of fiscal 2021.

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

Plaintree's Electronics Division revenues from operations decreased in the first six months of fiscal 2022 to \$2,553,958 from \$2,956,412 in the same period of fiscal 2021.

Plaintree's Specialty Structures Division revenues from operations increased to \$5,360,817 in the first six months of fiscal 2022 from \$2,092,943 from the same period in fiscal 2021.

Gross Margin

Total gross margin increased during the first six months of fiscal 2022, 29.9% compared to 26.1% for same period in fiscal 2021. The Company recorded in cost of goods sold, \$383,541 and \$1,163,788 for the six months ended September 30, 2021 and September 30, 2020 respectively, in Government sponsored wage and rent subsidies related to Covid-19.

Operating Expenses

Research and development expenses

Research and development expenses were \$748,054 and \$452,896 during the first six months of fiscals 2022 and 2021, respectively. Included are Government wage and rent subsidies of \$112,805, and \$241,765 in each period related to COVID-19. Research and development expenditures consist primarily of development engineering and personnel expenses.

Finance and administration expenses

Finance and administration expenses were \$578,023 and \$501,632 for the first six months of fiscals 2022 and 2021, respectively. Included are Government wage and rent subsidies of \$42,284 and \$114,563 in each period related to COVID-19. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which included financial staff, legal and audit activities.

Sales and marketing expenses

Sales and marketing expenses were \$270,350 and \$175,465 for the first six months of fiscals 2022 and 2021, respectively. Included are Government wage and rent subsidies of \$19,586 and \$60,080 in each period related to COVID-19. 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.

Interest expense

Interest expense consists of interest incurred on bank debt. Interest expenses amounted to \$107,257 and \$81,490 for the first six months of fiscals 2022 and 2021, 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 a gain on foreign exchange of \$(58,694) and a loss of \$22,973 in the first six months of fiscals 2022 and 2021, respectively. The gain/loss on foreign exchange represents the gain/loss, realized or unrealized, of transactions and year end foreign balances that are completed in currencies other than the Company's reporting currency.

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

Net earnings and comprehensive earnings for the first half of fiscal 2022 and fiscal 2021 were \$(9,222) and \$(647,717), respectively. Net income attributed to common shareholders is calculated by reducing net income by the \$1,466,000 cumulative dividends that accrue annually on the Class A preferred shares. The cumulative dividends accrue at 8% per annum on the face value of the \$18,325,000 for the Class A preferred shares and at September 30, 2021 the accrued and unpaid dividends on the Class A preferred shares were \$18,991,000 (March 31, 2021 - \$18,258,000).

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

Quarterly Results

The following table sets out selected unaudited consolidated financial information for the last eight quarters in fiscals 2022 and 2021 and 2020:

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

	Sept 30 2021 Q2 2022	June 30 2021 Q1 2022	Mar 31 2021 Q4 2021	Dec 31 2020 Q3 2021	Sept 30 2020 Q 2021	June 30 2020 Q1 2021	Mar 31 2020 Q4 2020	Dec 31 2019 Q3 2020
Revenue	\$ 4,271	\$ 3,643	\$ 4,656	\$ 2,954	\$ 2,378	\$ 2,672	\$ 14,198	\$ 3,158
Net earnings (loss) and total comprehensive earnings (loss)	462	262	809	0	(265)	350	(2901)	(783)
Net earnings (loss) attributed to common shareholders	95	(104)	442	(367)	(631)	(16)	(3,268)	(1,150)
Basic and diluted earnings (loss) per share	0.01	(0.01)	0.03	(0.03)	(0.05)	(0.00)	(0.25)	(0.09)

Liquidity and Capital Resources

in \$000s

	September 30, 2021 (unaudited)	March 31, 2021 (audited)	Change
Cash	\$ 2,221	\$ 2,067	154
Working Capital	5,323	4,814	509

	September 30, 2021 (unaudited)	September 30, 2020 (unaudited)	Change
Net cash provided by (used in) :	\$	\$	\$
Operating activities	929	84	845
Investing activities	(220)	(222)	2
Financing activities	(555)	(187)	(368)

Cash

As at September 30, 2021, the Company had a cash balance of \$2,220,801, an increase of \$154,113 from cash balance of \$2,066,688 in March 31, 2021.

Working Capital

Working capital represents current assets less current liabilities. As at September 30, 2021, the Company had working capital of \$5,022,899 compared to a working capital of \$4,814,463 at March 31, 2021.

Operating activities

Cash provided by operating activities during the first six months of fiscal 2022 was \$929,265 representing an increase of \$845,240 from cash provided of \$84,025 for the respective period during fiscal 2021. Cash provided by operating activities during the period was primarily the result of profitability.

Investing activities

Cash (used in) investing activities during the first six months of fiscal 2022 was \$(219,842) representing a decrease of \$(1,768) in investing activities from cash provided of \$(221,610) in the respective period during fiscal 2021. The use of cash from investing activities during the period was primarily to acquire manufacturing equipment.

Financing activities

Cash (used in) financing activities during the first six months of fiscal 2022 was \$(555,310) representing an increase of \$(368,011) from cash used of \$(187,299) during the respective period in fiscal 2021. Cash used in financing activities during fiscal the period 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, 2021 was \$2,164,378 CAD of which \$NIL was in use and a letter of credit in the amount of US\$100,000 (\$127,410 CAD) leaving \$2,036,968 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 \$973,774 CAD was in use at September 30, 2021. 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, 2021 \$853,837 CAD was available (Note 7 Lease obligations). 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

	September 30, 2021	March 31, 2021
	(unaudited)	(audited)
	\$	\$
Due to senior officers	3,890,785	3,932,870
Dividends payable	60,000	60,000
Due to Targa Group Inc, convertible debentures	247,672	247,672
Due to Tidal Quality Management Inc.	396,857	398,760
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
	5,039,304	5,083,293
Less: current portion	(50,000)	(50,000)
	4,989,304	5,033,293

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

As at September 30, 2021, a balance of \$3,890,785 (\$2,655,151 principal and \$1,235,634 interest); March 31, 2021 - \$3,970,563 (\$2,734,929 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 2022 payments in the amount of \$42,085 were repaid to senior officers. The balance of the amount is classified as long-term, as the related parties have 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, 2021) of the dividend remains outstanding as at September 30, 2021. The balance of the amount is classified as long-term, as the related parties have agreed with third-party lenders to postpone repayments.

As at September 30, 2021, interest in the amount of \$247,672 (\$247,672 - March 31, 2021) 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, 2021, a balance of \$396,857 (\$213,969 rent arrears and \$182,888 interest); March 31, 2020 - \$398,760 (\$215,872 rent arrears and \$182,888 interest) remained owing to a related party controlled by Targa, Tidal Quality Management Corporation. The related 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, 2021, accumulated interest only of \$242,598 (\$242,598 - March 31, 2021) remained outstanding.

Interest in the amount of \$66,581 (\$66,581 - March 31, 2021) 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, 2021), 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 in the form of lease payments paid to Tidal Quality Management Corporation during the six months ended September 30, 2021, totaled \$309,004 (\$280,189 – March 31, 2021). 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.

On July 1, 2021, the Company signed a lease agreement with a related party, Tidal Quality Management Corporation. The lease term is five years with \$609,750 payable annually.

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 11, 2021 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, 2021 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.