

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

Three and nine months ending December 31, 2021 and December 31, 2020

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

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## PLAINTREE SYSTEMS INC.

*For the three and nine months ended December 31, 2021 and December 31, 2020*

**Date: February 23, 2022**

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 nine months ended December 31, 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 February 23, 2022, 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		Nine months ending	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$ 3,111	\$ 2,954	11,025	8,004
Net earnings (loss) and comprehensive earnings (loss)	(560)	-	164	-
Net earnings (loss) attributed to common shareholders	(926)	(366)	(935)	(1,014)
Basic and diluted (loss) per share	(0.07)	(0.03)	(0.07)	(0.08)

(\$000s, except per share amounts)

	December 31, 2021	March 31, 2021
	(unaudited)	(audited)
Total assets	\$ 13,357	\$ 12,048
Total liabilities	11,224	10,079
Long-term liabilities	8,473	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)

	<b>Three months ending</b>		
	<b>December 31, 2021</b>	December 31, 2020	Change from
	<b>(unaudited)</b>	(unaudited)	
	\$	\$	\$
Revenue	3,110	2,954	156
Cost of sales	2,609	2,197	412
Gross margin	501	757	(256)
	16%	26%	
Operating expenses:			
Research and development	431	258	173
Finance and administration	396	380	16
Sales and marketing	174	92	82
Interest expense	66	46	20
(Gain) loss on foreign exchange	(6)	(19)	13
	1,061	757	304
Net (loss) and comprehensive (loss) before non-recurring items	(560)	-	(560)

(\$000s)

	<b>Nine months ending</b>		
	<b>December 31, 2021</b>	December 31, 2020	Change from
	<b>(unaudited)</b>	(unaudited)	
	\$	\$	\$
Revenue	11,025	8,004	3,021
Cost of sales	8,155	5,927	2,228
Gross margin	2,870	2,077	793
	26%	26%	
Operating expenses:			
Research and development	1,179	711	468
Finance and administration	975	882	93
Sales and marketing	444	268	176
Interest expense	173	128	45
(Gain) loss on foreign exchange	(65)	3	(68)
	2,706	1,992	714
Net (loss) and comprehensive (loss) before non-recurring items	164	85	79

## 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		Nine months ending	
	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)
	\$		\$	
Electronics	1,561,226	1,642,587	4,115,184	4,598,999
Specialty Structures	1,549,376	1,311,785	6,910,193	3,404,728
	<b>3,110,602</b>	<b>2,954,372</b>	<b>11,025,377</b>	<b>8,003,727</b>

### Revenue by geographical location

	Three months ending		Nine months ending	
	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)
	\$		\$	
Canada	1,369,817	1,121,066	6,067,942	3,084,171
United States	1,716,510	1,616,817	4,857,760	4,669,092
Other	24,275	216,489	99,675	250,464
	<b>3,110,602</b>	<b>2,954,372</b>	<b>11,025,377</b>	<b>8,003,727</b>

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

	Three months ending		Nine months ending	
	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)
	\$		\$	
Electronics	120,268	114,675	(19,773)	447,325
Specialty Structures	(679,818)	(114,706)	184,002	(362,073)
	<b>(559,550)</b>	<b>(31)</b>	<b>164,229</b>	<b>85,252</b>

### Product revenue concentration (customers v

	Three months ending		Nine months ending	
	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)
Number of customers	1	1	2	1
% of total revenue	13%	27%	13%, 13%	21%

### Assets by division

	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)
Electronics	7,707,913	6,941,028
Specialty Structures	5,649,163	3,926,738

## Revenues

Total product revenue from ongoing operations for the first three and nine months of fiscal 2022 was \$3,110,602 and \$11,025,377 respectively compared to \$2,954,372 and \$8,003,727 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 nine months of fiscal 2022 to \$4,115,184 from \$4,598,999 in the same period of fiscal 2021.

Plaintree's Specialty Structures Division revenues from operations increased to \$6,910,193 in the first nine months of fiscal 2022 from \$3,404,728 from the same period in fiscal 2021.

### **Gross Margin**

Total gross margin remained constant during the first nine months of fiscal 2022 and fiscal 2021 at 26%. The Company recorded in cost of goods sold, \$246,594 and \$956,927 for the nine months ended December 31, 2021 and December 31, 2020 respectively, in Government sponsored wage and rent subsidies related to Covid-19.

### **Operating Expenses**

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

Research and development expenses were \$1,179,064 and \$710,729 during the first nine months of fiscals 2022 and 2021, respectively. Included are Government wage and rent subsidies of \$114,637, and \$350,089 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 \$981,170 and \$881,640 for the first nine months of fiscals 2022 and 2021, respectively. Included are Government wage and rent subsidies of \$44,205 and \$164,909 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 \$444,414 and \$267,543 for the first nine months of fiscals 2022 and 2021, respectively. Included are Government wage and rent subsidies of \$21,860 and \$94,017 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 \$173,223 and \$127,928 for the first nine 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 \$(65,121) and a loss of \$3,434 in the first nine 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 nine months of fiscal 2022 and fiscal 2021 were \$(935,271) and \$(1,014,248), 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 December 31, 2021 the accrued and unpaid dividends on the Class A preferred shares were \$19,357,500 (March 31, 2021 - \$18,258,000).



## 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)

	Dec 31 2021 Q3 2022	Sept 30 2021 Q2 2022	June 30 2021 Q1 2022	Mar 31 2021 Q4 2021	Dec 31 2020 Q3 2021	Sept 30 2020 Q2 2021	June 30 2020 Q1 2021	Mar 31 2020 Q4 2020
Revenue	\$ 3,111	\$ 4,271	\$ 3,643	\$ 4,656	\$ 2,954	\$ 2,378	\$ 2,672	\$ 17,356
Net (loss) earnings and total comprehensive (loss) earnings	(560)	462	262	809	0	(265)	350	(2901)
Net (loss) earnings attributed to common shareholders	(926)	95	(104)	442	(367)	(631)	(16)	(3,268)
Basic and diluted (loss) earnings per share	(0.07)	0.01	(0.01)	0.03	(0.03)	(0.05)	(0.00)	(0.25)

## Liquidity and Capital Resources

in \$000s

	December 31, 2021 (unaudited)	March 31, 2021 (audited)	Change
Cash	\$ 915	\$ 2,067	(1,152)
Working Capital	4,528	4,814	(286)

  

	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)	Change
Net cash provided by (used in) :	\$	\$	\$
Operating activities	29	197	(168)
Investing activities	(237)	(53)	(184)
Financing activities	944	(807)	1,751

### **Cash**

As at December 31, 2021, the Company had a cash balance of \$914,845, a decrease of \$1,154,843 from cash balance of \$2,066,688 in March 31, 2021.

### **Working Capital**

Working capital represents current assets less current liabilities. As at December 31, 2021, the Company had working capital of \$4,527,851 compared to a working capital of \$4,814,463 at March 31, 2021.

### **Operating activities**

Cash provided by operating activities during the first nine months of fiscal 2022 was \$28,862 representing a decrease of \$167,726 from cash provided of \$196,588 for the respective period during fiscal 2021. Cash provided by operating activities during the period was primarily the result of profitability and unbilled revenue.

### **Investing activities**

Cash (used in) investing activities during the first nine months of fiscal 2022 was \$(237,117) representing an increase of \$(183,724) in investing activities from cash provided of \$(53,393) in the respective period during fiscal 2021. The use of cash from investing activities during the period was primarily to acquire manufacturing equipment and leasehold improvements.

### **Financing activities**

Cash (used in) financing activities during the first nine months of fiscal 2022 was \$(943,588) representing an increase of \$(136,269) from cash used of \$(807,319) 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 an operating 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 December 31, 2021 was \$2,317,754 CAD of which \$NIL was in use and a letter of credit in the amount of US\$100,000 (\$126,780 CAD) leaving \$2,190,974 CAD available. The Company through its bank has in place a standby letter of 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 \$972,584 CAD was in use at December 31, 2021. The Company has in place a capital credit facility of up to \$2,000,000 CAD to assist with financing of new and used equipment. As at December 31, 2021 \$924,022 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**

	<b>December 31, 2021</b>	March 31, 2021
	<b>(unaudited)</b>	(audited)
	<b>\$</b>	\$
Due to senior officers	<b>3,878,093</b>	3,932,870
Dividends payable	<b>60,000</b>	60,000
Due to Targa Group Inc, convertible debentures	<b>247,672</b>	247,672
Due to Tidal Quality Management Inc.	<b>398,115</b>	398,760
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>5,027,871</b>	5,083,293
Less: current portion	<b>(50,000)</b>	(50,000)
	<b>4,977,871</b>	5,033,293

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

As at December 31, 2021, a balance of \$3,878,093 (\$2,642,459 principal and \$1,235,634 interest); March 31, 2021 - \$3,932,870 (\$2,697,236 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 nine months of fiscal 2022 payments in the amount of \$54,777 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 December 31, 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 December 31, 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 December 31, 2021, a balance of \$398,115 (\$215,227 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 December 31, 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 December 31, 2021. 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 nine months ended December 31, 2021, totaled \$466,317 (\$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 February 23, 2022 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 December 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](http://www.sedar.com) or the Company's website at [www.plaintree.com](http://www.plaintree.com).