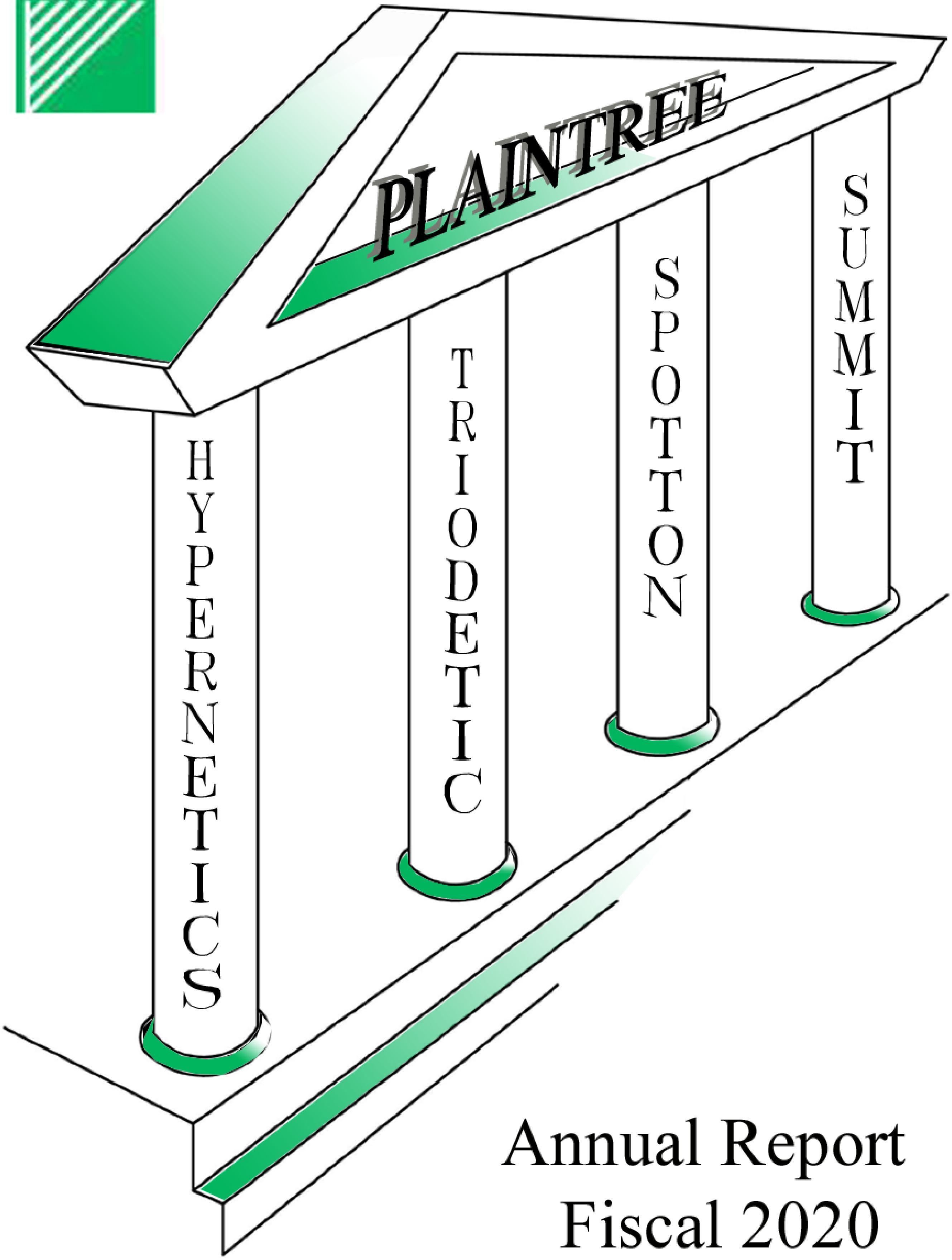

Annual Report Fiscal 2020

March 31, 2020

Plaintree Systems Inc.

March 31, 2020 and March 31, 2019

Table of Contents

Independent Auditor's Report 1-3

Consolidated statements of financial position 4

Consolidated statements of comprehensive earnings (loss) 5

Consolidated statements of cash flows 6

Consolidated statements of changes in equity 7

Notes to the consolidated financial statements 8-33

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

PLAINTREE SYSTEMS INC.

Opinion

We have audited the consolidated financial statements of Plaintree Systems Inc. (the Company), which comprise the consolidated statement of financial position as at March 31, 2020 and 2019, the consolidated statements of comprehensive earnings, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at March 31, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, in the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Bryan Haralovich.

Welch LLP

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
September 2, 2020.

Plaintree Systems Inc.

Consolidated statements of financial position
as of March 31, 2020 and March 31, 2019
(audited)
(in Canadian dollars)

	2020	2019
	$	$
Assets		
Current assets		
Cash	**1,503,880**	838,280
Trade receivables	**1,831,206**	4,296,018
Unbilled revenue	**1,354,322**	882,341
Inventories (note 5)	**1,736,901**	1,037,430
Prepaid expenses and other receivables	**249,538**	115,760
Current portion of mortgage receivable (note 6)	**4,941**	-
Assets held for sale (note 4)	**-**	4,152,032
	6,680,788	11,321,861
Long-term portion of mortage receivable (note 6)	**295,059**	-
Property, plant and equipment (note 10)	**3,895,444**	4,449,861
Intangible assets (note 11)	**407,668**	395,129
	11,278,959	16,166,851
Liabilities		
Current liabilities		
Cash deficit	**-**	1,649,071
Trade and other payables (note 13)	**1,411,104**	1,641,285
Liabilities directly associated with assets held for sale (note 4)	**-**	305,593
Deferred revenue	**81,671**	509,976
Current portion of long-term debt and lease obligation (notes 7 and 8)	**654,924**	443,789
Current portion of due to related parties (note 12)	**50,000**	50,000
Current portion of government assistance (note 9)	**83,794**	63,400
	2,281,493	4,663,114
Long-term debt and lease obligations (notes 7 and 8)	**1,932,685**	1,376,436
Repayable government assistance (note 9)	**581,280**	626,321
Due to related parties (note 12)	**5,176,759**	5,816,178
Deferred tax liabilities (note 17)	**182,000**	129,000
	10,154,217	12,611,049
Shareholders' equity (deficiency)		
Issued capital (note 14)	**2**	2
Contributed surplus	**2,159,842**	2,090,750
Retained earnings (deficit)	**(1,035,102)**	1,465,050
	1,124,742	3,555,802
	11,278,959	16,166,851

Approved by the Board

"David Watson"
David Watson

"Girvan Patterson"
Girvan Patterson

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

Plaintree Systems Inc.

Consolidated statements of comprehensive (loss) earnings
for the years ending March 31, 2020 and March 31, 2019
(audited)
(in Canadian dollars)

	2020	re-presented See note 4 2019
	$	$
Revenue	17,355,827	21,704,067
Cost of sales (note 5)	13,503,702	15,549,565
Gross margin	3,852,125	6,154,502
Operating expenses		
Research and development	1,550,715	1,518,256
Finance and administration	1,732,324	1,457,236
Sales and marketing	668,658	623,720
Bad debt	63,003	-
(Gain) loss on disposal of assets (note 6)	(283,068)	91,297
Interest expense	280,189	430,295
(Gain) loss on foreign exchange	43,986	4,547
	4,055,807	4,125,351
Net (loss) earnings from continuing operations before non-recurring items	(203,682)	2,029,151
Financing fees (note 18)	-	164,329
Net (loss) earnings from continuing operations before income taxes	(203,682)	1,864,822
Income tax expense (recovery) (note 17)		
Current expense	35,640	2,818
Deferred income tax expense (recovery)	2,260,830	(2,078,830)
	2,296,470	(2,076,012)
Net (loss) earnings from continuing operations	(2,500,152)	3,940,834
Loss on discontinued operations (notes 4)	-	132,806
Net (loss) earnings and comprehensive earnings (loss)	(2,500,152)	3,808,028
Basic and diluted (loss) earnings per common share (note 15)		
From continuing and discontinued operations	(0.31)	0.18
From continuing operations	(0.31)	0.19
Weighted average common shares outstanding	12,925,253	12,925,253

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

Plaintree Systems Inc.

Consolidated statements of cash flows
for the years ending March 31, 2020 and March 31, 2019
(audited)
(in Canadian dollars)

	2020	2019
	$	$
Operating activities		
Comprehensive earnings (loss)	**(2,500,152)**	3,808,028
Add (deduct) items not affecting cash:		
Assets held for sale	**1,944,202**	(1,944,202)
Deferred tax assets	**2,207,830**	(2,207,830)
Liabilities on assets held for sale	**(305,593)**	305,593
Write-down of inventories	**114,297**	122,761
Depreciation of intangible assets	**136,108**	137,109
Depreciation of property, plant and equipment	**1,004,445**	946,052
(Gain) loss on sale of property, plant and equipment	**(283,652)**	6,768
Property, plant and equipment - held for sale	**(157,686)**	157,686
Stock option expense	**69,092**	-
Deferred tax liabilities	**53,000**	129,000
Changes in non-cash operating working capital items		
Trade and other receivables	**2,464,812**	(837,675)
Unbilled revenue	**(471,981)**	1,165,663
Inventories	**(813,768)**	584,998
Prepaid expenses and other receivables	**(133,778)**	137,143
Trade and other payables	**(230,181)**	(796,931)
Deferred revenue	**(428,305)**	(962,133)
Cash provided by operations	**2,668,690**	752,030
Investing activities		
Payments to acquire intangible assets	**(148,647)**	(4,926)
Payments to acquire property, plant and equipment	**(15,521)**	(704,692)
Proceeds from disposal of property, plant and equipment	**928,252**	230,100
Cash (used) in investing activities	**764,083**	(479,518)
Financing activities		
Repayment of government assistance	**(24,647)**	(35,940)
Repayment of long-term debt	**(133,710)**	(189,244)
Repayment of capital lease obligations	**(320,326)**	(296,120)
Repayment of related party borrowings (Note 12)	**(639,419)**	(247,288)
Cash (used) in financing activities	**(1,118,102)**	(768,592)
Net cash inflow	**2,314,671**	(496,081)
(Net cash deficit), beginning of the year	**(810,791)**	(314,710)
Net cash (cash deficit), end of the period	**1,503,880**	**(810,791)**
Net cash deficit is comprised of the following:		
Cash	1,503,880	838,280
Cash deficit	-	(1,649,071)
	1,503,880	(810,791)

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 March 31, 2020 and March 31, 2019
(audited)
(in Canadian dollars)

	Common Shares Number	Issued Capital	Preferred Shares (1) Number	Issued Capital	Contributed Surplus	Retained earnings (deficit)	Shareholders' Equity
		$		$	$	$	$
Balances at March 31, 2018	12,925,253	1	18,325	1	2,090,750	(2,657,732)	(566,980)
Adjustment on initial application of IFRS 15						314,754	314,754
Adjusted balance, April 1, 2018	12,925,253	1	18,325	1	2,090,750	(2,342,978)	(252,226)
Net earnings (loss) and comprehensive earnings (loss)						3,808,028	3,808,028
Balances at March 31, 2019	12,925,253	1	18,325	1	2,090,750	1,465,050	3,555,802

	Common Shares Number	Issued Capital	Preferred Shares (1) Number	Issued Capital	Contributed Surplus	Retained earnings (deficit)	Shareholders' Equity
		$		$	$	$	$
Balances at April 1, 2019	12,925,253	1	18,325	1	2,090,750	1,465,050	3,555,802
Stock option expense					69,092		69,092
Net earnings (loss) and comprehensive earnings (loss)						(2,500,152)	(2,500,152)
Balances at March 31, 2020	12,925,253	1	18,325	1	2,159,842	(1,035,102)	1,124,742

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

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

1. Description of the business

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the Canadian Securities Exchange ("CSE") under "NPT". The Company operates an Electronics division, consisting of the Hypernetics division and Summit Aerospace USA Inc. ("Summit Aerospace"), a Specialty Structures division (the Triodetic business) and Spotton Corporation. Plaintree is a diversified company with proprietary technologies and manufacturing capabilities in structural design and aerospace. The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft indicators, solenoids and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminum, and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames, and industrial dome coverings. Summit Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic cylinders for the industrial, automation and oil and gas markets.

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

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

The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

2. Basis of presentation

(a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved for issue by the Board of Directors on September 2, 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.

3. Significant accounting policies

The significant accounting policies include the following:

Inventories

Inventories are valued using a standard costing formula and are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are allocated to the weighted average cost of inventory by the method most appropriate to the particular class of inventory. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment for losses. When parts of material items of property, plant and equipment have significantly different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives using the straight-line method as follows:

Building	20 years
Leasehold improvements	10 years
Factory equipment	10 years
Computer equipment	3 years
Office equipment and furniture	10 years
Vehicles	4 years

Leases and right-of-use assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero. Variable costs are not included in the measurement of the lease liability.

3. Significant accounting policies - Cont'd.

Intangible assets

The Company's intangible assets consist of a customer relationship, a non-competition agreement and software. Intangible assets are stated at cost less accumulated depreciation and accumulated impairment for losses. The Company uses the income approach to determine the fair value of its acquired customer relationship and non-competition agreement intangible assets. This approach is a valuation technique that calculates the fair value of an intangible asset based on the cash flows that an asset can be expected to generate over its remaining useful life. These assets are capitalized and are amortized to operations over their estimated useful lives from the date that they are acquired and available for use, since this most closely reflects the expected usage and consumption patterns related to the future economic benefits embodied in the assets. The Company considers the length of time over which it expects to earn or recover the present value of the assets. Depreciation is recognized so as to write off the cost of assets over their useful lives using the straight-line method as follows:

Software	2 years
Customer relationship	10 years
Non-competition agreement	6.5 years

The Company's policy is to review all long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company will record an impairment of the asset if the recoverable amount, determined as the higher of an asset's fair value less costs to sell or the discounted future cash flows generated from use and eventual disposal of an asset, is less than its carrying value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period.

Revenue recognition

Revenue is recognized upon transfer of control of products or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for the products or services. This is achieved through applying the following five-step model:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligation in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligation in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company generates substantially all of its revenue from contracts with customers, whether formal or implied for the delivery of customized products and services.

Given the custom nature of the products sold by the Company revenue is recognize over time using the percentage of completion method of services rendered that reflects the extent of work accomplished. Management estimates the percentage-of-completion by reference to measures of performance that are reasonably determinable and are directly related to the activities critical to completion of the contract. The Company uses this method of revenue recognition as projected contract revenue and costs may reasonably be estimated based on the Company's business practices, methods and historical experience. This method requires estimates of costs and profits over the entire term of the contract. Management regularly reviews underlying estimates of project profitability; revisions to estimates are reflected in the statement of income in the period in which the facts that give rise to the revision become known. Provisions for estimated losses, if any, are recognized in the period in which the loss is determined. Contract losses are measured as the amount by which the estimated costs of the contract exceed the estimated total revenue from the contract.

3. Significant accounting policies - Cont'd.

Progress billings are recorded as deferred revenue to the extent that the billings exceed revenue recognized to date. Unbilled revenue is recorded to the extent that revenue has been recognized, but not yet billed to the customer.

Warranty obligations associated with the sale of equipment are assurance-type warranties and therefore do not represent a distinct performance obligation. The Company records a provision for assurance-type warranties at the time equipment sales are recognized as revenue.

Professional services may be provided for training and support. Professional services are typically billed on a time and material basis and revenue is recognized over time as the services are performed or delivered.

Generally the Company's performance obligations have an expected duration of under one year and as such the Company has elected to apply the practical expedient available under IFRS 15 to not disclose information relating to remaining performance obligations.

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the costs to be recoverable. Capitalized contract acquisition costs are amortized consistent with the pattern of transfer to the customer for the goods and services to which the asset relates. The Company applies the practical expedient available under IFRS 15 and does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less. The Company had no material contract assets or liabilities.

The Company has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for these services is expected to be one year or less.

Business combination

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets acquired and liabilities incurred or assumed. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, Business Combinations, are recognized at their fair values at the acquisition date. Acquisition costs are expensed as incurred.

Functional currency

The Canadian dollar is the functional currency of the parent company and its subsidiaries.

Monetary assets and liabilities, which are denominated in foreign currencies, are translated to the entity's functional currency at period end exchange rates, and transactions included in the consolidated statement of comprehensive earnings (loss) are translated at average rates prevailing during the period. Exchange gains and losses resulting from the translation of these amounts are included in the consolidated statement of comprehensive earnings.

The accounts of the Company's wholly-owned U.S. subsidiaries, which have Canadian dollar functional currencies, have been translated into Canadian dollars using the exchange rates at period end for monetary items and at exchange rates at the transaction date for non-monetary items measured at historical costs.

3. Significant accounting policies - Cont'd.

Stock option plans

The Company measures equity settled stock options granted based on their fair value at the grant date and recognizes compensation expense over the vesting period. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in net earnings. Consideration paid by employees on the exercise of stock options is recorded as share capital and the related share-based payments are transferred from contributed surplus to share capital.

Investment tax credits

Investment tax credits are recorded as a reduction of the related expense or cost of the asset acquired. The benefits are recognized when the Company has complied with the terms and conditions of the approved grant program or applicable tax legislation.

Research and development expenditures

Current research costs are expensed as incurred while expenditures for research and development equipment, net of related investment tax credits, are capitalized.

Development costs are deferred and amortized when the criteria for deferral under IFRS are met, or otherwise, are expensed as incurred. To date, no such costs have been capitalized.

Critical accounting estimates and judgements

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period.

Revenue recognition

Application of the accounting principles related to measurement and recognition of revenue requires the Company to make judgments and estimates.

Revenue for customized products is recognized over time based on the estimated percentage-of-completion of services rendered at each period-end. This method requires management to estimate total costs and profits over the entire term of the contract.

Impairment of trade receivables

Management determines the estimated recoverability of trade receivables based on the evaluation and ageing of trade receivables, including the current creditworthiness and the past collection history of the customers and reviews these estimates at the end of each reporting period. The Company maintains an allowance for doubtful accounts to provide for impairment of trade receivables.

Impairment of long-lived assets

Long-lived assets, including property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is the higher of its fair value, less costs of disposal, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased, except for goodwill, to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously. Management uses information available to estimate if indicators of impairment exist when calculating the fair value amount.

3. Significant accounting policies - Cont'd.

Useful lives of property, plant and equipment and intangible assets

Management determines the estimated useful lives of its property, plant and equipment based on historical experience of the actual lives of property, plant and equipment of similar nature and functions and reviews these estimates at the end of each reporting period. The useful lives of intangible assets are based on management's best estimate of the expected life of the economic benefits that will be derived from the assets.

Functional currency

Revenue contracts are priced in a variety of currencies whereas the cost structure inputs are primarily in Canadian dollars. Secondary indicators of functional currency, including financing and cash holdings are primarily in Canadian dollars. As the primary indicators of functional currency do not clearly indicate a specific currency, the indicators as a whole have been judged to indicate the Canadian dollar as the functional currency of the parent company and its subsidiaries.

Estimation uncertainty

Critical accounting policies and estimates utilized in the normal course of preparing the Company's consolidated financial statements require the determination of future cash flows utilized in assessing net recoverable amounts and net realizable values; useful lives; allowance for bad debt; useful lives of property, equipment and intangible assets; percentage-of-completion for revenue recognition; unbilled revenue; deferred revenue; inventory obsolescence; ability to utilize tax losses; and measurement of deferred taxes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis where required.

These estimates have been applied in a manner consistent with that in the prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

Income taxes

The Company's deferred income tax assets and liabilities are recognized for the future tax consequences attributable to tax loss carry-forwards and to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted, applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change of statutory tax rates is recognized in income in the period of enactment or substantive enactment. Deferred income tax assets are recognized to the extent it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

3. Significant accounting policies - Cont'd.

Basic earnings (loss) per share for continued and discontinued operations

Earnings (loss) per share has been calculated on the basis of net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the period. Earnings (loss) attributable to common shareholders is equal to net income (loss) less the dividends accumulated on the preferred shares. Diluted earnings (loss) per common share is calculated by dividing the applicable net income attributable to common shareholders by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. The Company uses the treasury stock method in determining the denominator for earnings (loss) per share. Under this method, it is assumed that the proceeds from the exercise of options are used to repurchase common shares at the weighted average market price of the shares for the period.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the instrument.

Trade receivables are initially measured at the transaction price which represents fair value at the date of the transaction. All financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All financial assets are recognized and de-recognized on trade date.

The Company determines the classification of its financial assets on the basis of both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset	Classification under IFRS 9
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Unbilled receivables	Amortized cost
Mortgage receivable	Amortized cost

Amortized cost

Subsequent to initial recognition, financial assets at amortized cost are measured using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate except for short-term receivables where the interest revenue would be immaterial. Interest income, foreign exchange gains and losses, impairment, and any gain or loss on de-recognition are recognized in profit or loss.

3. Significant accounting policies - Cont'd.

Impairment of financial assets

The Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that he borrower will enter bankruptcy or financial re-organization.

Financial assets are written off when there is no reasonable expectation of recovery.

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities are classified as follows:

Financial liability	Classification under IFRS
Trade payables and accrued liabilities	Amortized cost
Bank loans, loans	Amortized cost

Amortized cost

Financial liabilities at amortized cost are measured using the effective interest rate method, including the impact of deferred financing fees.

De-recognition of financial liabilities

The Company de-recognizes financial liabilities when the Company's obligations are discharged, cancelled or they expire.

Changes in significant accounting policies

IFRS 16 - Leases

Adoption of IFRS 16 Leases ("IFRS 16")

Effective April 1, 2019, the Company adopted IFRS 16, which sets out the requirements in accounting for leases. The standard replaces IAS 17 Leases.

The Company has elected to not recognize right of use assets and lease liabilities for leases that have a term of 12 months or leases and the leases are of low value assets. The 2019 information presented has not been restated for this standard.

The adoption of IFRS 16, has not had an effect on the Company's accounting policies related to leases and there was no material impact of the transition on the Company's financial statements.

(In Canadian dollars)

4. Operations held for sale

Madawaska Doors

As of October 2018, the Company deemed the assets of 9366920 Canada Inc (operating as Madawaska Doors) as held for sale. The business closed in the Company's third fiscal quarter of fiscal 2019. In March 2019 the company completed the sale of the assets and business of Madawaska Doors. The Company's inventory, equipment and building were all included in the purchase price of $300,000. Net losses for the fiscal 2019 year of ($132,806) are included in the earnings (losses) from discontinued operations.

Hypernetics

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

	March 31, 2019
	$
Assets held for sale	
Accounts receivable	618,901
Unbilled revenue	604,844
Inventory	562,770
Equipment	157,687
Assets of component held for sale	1,944,202
Liabilities held for sale	
Accounts payable and accrued	305,593
Deferred tax asset	2,207,830
Net assets held for sale	3,846,439

(In Canadian dollars)

4. Operations held for sale - Cont'd.

The impact of restatement of the statement of comprehensive income (loss) is as follows:

	2019	Restatement	Restated 2019
	$	$	$
Revenue	17,002,520	4,701,547	21,704,067
Cost of sales (note 5)	13,355,225	2,194,340	15,549,565
Gross margin	3,647,295	2,507,207	6,154,502
Operating expenses			
Research and development	1,154,115	364,141	1,518,256
Finance and administration	1,376,186	81,050	1,457,236
Sales and marketing	536,463	87,257	623,720
Bad debt	-	-	-
(Gain) loss on disposal of assets (note 6)	91,297	-	91,297
Interest expense	417,219	13,076	430,295
(Gain) loss on foreign exchange	27,541	(22,994)	4,547
	3,602,821	522,530	4,125,351
Net (loss) earnings from continuing operations before non-recurring items	44,474	1,984,677	2,029,151
Financing fees (note 18)	164,329	-	164,329
Net (loss) earnings from continuing operations before income taxes	(119,855)	1,984,677	1,864,822
Income tax expense (recovery) (note 17)			
Current expense	2,818		2,818
Deferred income tax expense (recovery)	129,000	(2,207,830)	(2,078,830)
	131,818	(2,207,830)	(2,076,012)
Net (loss) earnings from continuing operations	(251,673)	4,192,507	3,940,834
(Gain) loss on discontinued operations (notes 4)	(4,059,701)	4,192,507	132,806
Net (loss) earnings and comprehensive earnings (loss)	3,808,028	-	3,808,028

5. Inventories

	March 31, 2020 (audited)	March 31, 2019 (audited)
	$	$
Raw materials	1,176,419	619,598
Work in process	528,966	417,832
Finished goods	31,516	-
	1,736,901	1,037,430

The cost of inventories recognized as an expense during the year was $13,400,808 ($15,441,424 in 2019). The total carrying value of inventory as at March 31, 2020, was pledged as security through general security agreements under bank lines of credit and related party liabilities (see note 12 and 18).

The Company wrote down its inventories by $114,298 in fiscal 2020 ($122,761 in 2019) to reflect where the carrying amount exceeded net realizable value. The Company had write ups in the year totaling $49,161 ($51,482 in 2019).

(In Canadian dollars)

6. Mortgage receivable

In March 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. 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 is $283,068. The mortgage payment terms are as follows:

	$
2021	4,941
2022	5,250
2023	5,578
2024	5,926
2025	278,305
Net mortgage receipts	300,000

7. Long-term debt

	March 31, 2020	March 31, 2019
	(audited)	(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.	**352,078**	430,000
Non-revolving loan payable ($380,602 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.	**539,960**	606,035
Deferred financing fees	**(92,588)**	(102,876)
	799,450	933,160
Current portion	**(200,033)**	(169,942)
	599,417	763,218

Principal repayments required on bank debt in the next five years and thereafter are as follows:

	$
2021	189,728
2022	702,310
2023 and thereafter	-
Net loan re-payments	892,038

(In Canadian dollars)

8. Lease Obligation

The Company's leases are for vehicles and factory equipment. All vehicle leases expired during the year while the factory equipment leases 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 March 31, 2020:

	Factory equipment leases
	$
2021	489,354
2022	494,706
2023	394,786
2024	303,325
2025	161,057
2026	81,579
Total future minimum lease payments	1,924,807
Inputed interest	(136,648)
Total lease liabilities	1,788,159
Less: current portion	(454,891)
Non-current portion	1,333,268

Interest expense on lease obligations for the year ended March 31, 2020 was $92,491 (2019 - $42,985). Variable lease payments for operating costs not included in the measurement of lease obligations for the year ended March 31, 2020 was $9,758.

Expenses relating to short-term leases and leases of low value assets for the year ended March 31, 2020 were $172,179. Total cash outflow for leases was $412,817, including $320,326 of principal payments on lease obligations.

The following table presents the future contractual cash flows for short-term leases at March 31, 2020:

2021	$388,750

(In Canadian dollars)

9. Government assistance

The Company's Summit Aerospace USA Inc. division accepted a loan of $720,000 USD ($962,136 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 associated with the loan at a discount rate which represents the estimated borrowing rate to the Company. The difference between the face value of the loan and the estimated fair value is deemed to be government assistance. The loan payable is accreted to the face value over the term of the loan and is recognized as accretion expense.

	Loan present value	Deferred Government Assistance	Repayable government assistance
	(audited)	(audited)	(audited)
	$	$	$
Opening Balance	596,877	92,844	689,721
Loan adjustment for exchange	36,806	(7,075)	29,731
Repayments	(67,178)	-	(67,178)
Accretion	16,895	(4,095)	12,800
March 31, 2020	583,400	81,674	665,074
Current Portion	(68,193)	(15,601)	(83,794)
Balance	515,207	66,073	581,280

Total future minimum loan payments, of obligations under government assistance for the next five years are as follows:

	$
2021	68,193
2022	69,222
2023	70,268
2024	71,329
2025	72,407
2026 and thereafter	313,655
Net loan re-payments	665,074

(In Canadian dollars)

10. Property, plant and equipment

	Factory equipment	Computer equipment	Furniture	Vehicles	Lease improvements	Building	Land	Total
	$	$	$	$	$	$	$	$
Cost, balance								
March 31, 2018	7,736,570	1,062,691	202,313	420,221	2,261,251	1,784,553	275,431	13,743,030
Additions	1,018,164	4,208	-	17,017	288,314	-	-	1,327,703
Assets classified as held for sale	(1,859,396)	-	-	-	-	-	-	(1,859,396)
Disposals	(278,415)	(1,141)	-	(5,100)	(20,282)	(55,625)	(40,000)	(400,563)
March 31, 2019	6,616,923	1,065,758	202,313	432,138	2,529,283	1,728,928	235,431	12,810,774
Additions	1,150,075	27,396	-	-	59,471	-	-	1,236,942
Assets reclassified from held for sale	1,859,396	-	-	-	-	-	-	1,859,396
Disposals	(77,828)			(53,171)	(970,745)	(721,145)	(110,874)	(1,933,762)
March 31, 2020	9,548,566	1,093,154	202,313	378,967	1,618,008	1,007,783	124,557	13,973,350
Accumulated depreciation, balance								
March 31, 2018	(5,750,632)	(1,045,108)	(199,514)	(377,327)	(1,342,427)	(560,495)	-	(9,275,503)
Depreciation	(588,578)	(11,460)	(883)	(23,617)	(220,045)	(101,469)	-	(946,052)
Assets classified as held for sale	1,701,709							1,701,709
Disposal	124,004	1,141	-	5,100	20,282	8,406	-	158,933
March 31, 2019	(4,513,497)	(1,055,427)	(200,397)	(395,844)	(1,542,190)	(653,558)	-	(8,360,913)
Depreciation	(654,194)	(11,516)	(882)	(16,971)	(224,394)	(96,488)	-	(1,004,446)
Assets reclassified from held for sale	(1,701,709)							(1,701,709)
Disposal	64,341	-	-	53,152	553,236	318,434	-	989,162
March 31, 2020	(6,805,059)	(1,066,943)	(201,279)	(359,664)	(1,213,348)	(431,612)	-	(10,077,906)
Carrying amount,								
March 31, 2020	2,743,506	26,211	1,034	19,304	404,662	576,171	124,557	3,895,444
March 31, 2019	2,103,426	10,331	1,916	36,294	987,093	1,075,370	235,431	4,449,861

Included in factory equipment are right of use assets with a cost of $1,732,238 and accumulated amortization of $330,363 (2019 - cost of $1,244,478 and accumulated amortization of $191,925). Included in vehicles are right of use assets with a cost of $NIL and accumulated amortization of $NIL (2019 - cost of $34,851 and accumulated amortization of $34,851). Refer to Note 8 for a breakdown of the Company's lease obligations.

11. Intangibles

	Software	Customer Relationship and Non-compete	Total
	$	$	$
Cost, balance			
March 31, 2018	182,833	1,313,270	1,496,103
Additions	4,926	-	4,926
March 31, 2019	187,759	1,313,270	1,501,029
Additions	148,647	-	148,647
March 31, 2020	**336,406**	**1,313,270**	**1,649,676**
Accumulated depreciation, balance			
March 31, 2018	(177,597)	(791,193)	(968,790)
Depreciation	(6,013)	(131,096)	(137,109)
March 31, 2019	(183,610)	(922,289)	(1,105,899)
Depreciation	(5,782)	(130,327)	(136,109)
March 31, 2020	**(189,392)**	**(1,052,616)**	**(1,242,008)**
Carrying amount,			
March 31, 2020	**147,014**	**260,654**	**407,668**
March 31, 2019	4,148	390,981	395,129

(In Canadian dollars)

12. Due to related parties

	March 31, 2020	March 31, 2019
	(audited)	(audited)
	$	$
Due to senior officers	**3,983,832**	4,083,141
Dividends payable	**60,000**	60,000
Due to Targa Group Inc, covertable debentures	**247,672**	247,672
Due to Tidal Quality Management Inc.	**491,264**	824,209
Due to Targa Group Inc, line of credit	**242,598**	449,763
Due to Targa Group Inc, demand loan interest	**201,393**	201,393
	5,226,759	5,866,178
Less: current portion	**(50,000)**	(50,000)
	5,176,759	5,816,178

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

As at March 31, 2020, a balance of $3,983,832 ($2,748,198 principal and $1,235,634 interest); March 31, 2019 - $4,083,139 ($2,847,505 principal and $1,235,634 interest in 2019) remained owing to senior officers of the Company. The parties agreed to discontinue interest payments accruing on balances as of April 1, 2016. During the year payments in the amount of $99,307 were repaid to senior officers. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

On July 14, 2011, the board of directors of the Company declared a cash dividend of $10.91405 per Class A preferred share ($200,000 in the aggregate) payable on July 22, 2011, to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the $1,000 redemption amount of the Class A preferred share. An amount of $60,000 ($60,000 in 2019) of the dividend remains outstanding as at March 31, 2020. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

As at March 31, 2020, interest in the amount of $247,672 ($247,672 in 2019) on a loan from Targa remains outstanding. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

(In Canadian dollars)

12. Due to related parties - Cont'd.

As at March 31, 2020, a balance of $491,264 ($308,376 rent arrears and $182,888 interest); March 31, 2019 - $824,209 ($641,320 rent arrears and $182,889 interest) remained owing to a related party controlled by Targa, Tidal Quality Management Corp. The party agreed to discontinue interest accruing on unpaid balances as at April 1, 2016. Until then the interest rate was at bank prime plus 2%. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

The Company has a revolving line of credit of up to $1,000,000 with Targa. Under the loan agreements, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The Targa Credit Line is secured by a security interest granted over the assets of the Company. As at March 31, 2020, $NIL ($207,165 in 2019) remained outstanding on the line of credit with accumulated interest of $242,598 ($242,598 in 2019) outstanding for a balance of $242,598 ($449,763 in 2019).

Interest in the amount of $66,581 ($66,581 in 2019) remained outstanding on a demand loan with Targa. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments. Accumulated interest in the amount of $134,812 ($134,812 in 2019), on a loan from Targa remains outstanding as of March 31, 2020. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

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

Rents paid to Tidal Quality Management Corp during the year ended March 31, 2020 totaled $151,921 (2019 - $117,114). The above related party transactions are measured at their exchange amount, which is the amount agreed to by the parties.

13. Trade and other payables

Trade and other payables are comprised of the following:

	March 31, 2020 (audited)	March 31, 2019 (audited)
	$	$
Accounts payable	**434,475**	1,132,653
Accrued liabilities	**446,504**	139,737
Salaries and benefits payable	**530,125**	368,895
	1,411,104	1,641,285

(In Canadian dollars)

14. 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 March 31, 2020, the accrued and unpaid dividends on Class A preferred shares were $16,792,000 ($15,326,000 in 2019).

Stock option plans

Stock options

Under the Company's Stock Option Plan, the Company is authorized to issue up to 12,000,000 stock options to its employees, officers, directors or consultants.

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.

Information related to the share options outstanding at March 31, 2020 is presented below:

	Number of shares	Weighted average exercise price
	#	$
Options outstanding, beginning of year	-	-
Granted	**880,000**	**0.11**
Options outstanding and excercisable, end of year	**880,000**	**0.11**

The following table summarizes information about stock options outstanding at March 31, 2020:

	Options Outstanding			
Exercise Price	Number outstanding at March 31, 2020	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable at March 31, 2020
$	#		$	#
0.11	880,000	9.72	0.11	880,000

During the year ended March 31, 2020, 880,000 stock options were granted to employees and directors of the Company at an exercise prices of $0.11 with an expiry date of December 16, 2029.

Grant Date	Options Granted	Stock Price	Exercise Price	Expected Life	Volatility	Dividend Rate	Risk Free Rate	Per-Share Weighted Average Fair Value
		$	$					$
December 16, 2019	880,000	0.08	0.11	5 years	214%	0%	1.67%	0.08

(In Canadian dollars)

15. Basic and diluted earnings per common share

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

For the years ended March 31, 2020 and 2019, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

	March 31, 2020 (audited) $	**March 31, 2019** (audited) $
Net earnings (loss) from continuing and held for sales operations	**(2,500,152)**	3,808,027
Cumulative dividends on preferred shares - per annum	**(1,466,000)**	(1,466,000)
Net earnings (loss) attributed to common shares (basis and diluted)	**(3,966,152)**	2,342,027
Basic and diluted weighted average shares outstanding	**12,925,253**	12,925,253
Basic and diluted earnings (loss) per share from continuing and held for sale operations	**(0.31)**	0.18
Net earnings (loss) on continuing operations	**(2,500,152)**	3,940,833
Cumulative dividends on preferred shares - per annum	**(1,466,000)**	(1,466,000)
Net earnings (loss) attributed to common shares (basis and diluted)	**(3,966,152)**	2,474,833
Basic and diluted weighted average shares outstanding	**12,925,253**	12,925,253
Basic and diluted earnings (loss) per share from continuing operations	**(0.31)**	0.19

16. Business segment information

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments - the design, development, manufacture, marketing and support of electronic product, and the specialty structural products. The Company determines the geographical location of revenue based on the location of its customers. Of the total balance of $3,895,444 (2019 - $4,449,861) in property, plant and equipment, $1,381,000 (2019 - $1,980,782) is located in Canada and $2,514,444 (2019 - $2,469,079) in the United States. All the Company's intangible assets are primarily located in Canada.

Revenue by division

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

(In Canadian dollars)

16. Business segment information - Cont'd.

Revenue by geographical location

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

Net (loss) earnings before taxes by division

	March 31, 2020	March 31, 2019
	(audited)	(audited)
	$	$
Electronics	(96,102)	1,465,269
Specialty Structures	(107,581)	399,552
	(203,682)	1,864,821

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

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

Assets by division

	March 31, 2020	March 31, 2019
	(audited)	(audited)
	$	$
Electronics	7,563,763	9,923,752
Specialty Structures	3,715,196	6,243,099

(In Canadian dollars)

17. Income taxes

Deferred income taxes reflect the impact of loss carry-forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts are measured by tax laws. The temporary differences and loss carry-forwards that gave rise to significant portions of the deferred tax asset, which have not been recognized, are as follows:

	2020	2019
	$	$
Accounting depreciation in excess of tax	**428,000**	321,000
Research and development expenses not deducted for tax	**16,656,000**	7,968,000
Losses available to offset future income taxes	**4,092,000**	3,395,000
Accruals	**2,854,000**	3,157,000
Other	**192,000**	192,000
	24,222,000	15,033,000

The effect of temporary differences and loss carryforwards that give rise to significant portions of the deferred tax asset, which has been recognized during the year ended March 31, 2020 are as follows:

	2019	Recognized in Profit or Loss	**2020**
	$	$	**$**
Deferred Tax Assets			
Research and development expenses	2,207,830	(2,207,830)	**-**
Losses available to ofset future income taxes	217,000	(144,000)	**73,000**
Accruals	64,000	(52,000)	**12,000**
Other	-	126,000	**126,000**
Deferred tax liabilities			
Accounting depreciation in excess of tax	(410,000)	17,000	**(393,000)**
Net deferred taxes per financial statements	**2,078,830**	**(2,260,830)**	**(182,000)**

Previously recognized deferred tax assets in respect of research and development expenses of $2,207,830 (Research and development expenses not deducted for tax of $8,831,000) were reversed in the year as a result of the decision to cease the sale of Hypernetics as detailed in note 4. The reversal of the deferred tax asset in the year has been reported in continuing operations as a deferred tax expense.

The Company has claimed less research and development expenses for income tax purposes than has been reflected in the financial statements. These unclaimed expenses total approximately $16,656,000 (2019 - $16,799,000) for Canadian federal and provincial tax purposes. These are available without expiry to reduce future years' taxable income.

As at March 31, 2020, the Company has approximately $617,000 (2019 - $617,000) of investment tax credits, relating primarily to research and development, available to reduce future year's Canadian federal income taxes. These potential benefits expire as follows:

(In Canadian dollars)

17. Income taxes - Cont'd.

	$
2021	240,000
2022	344,000
2029	12,000
2030	16,000
2031	5,000
	617,000

The provision for income taxes in the statement of comprehensive income differs from the amount computed by applying the Canadian statutory rate to the loss before income taxes for the following reasons:

	2020	2019
	$	$
Net loss before income taxes of continuing operations	**(203,683)**	(119,855)
Canadian statutory rate	**25.0%**	25.0%
Expected income tax benefit	**(50,921)**	(29,964)
Changes in unrealized deferred tax assets	**2,246,620**	22,503
Future rate change	**30,828**	-
True up on current taxes	**1,996**	1,933
True up on future taxes	**(7,788)**	99,130
Permanent differences	**14,137**	7,842
Foreign rate differential	**3,846**	(5,394)
Other (minimum tax, elimination, etc.)	**57,752**	34,076
Income tax expense	**2,296,470**	130,126

The Company has losses available to reduce future years' Canadian federal taxable income totaling approximately $3,669,000. These potential benefits expire as follows:

	$
2035	-
2036	626,000
2037	1,355,000
2038	409,000
2039	497,000
2040	782,000
	3,669,000

The Company has U.S. losses of approximately $701,000, which begin to expire in 2033.

Losses attributable to discontinued and inactive operations total $2,222,456.

(In Canadian dollars)

18. Guarantees, commitments and contingencies

Guarantees

The Company has entered into agreements that contain features which meet the definition of a guarantee. The pronouncements define a guarantee to be a contract that contingently requires the Company to make payments (either in cash, financial instruments, other assets, common shares of the Company or through the provision of services) to a third party based on changes in an underlying economic characteristic (such as interest rates or market value) that is related to an asset, a liability or an equity security of the other party.

Leases

See note 8 for lease commitments.

Product warranties

As part of the normal sale of product, the Company provides its customers with standard one-year product warranties. The Company currently has parts only warranty obligations that are included with the normal sale of the product. Based on historical data, no warranty obligation has been recognized at this time.

Bank facilities

The Company has in place a credit facility of up to $3,000,000 CAD through its bank based on acceptable trade receivables and inventory. The total amount available to the Company as at March 31, 2020 was $2,119,509 CAD of which $NIL was in use and a letter of credit in the amount of US$100,000 ($141,870 CAD) leaving $1,977,639 CAD available. The Company through its bank has in place a credit facility of up to $3,500,000 CAD for the issuance of standby letters of credit and/or letters of guarantee insured by Export Development Corporation ("EDC") Performance Security Guarantee of which $1,383,260 CAD was in use at March 31, 2020. The Company has in place a credit facility of up to $2,000,000 CAD to assist with financing of new and used equipment. As at March 31, 2020 $1,221,421 CAD was in use (Note 8 Lease obligations). During fiscal 2019 the Company incurred professional fees of $164,329 CAD related to the modification of its banking relationship and related short-term borrowings.

Contractual obligations

The following table provides a summary of the Company's obligations outstanding as at March 31, 2020:

Payments due by period

	Total	Current	2022	2023	2024	2025	Thereafter
	$	$	$	$	$	$	$
Accounts payable and accrued liabilities	1,411,105	1,411,105					
Due to related parties - convertible debentures	247,672		247,672				
Due to related parties - other	4,535,096	50,000	4,485,096				
Due to related parties - line of credit	242,598		242,598				
Due to related parties - demand loan	201,393		201,393				
Due to related parties - lease payments	388,750	388,750					
Long-term debt, government assistance and lease obligations	3,870,668	1,136,025	1,266,238	465,054	374,654	233,464	395,234
	10,897,283	2,985,880	6,442,998	465,054	374,654	233,464	395,234

19. Financial instruments

Fair value hierarchy

Financial instruments recorded at fair value on the Statements of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash is classified as a Level 1 financial instrument. During the year, there has been no significant transfer of amounts between Level 1 and Level 2. There are no items classified in Level 2 or 3.

The Company has exposure to credit risk, market risk and liquidity risk associated with its financial assets and liabilities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Audit Committee is responsible for developing and monitoring the Company's compliance with risk management policies and procedures. The Audit Committee regularly reports to the Board of Directors on its activities.

The Company's risk management program seeks to minimize potential adverse effects on the Company's financial performance and ultimately shareholder value. The Company manages its risks and risk exposures through a combination of insurance, a system of internal and disclosure controls, sound business practices and on occasion derivative financial instruments.

Credit risk

Credit risk arises from cash held with banks, the mortgage receivable and credit exposure to customers, and others from outstanding trade receivables and unbilled revenue. The objective of managing counterparty credit risk is to prevent losses on financial assets, specifically cash, trade receivables and unbilled revenue. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors.

Mortgage receivable

Credit risk arises from the potential of not collecting the amount owing. The Company mitigates the risk via the security held and by monitoring the collection of amounts owing.

Cash

Cash consists of bank deposits. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are invested in highly rated financial institutions

19. Financial instruments - Cont'd.

Fair value hierarchy - Cont'd.

Accounts receivable

Accounts receivable consists primarily of trade receivables. The Company's credit risk arises from the possibility that a counterparty which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss for the Company.

This risk is mitigated through established credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The carrying amount of trade receivables are reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of comprehensive earnings. When a receivable balance is considered uncollectible, it is written off against the allowance for trade receivables.

Maximum credit risk is limited to the balance in cash, trade receivables and unbilled revenue totaling $4,689,408 ($6,016,639 in 2019). As at March 31, 2020, trade receivables were comprised of two companies totaling 10% and 33% respectively (two companies totaling 15% and 42% respectively in 2019). As at March 31, 2020, the Company's ageing of accounts receivable was approximately 78% (89% in 2019) under sixty days, 20% (6% in 2019); over 60 - 90 days and 2% (5% in March 31, 2019) over 90 days and the allowance for doubtful accounts was $NIL (2,000 in 2019).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the fair value of recognized assets and liabilities or future cash flows or the Company's results of operations.

Interest risk

The Company is financed through loans from related parties and bank loans, which bear interest at rates tied to the Canadian bank prime rate. The Company's exposure to interest rate risk relates primarily to variable interest rates on the Company's credit facilities as disclosed in note 18.

Foreign currency risk

There is a risk to the Company's earnings that arises from fluctuations in foreign exchange rates, and the degree of volatility of these rates. The Company's financial results are reported in Canadian dollars. The Company is exposed to foreign exchange fluctuations against the Canadian dollar as sales are primarily denominated in U.S. dollars and other foreign currencies, while expenditures are primarily denominated in Canadian dollars. The Company did not use derivative financial instruments to manage this risk. For the year ended March 31, 2020, the Company had a foreign exchange loss of $43,986 ($4,547 in 2019). A 10% change in the value of the U.S. dollar against the Canadian dollar would have an approximate foreign exchange gain or loss of $65,461 and $25,652 for the fiscal years ended March 31, 2020 and 2019, respectively.

19. Financial instruments - Cont'd.

Foreign currency risk

Assets and liabilities denominated in U.S. dollars are as follows:

	March 31, 2020 (audited) $	March 31, 2019 (audited) $
Cash	**882,683**	456,628
Trade receivables	**893,962**	1,465,154
Unbilled revenue	**835,062**	675,044
Prepaid expenses and other receivables	**36,786**	-
Trade and other payables	**(246,740)**	(227,331)
Long-term debt	**(1,747,140)**	(2,112,972)
	654,613	256,523

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains a positive working capital position. The Company aims to maintain a current ratio, defined as current assets over current liabilities, of at least 1:1.25.

The Company generally makes bi-monthly payments to vendors. As at March 31, 2020, 97% of the Company's accounts payable were current. The vast majority of accounts payable fall due for payment within forty-five days.

Fair values

The carrying amounts for cash, trade accounts receivable, and accounts payable and accrued liabilities approximate fair value due to the short maturity of these instruments or the terms of the instrument. The carrying amount for the long-term debt approximated fair value as the interest rate was reflective of rates currently available for similar debt. The fair value of the mortgage receivable approximates the carrying value as the interest rate is reflective of current rates.

20. Key Management Personnel Compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company is the Company CEO. The CEO controls approximately 34.4% of the outstanding shares of the Company. Compensation provided to key management is as follows:

	2020 $	2019 $
Consulting fees	**204,000**	204,000
Health benefits	**14,157**	13,446
	218,157	217,446

If terminated for other than just cause, the chief executive officer is entitled to up to twelve months prior written notice or payment thereof in lieu at the rate in effect at the time of termination.

(In Canadian dollars)

21. Revenue

The Company derives its revenue principally from the provision of customized electronics and specialty structure services under fixed price contracts. Revenue is generally recorded as the work progresses using the percentage of completion method. The contract period for the electronics contracts is generally short with the performance obligation provided over time and billed on completion and delivery. The contract period for the specialty structures contracts can extend beyond a year with progress billings incorporated into the terms of the customer contract. Payment is generally due on issuance of the invoice. Deferred revenue is generally comprised of progress billings related to the specialty structures contracts.

The following table presents the changes in deferred revenue:

	$
Opening balance, March 31, 2019	509,976
Revenue recognized	(484,174)
Amounts invoiced and deferred as at March 31, 2020	55,869
Balance, March 31, 2020	81,671

22. Personnel expenses

The following table presents the personnel expenses of the Company:

	2020	2019
	$	$
Salaries including bonuses	**5,780,121**	5,096,339
Benefits	**1,274,816**	1,148,798
Commissions	**103,690**	84,377
	7,158,627	6,329,514

23. Depreciation

The following table presents the depreciation expenses by function:

	2020	2019
	$	$
Cost of revenue	**940,230**	885,950
Selling and marketing	**25,243**	30,287
Research and development	**43,179**	34,660
General and administrative	**131,902**	132,264
	1,140,554	1,083,161

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

PLAINTREE SYSTEMS INC.

For the years ended March 31, 2020 and 2019

Date: September 2, 2020

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

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintree is for the years ended March 31, 2020 and 2019. Historical results of operations, percentage relationships and any trends that may be inferred there from are not necessarily indicative of the operating results of any future periods. Unless otherwise stated all amounts are in Canadian dollars following the requirements of the International Financial Reporting Standards ("IFRS"). The information contained herein is dated as of September 2, 2020 and is current to that date, unless otherwise stated. Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the annual filings. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying financial statements.

W. David Watson II, President and Chief Executive Officer, and Lynn E. Saunders, Chief Financial Officer, in accordance with National Instrument 52-109 ("NI52-109"), have both certified that they have reviewed the annual financial statements and this MD&A ("the annual Filings") and that, based on their knowledge having exercised reasonable diligence, (a) the annual Filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the annual Filings; and (b) the annual financial statements together with the other financial information included in the annual Filings fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the dates and for the periods presented in the annual Filings.

Investors should be aware that the inherent limitations on the ability of certifying officers of a venture issuer to design and implement, on a cost effective basis, Disclosure Controls and Procedures and Internal Controls over Financial Reporting as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Caution Regarding Forward Looking Information

This MD&A of the Company contains certain statements that, to the extent not based on historical events, are forward-looking statements based on certain assumptions and reflect Plaintree's current expectations. Forward-looking statements include, without limitation, statements evaluating market and general economic conditions, and statements regarding growth strategy and future-oriented project revenue, costs and expenditures. Actual results could differ materially from those projected and should not be relied upon as a prediction of future events. A variety of inherent risks, uncertainties and factors, many of which are beyond Plaintree's control, affect the operations, performance and results of Plaintree and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. Some of these risks, uncertainties and factors include the impact or unanticipated impact of: companies evaluating Plaintree's products delaying purchase decisions; current, pending and proposed legislative or regulatory developments in the *jurisdictions where Plaintree operates; change in tax laws; political conditions and developments; intensifying competition from established competitors and new entrants in the industry; technological change; currency value fluctuation; general economic conditions worldwide, including in China; Plaintree'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 Plaintree’s forward-looking statements. Plaintree undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results otherwise. Readers are cautioned not to put undue reliance on forward-looking statements. Readers should also carefully review the risks concerning the business of the Company and the industries in which it operates generally described in the documents filed from time to time with Canadian securities regulatory authorities.*

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

Overview

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the Canadian Securities Exchange ("CSE") under "NPT". Plaintree is a diversified company with proprietary technologies and manufacturing capabilities in structural design and aerospace. The Company operates an Electronics division, consisting of the Hypernetics division and Summit Aerospace USA Inc. ("Summit Aerospace"), a Specialty Structures division (the Triodetic business) and Spotton Corporation. The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft indicators, solenoids and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminum, and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames, and industrial dome coverings. Summit Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic cylinders for the industrial, automation and oil and gas markets.

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

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

The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

Control Activities

The Company's Chief Executive Officer and Chief Financial Officer exercise reasonable diligence around the controls and procedures designed to provide reasonable assurance that financial information disclosed is recorded, processed and disclosed reliability.

Selected Annual Financial Information

Company's consolidated financial statements are stated in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS"). The following table sets forth selected financial information from the Company's annual financial statements:

($000s, except per share amounts)

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

($000s, except per share amounts)

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

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

Results from Operations

($000s)

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

Operations held for sale

Madawaska Doors

As of October 2018, the Company deemed the assets of 9366920 Canada Inc (operating as Madawaska Doors) as held for sale. Madawaska Doors closed its business in the Company's third fiscal 2019 quarter. In March 2019 the company completed the sale of the assets and business of Madawaska Doors. The Company's inventory, equipment and building were all included in the purchase price of $300,000. Net losses for 2019 of ($132,806) are included in the earnings (losses) from discontinued operations.

Hypernetics

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

	March 31, 2019
	$
Assets held for sale	
Accounts receivable	618,901
Unbilled revenue	604,844
Inventory	562,770
Equipment	157,687
Assets of component held for sale	1,944,202
Liabilities held for sale	
Accounts payable and accrued	305,593
Deferred tax asset	2,207,830
Net assets held for sale	3,846,439

Business segment information

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments – the design, development, manufacture, marketing and support of electronic product, and the specialty structural products. The Company determines the geographical location of revenue based on the location of its customers. Of the total balance of $3,895,444 in property, plant and equipment, $1,381,000 is located in Canada and $2,514,444 in the United States. All of the Company's intangible assets are primarily located in Canada.

Revenue by division

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

Revenue by geographical location

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

Net (loss) earnings before taxes by division

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

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

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

Assets by division

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

Revenues

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

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

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

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

Gross Margin

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

Operating Expenses

Research and development expenses

Research and development expenses were $1,550,715 and $1,518,256 in fiscals 2020 and 2019, respectively. Research and development expenditures consist primarily of development engineering and personnel expenses.

Research and development expenses are expected to remain at comparable levels throughout fiscal 2021.

Finance and administration expenses

Finance and administration expenses were $1,732,324 and $1,457,236 in fiscals 2020 and 2019, respectively. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which included financial staff, legal and audit activities. Expenses increased in fiscal 2020 in part due to increased legal and consulting fees associated with the Company's activities associated with the held for sale assets.

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

Sales and marketing expenses

Sales and marketing expenses were $668,658 and $623,720 in fiscals 2020 and 2019, respectively. These expenses consisted primarily of personnel and related costs associated with Company's sales and marketing departments, which include sales commissions, advertising, travel, trade shows and other promotional activities.

Sales and marketing expenses are expected to remain at comparable current levels in fiscal 2021.

Bad debt

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

Gain on disposal of assets

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

Interest expense

Interest expense consists of interest incurred on bank and related party debt. Interest expenses amounted to $280,189 and $430,295 for fiscals 2020 and 2019, respectively. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest. During fiscal 2018, a related party refinanced it's approximately $345,000 mortgage on one of its properties, increasing the mortgage to $900,000. Plaintree guaranteed the loan and granted a security interest over its assets as security for this guarantee. The related party used a portion of the proceeds from the refinancing to loan $554,447 to the Company. The related party loan bore interest at a rate of 14% per annum until March 31, 2019 when it was refinanced by the related party's bank. Interest is payable monthly and the principal is due on maturity.

Loss on foreign exchange

The Company reported loss on foreign exchange of $43,986 and $4,547 for fiscals 2020 and 2019, respectively. The gain/loss on foreign exchange represents the gain/loss, realized or unrealized, of transactions and year end foreign balances that are completed in currencies other than the Company's reporting currency.

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

Net (loss) earnings and comprehensive earnings for fiscal 2020 was $(2,500,152) and $3,940,833 in fiscal 2019. Net income attributed to common shareholders is calculated by reducing net income by the $1,466,000 cumulative dividends that accrue annually on the Class A preferred shares. The cumulative dividends accrue at 8% per annum on the face value of the $18,325,000 for the Class A preferred shares and as March 31, 2020 the accrued and unpaid dividends on the Class A preferred shares were $16,792,000 (March 31, 2019 - $15,326,000).

Quarterly Results

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

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

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

Liquidity and Capital Resources

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

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

Cash

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

Working Capital

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

Operating activities

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

Investing activities

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

Financing activities

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

Outlook

The Company has in place a credit facility of up to $3,000,000 CAD through its bank based on acceptable trade receivables and inventory. The total amount available to the Company as at March 31, 2020 was $2,119,509 CAD of which $NIL was in use and a letter of credit in the amount of US$100,000 ($141,870 CAD) leaving $1,977,639 CAD available. The Company through its bank has in place a credit facility of up to $3,500,000 CAD for the issuance of standby letters of credit and/or letters of guarantee insured by Export Development Corporation ("EDC") Performance Security Guarantee of which $1,383,260 CAD was in use at March 31, 2020. The Company has in place a credit facility of up to $2,000,000 CAD to assist with financing of new and used equipment. As at March 31, 2020 $1,221,421 CAD was in use (Note 8 Lease obligations). During fiscal 2019 the Company incurred professional fees of $164,329 CAD related to the modification of its banking relationship and related short-term borrowings. As a result, the Company believes that it has sufficient cash resources to meet its obligations, beyond the next 12 months.

Due to related parties

	March 31, 2020 (audited)	March 31, 2019 (audited)
	$	$
Due to senior officers	**3,983,832**	4,083,141
Dividends payable	**60,000**	60,000
Due to Targa Group Inc, covertable debentures	**247,672**	247,672
Due to Tidal Quality Management Inc.	**491,264**	824,209
Due to Targa Group Inc, line of credit	**242,598**	449,763
Due to Targa Group Inc, demand loan interest	**201,393**	201,393
	5,226,759	5,866,178
Less: current portion	**(50,000)**	(50,000)
	5,176,759	5,816,178

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

As at March 31, 2020, a balance of $3,983,832 ($2,748,198 principal and $1,235,634 interest); March 31, 2019 - $4,083,139 ($2,847,505 principal and $1,235,634 interest in 2019) remained owing to senior officers of the Company. The parties agreed to discontinue interest payments accruing on balances as of April 1, 2016. During the year payments in the amount of $99,307 were repaid to senior officers. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

On July 14, 2011, the board of directors of the Company declared a cash dividend of $10.91405 per Class A preferred share ($200,000 in the aggregate) payable on July 22, 2011, to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the $1,000 redemption amount of the Class A preferred share. An amount of $60,000 ($60,000 in 2019) of the dividend remains outstanding as at March 31, 2020. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

As at March 31, 2020, interest in the amount of $247,672 ($247,672 in 2019) on a loan from Targa remains outstanding. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

As at March 31, 2020, a balance of $491,264 ($308,376 rent arrears and $182,888 interest); March 31, 2019 - $824,209 ($641,320 rent arrears and $182,889 interest) remained owing to a related party controlled by Targa, Tidal Quality Management Corporation. The party agreed to discontinue interest accruing on unpaid balances as at April 1, 2016. Until then the interest rate was at bank prime plus 2%. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

The Company has a revolving line of credit of up to $1,000,000 with Targa. Under the loan agreements, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The Targa Credit Line is secured by a security interest granted over the assets of the Company. As at March 31, 2020, $NIL ($207,165 in 2019) remained outstanding on the line of credit with accumulated interest of $242,598 ($242,598 in 2019) outstanding for a balance of $242,598 ($449,763 in 2019).

Interest in the amount of $66,581 ($66,581 in 2019) remained outstanding on a demand loan with Targa. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments. Accumulated interest in the amount of $134,812 ($134,812 in 2019), on a loan from Targa remains outstanding as of March 31, 2020. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

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

Rents paid to Tidal Quality Management Corporation during the year ended March 31, 2020 totaled $151,921 (2019 - $117,114). The above related party transactions are measured at their exchange amount, which is the amount agreed to by the parties.

Facilities

The Company leases a 135,500 sq. /ft. building at 10 Didak Drive in Arnprior, Ontario.

The Company along with its wholly-owned US subsidiary owns a 16,300 sq. ft. manufacturing facility in Pocono Summit, PA.

Summary of Outstanding Share Data

As at September 2, 2020 the following equity instruments of the Company were issued and outstanding:

Common Shares: 12,925,253

Class A Preferred Shares: * 18,325

* The Class A Preferred shares provide an 8% cumulative dividend based on a value of $1,000 per share, are redeemable at the option of the Company at any time at $1,000 per share plus accrued dividends and they are non-voting.

Convertible Debentures:** $nil principal value

** The Company has issued various tranches of convertible debentures to related parties for total outstanding value at March 31, 2020 of $247,672 in accrued interest only. Interest is convertible in cash only.

Options:*** 880,000

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

Plaintree Systems Inc.

Board of Directors

Jerry S. Vickers, Board Chair
Financial/Business Consultant

W. David Watson II
President & Chief Executive Officer

Girvan L. Patterson, Audit Committee Chair
Business Consultant

Sean T. Watson
V.P. Operations, Spotton Corporation

Executives and Officers

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President & Chief Executive Officer

Lynn E. Saunders
Chief Financial Officer

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Stock Exchange Listings

CSE: NPT