
Consolidated financial statements of Plaintree Systems Inc.

March 31, 2022 and March 31, 2021

Plaintree Systems Inc.

March 31, 2022 and March 31, 2021

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	8-34

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

PLAINTREE SYSTEMS INC.

Opinion

We have audited the consolidated financial statements of Plaintiff Systems Inc. (the Company), which comprise the consolidated statement of financial position as at March 31, 2022 and 2021, the consolidated statements of comprehensive earnings (loss), 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, 2022 and 2021 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.

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.

A handwritten signature in black ink that reads "Welch LLP". The letters are cursive and somewhat stylized.

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
August 5, 2022.

Plaintree Systems Inc.

Consolidated statements of financial position

as of March 31, 2022 and March 31, 2021

(in Canadian dollars)

	March 31, 2022	March 31, 2021
	\$	\$
Assets		
Current assets		
Cash	1,911,201	2,066,688
Trade receivables and other receivables	2,787,415	2,223,055
Unbilled revenue	2,012,856	1,751,652
Inventories (Note 5)	3,093,664	1,676,853
Prepaid expenses and other receivables	331,868	292,465
Current portion of mortgage receivable (Note 6)	5,578	5,250
	10,142,582	8,015,963
Long-term portion of mortgage receivable (Note 6)	284,231	289,809
Property, plant and equipment (Note 10)	3,047,340	3,456,267
Right of use asset, building (Note 10)	2,428,686	-
Intangible assets (Note 11)	1,291,353	285,583
Goodwill (Note 11)	853,302	-
	18,047,494	12,047,622
Liabilities		
Current liabilities		
Trade and other payables (note 13)	2,614,742	1,683,580
Deferred revenue	867,233	250,406
Current portion of taxes payable (Note 17)	170,000	-
Current portion of long-term debt and lease obligation (Note 7, 8)	4,324,490	1,142,328
Current portion of due to related parties (Note 12)	50,000	50,000
Current portion of government assistance (Note 9)	74,099	75,186
	8,100,564	3,201,500
Long-term debt and lease obligation (Note 7, 8)	2,403,761	1,140,983
Deferred government assistance (Note 9)	470,490	533,875
Due to related parties (Note 12)	4,965,564	5,033,293
Deferred tax liabilities (note 17)	340,000	168,971
	16,280,379	10,078,622
Shareholders' equity		
Issued capital	2	2
Contributed surplus	2,159,842	2,159,842
Deficit	(392,729)	(190,844)
	1,767,115	1,969,000
	18,047,494	12,047,622

Approved by the Board

"David Watson" _____

"Girvan Patterson" _____

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

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Plaintree Systems Inc.

Consolidated statements of comprehensive earnings (loss)

For the years ended March 31, 2022 and March 31, 2021

(in Canadian dollars)

	March 31, 2022	March 31, 2021
	\$	\$
Revenue	16,192,530	12,659,689
Cost of sales	12,314,213	8,961,907
Gross margin	3,878,317	3,697,782
Operating expenses		
Research and development	1,593,676	1,010,032
Finance and administration	1,518,261	1,182,612
Sales and marketing	674,521	381,584
Bad debts	28,647	-
Loss on disposal of assets	61,847	9,713
Interest expense	243,105	182,735
(Gain) loss on foreign exchange	(40,886)	37,165
	4,079,171	2,803,841
Net (loss) earnings before income taxes	(200,856)	893,941
Income tax expense (note 17)		
Current expense	170,000	62,712
Deferred income tax expense	(168,971)	(13,029)
	1,029	49,683
Net (loss) earnings and comprehensive earnings	(201,885)	844,258
Basic and diluted (loss) per common share (Note 15)	(0.13)	(0.05)
Weighted average common shares outstanding	12,925,253	12,925,253

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

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Plaintree Systems Inc.

Consolidated statements of cash flows

For the years ended March 31, 2022 and March 31, 2021

(in Canadian dollars)

	March 31, 2022	March 31, 2021
	\$	\$
Operating activities		
Comprehensive earnings	(201,885)	844,258
Add (deduct) items not affecting cash:		
Depreciation of intangible assets	212,308	144,458
Depreciation of property, plant and equipment	1,209,919	857,239
Bad debts	28,647	-
Loss on disposal of assets	61,847	9,713
Deferred tax liabilities	1,029	(13,029)
Write-down of inventory	89,936	36,535
Changes in non-cash operating working capital items		
Deferred revenue	616,827	168,735
Inventories	(234,007)	23,513
Prepaid expenses and other receivables	43,866	(42,927)
Trade and other payables	246,325	272,478
Trade and other receivables	(529,903)	(391,849)
Unbilled revenue	(261,204)	(397,330)
Mortgage receivable	5,250	4,941
Cash provided by operations	1,288,955	1,516,735
Investing activities		
Payments to acquire intangible assets	-	(22,373)
Purchase of subsidiaries, net of cash	(248,182)	-
Payments to acquire property, plant and equipment	(453,211)	(427,775)
Cash (used) in investing activities	(701,393)	(450,148)
Financing activities		
Repayment of government assistance	(38,813)	(136,014)
Proceeds from government assistance	-	80,000
Repayment of long-term debt	(325,492)	(221,921)
Proceeds from financing	465,372	467,448
Repayment of capital lease obligations	(777,031)	(549,825)
Repayment of related party borrowings (Note 12)	(67,085)	(143,466)
Cash (used) in financing activities	(743,049)	(503,778)
Net cash inflow	(155,487)	562,809
Net cash (beginning of the year)	2,066,688	1,503,880
Net cash, end of the period	1,911,201	2,066,688

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

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PLAINTREE SYSTEMS INC.

Consolidated Statement of changes in equity
for the periods ended March 31, 2022 and March 31, 2021
audited
(in Canadian dollars)

	Common Shares Number	Issued Capital \$	Preferred Shares (1) Number	Issued Capital \$	Contributed Surplus \$	Retained earnings (deficit) \$	Shareholders' Equity \$
Balances at April 1, 2020	12,925,253	1	18,325	1	2,159,842	(1,035,102)	1,124,742
Net earnings and comprehensive earnings						844,258	844,258
Balances at March 31, 2021	12,925,253	1	18,325	1	2,159,842	(190,844)	1,969,000
	Common Shares Number	Issued Capital \$	Preferred Shares (1) Number	Issued Capital \$	Contributed Surplus \$	Retained earnings (deficit) \$	Shareholders' Equity \$
Balances at April 1, 2021	12,925,253	1	18,325	1	2,159,842	(190,844)	1,969,000
Net earnings and comprehensive earnings						(201,885)	(201,885)
Balances at March 31, 2022	12,925,253	1	18,325	1	2,159,842	(392,729)	1,767,115

(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

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

1. Description of the business

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

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 August 5, 2022.

(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), and Triodetic Ltd, Spotton Corporation, 9366920 Canada, Hendrick Energy Systems Inc. and Elmira Direct Limited (Canadian companies). Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by the Company. All inter-company transactions have been eliminated.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

Goodwill

Goodwill is the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and acquired and liabilities assumed. Goodwill is not amortized however is subject to an annual impairment assessment. When the carrying amount of the reporting unit exceeds its fair value, a goodwill impairment loss is recognized in an amount equal to the excess.

Intangible assets

The Company's intangible assets consist of brands, 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 brands, 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
Brands	10 years

The Company's policy is to review all long-lived assets including goodwill, property, plant and equipment and intangible 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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

Revenue recognition - Cont'd.

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.

his 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.

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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

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.

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 and government assistance

Investment tax credits and government assistance 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.

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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

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.

<u>Financial asset</u>	<u>Classification under IFRS 9</u>
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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

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 the 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:

<u>Financial liability</u>	<u>Classification under IFRS</u>
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.

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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

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.

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; 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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

4. Acquisition of Subsidiaries

On March 30, 2022 the Company acquired all of the issued and outstanding shares of Elmira Direct Limited and Hendrick Energy Systems Inc. ("Elmira") for total consideration (on a present value basis) of \$2,679,444.

The primary reason for the acquisition of Elmira Direct Limited and Hendrick Energy Systems Inc. was to leverage excess manufacturing space otherwise unused in the Company's Arnprior location and to realize cost synergies from the transaction.

The goodwill is derived from the synergistic factors described above as well as the value attributable to each company's workforce. None of the goodwill attributable to any of the acquisition outlined above is expected to be deductible for tax purposes.

The acquisition-date fair value of components of the consideration paid are outlined as follows:

Cash	\$ 500,000
Promissory note payable	933,425
Bonus payable	402,943
Inventory amount payable	1,024,983
Less net working capital adjustment	<u>(181,907)</u>
Total	<u>\$ 2,679,444</u>

The following assets were acquired and liabilities assumed in the acquisition:

Cash and cash equivalents	\$ 177,606
Accounts receivable	34,457
Inventory	1,182,804
Prepaid expenses	83,269
Equipment	86,189
Company website	15,655
Brand	655,000
Customer relationships	616,000
Goodwill	<u>853,302</u>
Total assets acquired	<u>3,704,282</u>
Accounts payable	181,805
Income taxes payable	16,871
Deferred revenue	486,162
Deferred tax liability	<u>340,000</u>
Total liabilities acquired	<u>718,838</u>
Net purchase price	<u>\$ 2,679,444</u>

As part of the process of determining the fair value of the consideration paid and fair value of the intangible assets acquired, a business valuation was performed on Elmira. The Company used the discounted cash flow method to determine the value of the acquired intangible assets. The discounted cash flow method was based on a discrete period covering three years and also included a terminal period.

The financial results of Elmira Direct Limited and Hendrick Energy Systems Inc. have been included in these consolidated financial statements from the date of acquisition, March 30, 2022. Elmira Direct Limited and Hendrick Energy Systems Inc. accounted for \$0 in revenue, and an operating and comprehensive loss of \$43,587 in the year ended March 31, 2022.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

4. Acquisition of Subsidiaries - Cont'd.

Had the Company acquired Elmira Direct Limited and Hendrick Energy Systems Inc. on April 1, 2021, the Company would have recorded the following approximate figures for the year ended March 31, 2022.

	March 31, 2022 <u>pro forma - unaudited</u>
Total revenue	\$ 21,497,668
Earnings and comprehensive income	\$ 178,554

The Elmira revenue and earnings had it been acquired on April 1, 2021 would have been approximately \$5.3 million and \$422,000.

In 2022, the Company incurred acquisition costs of \$173,398 which have been recorded in the consolidated statement of comprehensive earnings (loss).

Contingent payments included in the fair value of the consideration paid above are the bonus and inventory payments. The bonus is payable 18 months after the acquisition date at the lower of \$500,000 and 8% of sales of the Elmira Stove Works subsidiary from June 1, 2022 and May 31, 2023. Existing inventory is payable by way of monthly payments by the sale of existing inventory during the two years following the acquisition date. Total estimated inventory payable is approximately \$1,078,000 for which management has included a provision for unsellable inventory. A discount factor of 9.66% has been used to determine the fair value of the payments at the acquisition date.

Fixed payments included in the fair value of the consideration paid above are the promissory notes. The promissory notes are equal payments of \$500,000 payable 6 months and 12 months after the acquisition date. A discount factor of 9.66% has been used to determine the fair value of the payments at the acquisition date.

The amounts owing to the former shareholders of the acquired subsidiaries at March 31, 2022 are non-interest bearing, and secured by a security interest granted over the Elmira Stove Works subsidiary assets. The security interest is subordinated and postponed to the security granted to the Company's bank. The carrying value of the note is summarized below.

Amount payable	\$ 2,433,321
Less: imputed interest	<u>(179,665)</u>
Total	2,253,656
Current portion	<u>1,645,533</u>
Non-current portion	<u>\$ 608,123</u>
Fixed portion	\$ 854,028
Contingent portion	\$ 1,399,628

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

5. Inventories

	March 31, 2022	March 31, 2021
	(audited)	(audited)
	\$	\$
Raw materials	2,398,089	1,007,122
Work in process	636,652	634,217
Finished goods	58,923	35,514
	3,093,664	1,676,853

The cost of inventories recognized as an expense during the year was \$12,312,029 (\$8,937,360 in 2021). The total carrying value of inventory as at March 31, 2022, 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 \$89,936 in fiscal 2022 (\$36,535, in 2021) to reflect where the carrying amount exceeded net realizable value. The Company had write ups in the year totaling \$37,723 (\$25,924 in 2021).

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 was \$283,068. The remaining mortgage payments are as follows:

	\$
2023	5,578
2024	5,926
2025	278,305
Net mortgage receipts	289,809

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

7. Long-term debt

	March 31, 2022 (audited) \$	March 31, 2021 (audited) \$
Non-revolving loan payable in monthly blended installments of principal and interest, \$8143, at a rate of 5.663%, secured by general security agreement, maturing April 2024.	184,369	270,191
Non-revolving loan payable (\$227,352 USD) in monthly blended installments of principal and interest, \$9882.89 USD, at a rate of 4.1%, secured by general security agreement, maturing April 2024.	284,100	379,932
Promissory notes	933,425	-
Contingent purchase consideration	1,320,231	-
Non-revolving loan payable in monthly installments of principal, \$5,952.38 at a rate of prime + 1%, secured by general security agreement, maturing March 2027.	500,000	-
Non-revolving loan payable in monthly blended installments of principal and interest, \$15,148.09, at a rate of 3.640%, secured by general security agreement, maturing March 2026.	675,701	829,827
Deferred financing fees	(106,640)	(72,595)
	3,791,186	1,407,355
Current portion	(3,183,064)	(804,249)
	608,122	603,106

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

	\$
2023	3,183,064
2024	608,122
Net loan re-payments	<u>3,791,186</u>

The terms and conditions of the promissory notes and contingent purchase consideration originate from the acquisition and are outlined in Note 4.

Long-term debt excluding the promissory notes and contingent purchase consideration totaling \$1,644,170 are subject to certain covenants, including a debt service covenant which the Company was not in compliance as at March 31, 2022. As a result, \$1,644,170 is included in the current portion of long-term debt.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

8. Lease Obligation

The Company's leases are for factory equipment and plant. The leases are typically 5 to 7 years in length and are subject to a range of interest rates from 4 to 8 percent per annum. During Quarter 2 of Fiscal 2022, the Company entered into a 5 year office lease agreement with a related party. The office lease has been recorded as a right of use asset and lease liability on the consolidated statement of financial position.

The following table presents the Company's lease obligations as at March 31, 2022:

	Factory Equipment Leases	Building Lease	Total
Fiscal 2023	535,862	609,750	1,145,612
Fiscal 2024	28,894	609,750	638,644
Fiscal 2025	-	609,750	609,750
Fiscal 2026	-	609,750	609,750
Thereafter	-	152,438	152,438
Total future minimum lease payments	564,756	2,591,438	3,156,194
Inputed interest	(38,442)	(189,310)	(227,752)
Total lease liabilities	526,314	2,402,127	2,928,441
Less: current portion	(504,357)	(533,093)	(1,037,450)
Non-current portion	21,957	1,869,035	1,890,992

The following table presents the Company's lease obligations as at March 31, 2021:

	Factory equipment leases
	\$
Fiscal 2022	415,961
Fiscal 2023	267,371
Fiscal 2024	186,673
Fiscal 2025	80,738
Total future minimum lease payments	950,743
Inputed interest	(74,786)
Total lease liabilities	875,956
Less: current portion	(338,079)
Non-current portion	537,877

Interest expense on lease obligations for the year ended March 31, 2022 was \$106,259 (2021 - \$58,456). Variable lease payments for operating costs not included in the measurement of lease obligations for the year ended March 31, 2022 was \$9,894 (2021- \$20,948).

Expenses relating to short-term leases and leases of low value assets for the year ended March 31, 2022 were \$94,584 (2021 - \$431,817). Total cash outflow for leases was \$997,011 (2021 - \$1,018,841), including \$890,752 (2021 - \$549,825) of principal payments on lease obligations.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

8. Lease Obligation - Cont'd.

The following table presents the future contractual cash flows for short-term leases at March 31, 2022:

2023	\$12,020
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Included in the factory equipment leases are \$395,281 of leases subject to certain covenants, including a debt service covenant which the Company was not in compliance as at March 31, 2022. As a result, \$395,281 is included in the current portion of long-term debt.

9. Government assistance

The Company's Summit Aerospace USA Inc. division accepted a loan of \$720,000 USD (\$899,712CAD) 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 (audited)	Deferred Government Assistance (audited)	Repayable government assistance (audited)
Opening Balance	\$ 470,495	\$ 58,566	\$ 529,061
Loan adjustment for exchange	(2,955)	(8,799)	(11,754)
Repayments	(60,972)		(60,972)
Accretion	12,525	(4,271)	8,254
March 31, 2022	419,093	45,496	464,589
Current Portion	(61,892)	(12,207)	(74,099)
Balance	357,201	33,289	390,490

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

	\$
2023	61,892
2024	62,827
2025	63,776
2026	64,739
2027	65,718
2028 and thereafter	145,637
Net loan re-payments	464,589

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

9. Government assistance - Cont'd.

The Company recorded Canadian Emergency Wage Subsidy ("CEWS") and the Canadian Emergency Rent Subsidy ("CERS") related to COVID-19 during fiscal 2022 in the amount of \$117,514 (Electronics Division) and \$309,781 (Specialty Structures Division) for a total of \$427,295 of which \$NIL was outstanding as

of March 31, 2022. The total government assistance was recorded in the March 31, 2022, consolidated statement of comprehensive earnings (loss) as a reduction of the following accounts:

	\$
Cost of sales	250,157
Research and developr	111,073
Finance and administra	40,641
Sales and marketing	25,424
	<u>427,295</u>

During fiscal 2021 the Company accepted short term, interest free loans in the amount of \$120,000 under the Canada Emergency Business Account ("CEBA"). The forgivable portions totally \$40,000 was recorded as income (Specialty Structures Division) during fiscal 2021. The repayable portions of both loans totaling \$80,000 is repayable by December 31, 2023.

The following table presents the CEBA repayments at March 31, 2022:

2023	\$80,000
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10. Property, plant and equipment

	Factory equipment	Computer equipment	Furniture	Vehicles	Lease improvements	Building	Land	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost, balance								
March 31, 2020	9,548,566	1,093,154	202,313	378,967	1,618,008	1,007,783	124,557	13,973,350
Additions	420,922	6,853	-	-	-	-	-	427,775
Disposals	(68,058)	(1,776)	-	(12,049)	-	-	-	(81,883)
March 31, 2021	9,901,430	1,098,231	202,313	366,918	1,618,008	1,007,783	124,557	14,319,242
Additions	126,151	16,735	-	472	229,190	2,857,278	-	3,229,826
Disposals	(17,065)	(4,195)	-	-	-	-	-	(21,260)
March 31, 2022	10,010,516	1,110,771	202,313	367,390	1,847,198	3,865,061	124,557	17,527,808
Depreciation, balance								
March 31, 2020	(6,805,059)	(1,066,943)	(201,279)	(359,664)	(1,213,348)	(431,612)	-	(10,077,906)
Depreciation	(626,586)	(11,720)	(1,034)	(7,842)	(148,502)	(61,555)	-	(857,239)
Disposal	58,345	1,776	-	12,049	-	-	-	72,170
March 31, 2021	(7,373,300)	(1,076,887)	(202,313)	(355,457)	(1,361,850)	(493,167)	-	(10,862,975)
Depreciation	(613,345)	(12,991)	-	(7,729)	(101,387)	(474,468)	-	(1,209,920)
Disposal	16,919	4,195	-	-	-	-	-	21,114
March 31, 2022	(7,969,726)	(1,085,683)	(202,313)	(363,186)	(1,463,237)	(967,635)	-	(12,051,780)
Carrying amount,								
March 31, 2022	2,040,790	25,087	-	4,204	383,962	2,897,426	124,557	5,476,026
March 31, 2021	2,528,130	21,343	-	11,463	256,158	514,616	124,557	3,456,267

Included in factory equipment are right of use assets with a cost of \$2,059,916 and accumulated amortization of \$763,317 (2021 - cost of \$2,059,916 and accumulated amortization of \$557,326) and included in building are right of use assets with a cost of \$2,857,278 and accumulated depreciation of \$428,592. Refer to Note 8 for a breakdown of the Company's lease obligations.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

11. Intangibles

Cost, balance	Brand	Goodwill	Customer Relationship		Total
			Software	and Non-compete	
			\$	\$	\$
March 31, 2020	-	-	336,406	1,313,270	1,649,676
Additions	-	-	22,372	-	22,372
March 31, 2021	-	-	358,778	1,313,270	1,672,048
Additions	655,000	853,302	15,655	616,000	2,139,957
Disposals	-	-	(182,258)	-	(182,258)
March 31, 2022	655,000	853,302	192,175	1,929,270	3,629,747
Accumulated Depreciation, balance					
March 31, 2020	-	-	(189,392)	(1,052,616)	(1,242,008)
Depreciation	-	-	(14,131)	(130,327)	(144,458)
March 31, 2021	-	-	(203,522)	(1,182,943)	(1,386,465)
Depreciation	-	-	(81,981)	(130,327)	(212,308)
Disposals	-	-	113,681	-	113,681
March 31, 2022	-	-	(171,822)	(1,313,270)	(1,485,092)
Carrying amount,					
March 31, 2022	655,000	853,302	20,353	616,000	2,144,655
March 31, 2021	-	-	155,256	130,327	285,583

12. Due to related parties

	March 31, 2022	March 31, 2021
	(audited)	(audited)
	\$	\$
Due to senior officers	3,865,785	3,932,870
Dividends payable	60,000	60,000
Due to Targa Group Inc, convertible debentures	247,672	247,672
Due to Tidal Quality Management Inc.	398,116	398,760
Due to Targa Group Inc, line of credit interest	242,598	242,598
Due to Targa Group Inc, demand loan interest	201,393	201,393
	5,015,564	5,083,293
Less: current portion	(50,000)	(50,000)
	4,965,564	5,033,293

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

12. Due to related parties - Cont'd.

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

As at March 31, 2022, a balance of \$3,865,785 (\$2,630,151 principal and \$1,235,634 interest); March 31, 2021 - \$3,932,870 (\$2,697,236 principal and \$1,235,634 interest in 2021) 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 \$67,085 were repaid to senior officers. As of March 31, 2022, \$50,000 was classified as current. 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 2021) of the dividend remains outstanding as at March 31, 2022. 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, 2022, interest in the amount of \$247,672 (\$247,672 in 2021) on a loan from Targa remains outstanding. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

As at March 31, 2022, a balance of \$398,116 (\$215,227 rent arrears and \$182,889 interest); March 31, 2021 - \$398,760 (\$215,871 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, 2022, \$NIL (\$NIL in 2021) remained outstanding on the line of credit with accumulated interest of \$242,598 (\$242,598 in 2021) outstanding for a balance of \$242,598 (\$242,598 in 2021). The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

Interest in the amount of \$66,581 (\$66,581 in 2021) remained outstanding on a demand loan with Targa. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments. Accumulated interest in the amount of \$134,812 (\$134,812 in 2021), on a loan from Targa remains outstanding as of March 31, 2022. 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, 2022, the Company incurred interest on related party balances of \$NIL (2021 - \$NIL).

Rents paid to Tidal Quality Management Corp during the year ended March 31, 2022 totaled \$551,003 (2021 - \$280,189). The above related party transactions are measured at their exchange amount, which is the amount agreed to by the parties.

During the year two directors provided consulting services for consideration of \$50,000 which has been recorded as an expense in the year.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

13. Trade and other payables

Trade and other payables are comprised of the following:

	March 31, 2022 (audited)	March 31, 2021 (audited)
	\$	\$
Accounts payable	1,550,911	874,596
Accrued liabilities	531,761	425,359
Salaries and benefits payable	532,070	383,625
	<u>2,614,742</u>	<u>1,683,580</u>

14. Share capital

Authorized, unlimited number

Common shares

Class A preferred shares

Class A preferred shares entitled to a cumulative dividend, calculated on a redemption amount, payable in priority to dividends on common shares, redeemable at the option of the Company at any time at \$1000 per share plus 8% cumulative dividends, calculated on redemption amount, redeemable at the option of the Company at any time liquidation preference of the redemption value plus cumulative dividends (when and if declared) to common shares; non-voting. As of March 31, 2022, the accrued and unpaid dividends on Class A preferred shares were \$19,724,000 (\$18,258,000 in 2021).

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, 2022 is presented below:

	Number of shares	Weighted average exercise prices
	#	\$
Options outstanding, beginning of year	880,000	0.11
Granted	-	-
Options outstanding, and exercisable, end of year	<u>880,000</u>	<u>0.11</u>

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

14. Share capital - Cont'd.

The following table summarizes information about stock options outstanding at March 31, 2022:

Options Outstanding				
Exercise Price	Number outstanding at March 31, 2022	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable at March 31, 2022
\$	#		\$	#
0.11	880,000	7.72	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

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, 2022 and 2021, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

	March 31, 2022 (audited) \$	March 31, 2021 (audited) \$
Net (loss) profit from operations	(201,885)	844,258
Cumulative dividends on preferred shares - per annum	(1,466,000)	(1,466,000)
Net (loss) attributed to common shares (basis and diluted)	(1,667,885)	(621,742)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted (loss) per share from operations	-0.13	-0.05

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

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 \$5,476,026 (2021 - \$3,456,268) in property, plant and equipment, \$4,145,092 (2021 - \$1,551,281) is located in Canada and \$1,330,934 (2021 - \$1,904,987) in the United States. All the Company's intangible assets are primarily located in Canada.

Revenue by division

	March 31, 2022 (audited)	March 31, 2021 (audited)
	\$	
Electronics	5,695,438	6,272,341
Specialty Structures	10,497,092	6,387,348
	16,192,530	12,659,689

Revenue by geographical location

	March 31, 2022 (audited)	March 31, 2021 (audited)
	\$	
Canada	8,499,200	5,743,018
United States	7,394,396	6,464,842
Other	298,934	451,829
	16,192,530	12,659,689

Net earnings (loss) before taxes by division

	March 31, 2022 (audited)	March 31, 2021 (audited)
	\$	
Electronics	(333,122)	489,279
Specialty Structures	132,266	404,662
	(200,856)	893,941

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

	March 31, 2022 (audited)	March 31, 2021 (audited)
Number of customers	2	2
% of total revenue	14%, 10%	10%, 20%

Assets by division

	March 31, 2022 (audited)	March 31, 2021 (audited)
Electronics	7,345,790	7,203,283
Specialty Structures	10,701,704	4,844,339

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(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:

	2022	2021
	\$	\$
Accounting depreciation in excess of tax	109,000	248,000
Intangible assets	(1,287,000)	-
Research and development expenses not deducted for tax	15,478,000	16,508,000
Losses available to offset future income taxes	5,045,000	3,938,000
Capital Leases	(211,000)	-
Accruals	2,775,000	3,010,000
Other	57,000	42,000
	21,966,000	23,746,000

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, 2022 are as follows:

	2021	Recognized in Goodwill	Recognized in Profit or Loss	2022
	\$			\$
Deferred Tax Assets				
Research and development expenses	-	-	-	-
Losses Available to offset future income taxes	-	-	-	-
Accruals	11,000	-	(11,000)	-
Other	51,000	-	(51,000)	-
Deferred tax liabilities				
Capital Leases	-	-	-	-
Accounting depreciation in excess of tax	(231,000)	(340,000)	231,000	(340,000)
Net Deferred taxes per financial statements	(169,000)	(340,000)	169,000	(340,000)

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 \$15,477,960 (2021 - \$16,507,682) for Canadian federal and provincial tax purposes. These are available without expiry to reduce future years' taxable income.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

17. Income taxes - Cont'd.

As at March 31, 2022, the Company has approximately \$33,000 (2021 - \$377,000) 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:

	\$
2029	12,000
2030	16,000
2031	5,000
	<u>33,000</u>

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:

	2022	2021
	\$	\$
Expected income tax expense (benefit)	(50,214)	223,485
Changes in unrealized deferred tax assets	(426,394)	(191,926)
Future Rate change	2,955	40,817
True up on Current Taxes	4,568	-
True Up on Future Taxes	(71,544)	(2,809)
Permanent differences	66,035	15,828
Foreign Rate Differential	(2,244)	(3,943)
Deductible temporary differences previously unrecognized	517,941	-
Other (Minimum tax, elimination, etc.)	(40,074)	(31,770)
Income tax expense	1,029	49,682
Current Income Tax Expense	170,000	62,711
Future Tax Expense	(168,971)	(13,029)
Income Tax Expense	1,029	49,682

The Company has non-capital losses available to reduce future years' Canadian federal taxable income totaling approximately \$4,346,000 (2021 - \$3,258,000). These potential benefits expire as follows:

2035	-
2036	593,000
2037	1,004,000
2038	409,000
2039	441,000
2040	782,000
2042	1,117,000
	<u>4,346,000</u>

The Company has U.S. losses of approximately \$336,000 (2021 - \$296,000), which begin to expire in 2036 and \$100,000 of losses that never expire.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(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, 2022 was \$2,721,232 CAD of which \$NIL was in use and a letter of credit in the amount of US\$100,000 (\$124,960 CAD) leaving \$2,596,272 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 \$971,127 CAD was in use at March 31, 2022. 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, 2022 \$994,948 CAD was available (Note 8 Lease obligations). The Company has in place a credit facility of up to \$1,500,000 CAD through its bank to fund the Elmira purchase consideration of which \$500,000 was used as disclosed in note 7.

The credit facilities referenced above are subject to certain covenants, including a debt service covenant which the Company was not in compliance as at March 31, 2022. Refer to Note 7 and Note 8 for the impact of the breach.

Contractual obligations

The following table provides a summary of the Company's obligations outstanding as at March 31, 2022:

Payments due by period

	Total	Current	2024	2025	2026	2027	Thereafter
	\$	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,614,742	2,614,742					
Due to related parties - convertible debentures	247,672		247,672				
Due to related parties - other	4,323,901	50,000	4,273,901				
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	2,591,438	609,750	609,750	609,750	609,750	152,438	
Lease commitments	546,957	514,851	32,107				
Promissory Notes	1,500,000	1,000,000	500,000				
Long-term debt	2,821,948	1,826,759	655,319	63,776	64,739	65,718	145,637
	<u>15,090,648</u>	<u>6,616,102</u>	<u>6,762,739</u>	<u>673,526</u>	<u>674,489</u>	<u>218,155</u>	<u>145,637</u>

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

19. Financial instruments - 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 \$6,233,325 (\$6,041,395 in 2021). As at March 31, 2022, trade receivables were comprised of two companies totaling 10% and 27% respectively (three companies totaling 11%, 13% and 16% respectively in 2021). As at March 31, 2022, the Company's ageing of accounts receivable was approximately 83% (84% -2021) under sixty days, 15% (16% in 2021); over 60 - 90 days and 2% (NIL% March 31, 2021) over 90 days and the allowance for doubtful accounts was \$NIL (\$NIL in 2021).

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, 2022, the Company had a foreign exchange gain of \$(43,437) (loss of \$37,165 in 2020). 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 \$267,429 and \$185,791 for the fiscal years ended March 31, 2022 and 2021, respectively.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(In Canadian dollars)

19. Financial instruments - Cont'd.

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

US MONETARY

	March 31, 2022	March 31, 2021
	(audited)	(audited)
	\$	\$
Cash	1,551,470	1,651,960
Trade receivables	1,638,805	808,724
Unbilled revenue	651,670	1,000,070
Prepaid expenses and other receivables	91,598	91,598
Trade and other payables	(325,690)	(360,035)
Long-term debt	(933,563)	(1,334,407)
	2,674,289	1,857,910

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.

The Company generally makes bi-monthly payments to vendors. As at March 31, 2022, 100% 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:

	2022	2021
	\$	\$
Wages and consulting fees	267,331	222,290
Health benefits	9,567	13,623
	276,898	235,913

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

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2022 and March 31, 2021

(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, 2021	250,406
Revenue recognized	(236,719)
Amounts invoiced and deferred as at March 31, 2022	853,546
Balance, March 31, 2022	867,233

22. Personnel expenses

The following table presents the personnel expenses of the Company:

	2022	2021
	\$	\$
Salaries including bonuses	5,299,559	3,305,080
Benefits	614,670	648,698
Commissions	67,326	57,047
	5,981,555	4,010,825

Personnel expenses are net of government wage assistance related to COVID-19 during fiscal 2021 (note 9).

23. Depreciation

The following table presents the depreciation expenses by function:

	2022	2021
	\$	\$
Cost of goods sold	1,064,824	815,696
Selling and marketing	86,337	20,439
Research and development	215,843	35,213
General and administrative	71,948	130,349
	1,438,952	1,001,697